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## Article

Should taxes be reduced to offset a higher oil price (Pro and contra) : pro - heavily taxing fuel is antisocial

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# SHOULD TAXES BE REDUCED TO OFFSET A HIGHER OIL PRICE?

## PRO: HEAVILY TAXING FUEL IS ANTISOCIAL

CHRISTIAN GERONDEAU\*

We are lucky enough on this planet to have access to abundant energy sources beneath the earth. Coal fuelled the industrial revolution of the 19<sup>th</sup> century. The prosperity of the 20<sup>th</sup> century and the present day would not have been possible without oil. Since the cost price of oil is low in comparison to the services it renders, governments have been strongly tempted to tax it. This is particularly true in the field of transport, where Europe's rate of taxation on road vehicle fuels is of the order of 200% to 300%, a level unequalled by any other product.

Just as the business of today's companies depends on lorries, so the life of most Europeans is now centred around the car. The car is used on a daily basis for travelling to work, going shopping, dropping children off at school, visiting parents, going to take part in sports, taking a weekend break or going on holiday. All in all, it makes possible a quality of life unknown to earlier generations and explains why our contemporaries are irrevocably attached to it. The car has become indispensable. It is a lifeline for men, and even more so for women. It is by no means surprising, then, that any increase in fuel prices is received very badly by the public. A number of surveys in France in 2000 have shown that the first tax reduction that 70% of French people would like to see would be a reduction in fuel tax, ahead of reductions in income tax, VAT, local tax, etc.

It must be added that taxing fuel is antisocial. As a proportion of disposable income, it hits those on lower earnings much harder than the more well-off, since the car is just as indispensable, if not more so, to the low-paid as to those on higher incomes. Fuel tax may be termed a substitute of

income tax for the lowest incomes in our society. What would the better-off say if their income tax were to be increased, without warning, by 25% or 30% over the course of a year?

In view of the wild fluctuations in the price of crude oil, it is for governments to take the necessary steps to flatten out these fluctuations and ensure that a major item of the family budget should not become an unaffordable burden for tens of millions of European households, for they have organised their lives around a given level of fuel costs. Governments should cut fuel tax when the price of crude oil rises, and recover any losses by increasing the tax when crude oil prices fall.

The argument that such an approach would only encourage producing countries to raise their selling price does not stand up to serious analysis. It overlooks the considerable influence of the USA, where fuel taxes are virtually non-existent.

It is true that if fuel taxes were as low in Europe as in the USA, the volume of traffic here would certainly increase. But who seriously envisages such a possibility? On the other hand, any significant increase in fuel tax is now ruled out, for the social and political reasons outlined above.

It is to be added that, fortunately, pathogenic air pollution is everywhere in Europe on the decline thanks to progress in engine and fuel technology. Vehicle unit fuel consumption is also set to decline as a result of agreements reached between the European Union and the motor manufacturers. And let us not forget, above all, that road traffic – cars and lorries – is responsible for about only 15% of world production of CO<sub>2</sub> of man-made origin. Is it not flagrant hypocrisy to heap all the ills of the world on road traffic and to draw a veil of silence over other sources (85%), and especially over the fact that fossil fuel-burning power stations contribute far more substantially to the greenhouse effect? Replacement solutions exist for power generation and in other fields, as they do not for road traffic which, in today's civilisation, offers no scope for reduction.



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