

The
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Fuel duty Easy riders

The fuel duty freeze is politically astute but financially ill-judged

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ON December 3rd George Osborne confirmed that he would not increase the price of fuel duty, an unpopular tax on motorists. Soon Mr Osborne will have overseen the longest freeze of fuel taxes in 20 years. Motorists are rejoicing. But though politically savvy, the chancellor's move is unlikely to last long.



Pump priming

The Treasury argued in April that the freeze, which will have reduced fuel duty by 13% in real terms by the end of this parliament, boosts spending elsewhere in the economy by helping cash-strapped consumers. But parts of the Treasury's analysis already look dated. Since that report was published, the oil price has tumbled by 37%, from \$113 a barrel to \$71. This continues to reduce prices at the pump. The oil price is now beneath the \$75-a-barrel threshold at which the chancellor has previously suggested he would raise the duty.

Mr Osborne—with an eye on the election—was quick to rule this out. But if the oil price stays down, the next chancellor might struggle to resist the temptation, especially as driving has already got cheaper. Cars are around a third more efficient than a decade ago. The price of a new car has risen only slowly since 2007, while that of a second-hand one has plummeted. Since 2004 the overall cost of motoring has lagged inflation. And the average distance of journeys fell by 12% between 1995 and 2013.

Despite the freeze, taxes still account for 64% of the petrol price, which is £1.21 (\$1.90) per litre. They make up 63% of the price of diesel, which costs £1.26 per litre. This is higher than in most countries.

There is a strong environmental case for the tax, which helps to reduce pollution and congestion. Drivers may delight in cheaper fuel, but not if they have to sit in miles of traffic queues and collectively hurt the environment. And unlike some other taxes, fuel duty is easy to collect. It is far less toxic than road pricing or congestion charges. It is a fairer tax than the vehicle excise duty: those who travel the farthest pay the most. This also makes it greener, says Stephen Joseph of the Campaign for Better Transport, a lobby group. And the tax is lucrative: each year fuel duty brings in around £27 billion, making it the sixth-largest source of government revenue. Mr Osborne's policy may yet be put into reverse.

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