

Putting a Price on the Harm: Pigouvian Tax

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The smoke coming out of a factory chimney is not written down as any cost in the factory owner's books. Yet the neighbors who breathe that smoke pay hospital bills, wash their laundry again, and lose their clear skies. The person who made the goods and the people who pay the cost are not the same. The idea of correcting this harm, which is not captured in prices, through a tax is the "Pigouvian tax." Simply put, a Pigouvian tax is "a tax levied on an activity that harms others, equal to the amount of that harm, so that market prices reflect the actual social cost." It is named after the ideas