Time Delay and Support for Taxation

Erte Xiao

People often experience the benefits of taxation with time. We design experiments to test the hypothesis that delaying the benefits of taxation can lead to low support for taxes. In a dynamic market experiment with negative externalities, we consistently find that people are less willing to accept Pigouvian taxes, aimed at reducing negative externalities and restoring market efficiency, when the negative externalities are delayed. While people learn to adopt taxation when the negative externality occurs immediately, the resistance to taxation remains robust over time when the externality is delayed. Our data suggest that people are less likely to support taxation when they found it difficult to understand the working of the new institution. We discuss the policy implications of our findings for promoting support for taxation.