

# The Budget Measure That Labor Should Back

2 Jun 2014

Increasing the tax paid on petrol would restore billions to the Budget. Labor must not give in to the same political populism that motivated Howard to scrap indexation in the first place, writes Ian McAuley

One of the few economically responsible measures in the Commonwealth Budget is the proposal to restore indexation of fuel excise.

Fuel excise dates back to 1929, a time when cars were the playthings of the rich. At times it has been specifically linked to road funding, but more often it has simply been a revenue-raising measure. Fuel taxes are among the cheapest to collect and the hardest to evade.

In 1983, in order to preserve the real contribution of fuel excise to public revenue, the Fraser Government indexed its rate to the consumer price index (CPI). Indexation remained in place until 2001, when facing disastrous polls, the Howard Government froze the rate at just over 38 cents a litre, where it has remained since.

Had indexation not been abolished, it would now be around 54 cents a litre, resulting in retail prices about 20 cents higher than they are now, after allowing for GST and retailers' profits. Because each cent of excise raises around \$400 million, public revenue would be around \$6 billion a year higher — making a significant contribution to closing the Commonwealth's fiscal deficit.

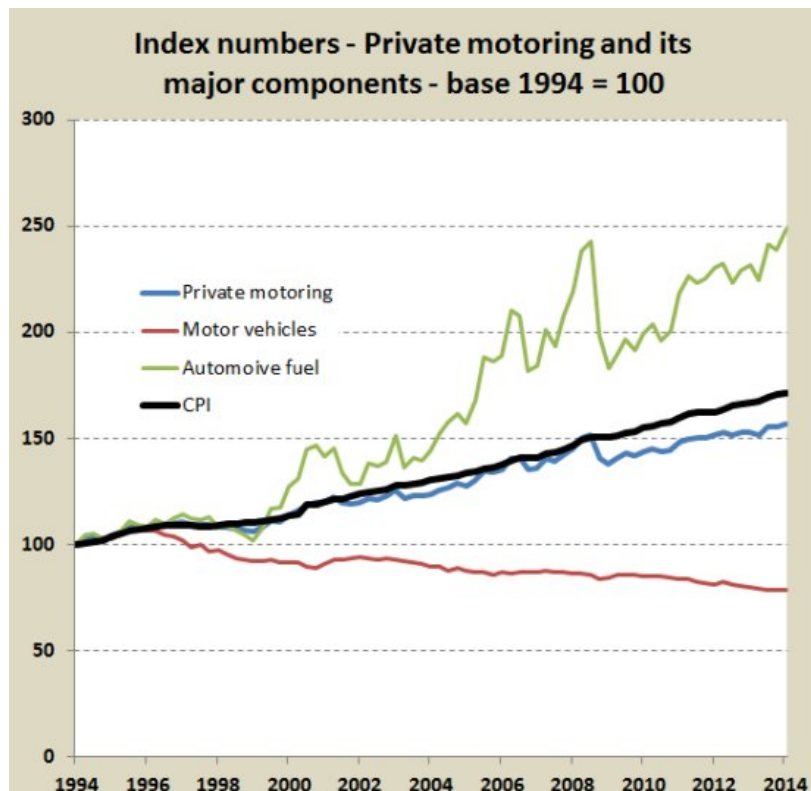
The Government's proposal is simply to restore indexation from its 38 cent base, meaning price rises each year would be in the order of one cent — trivial in relation to fluctuations flowing from volatile world prices, but significant in the political world of broken promises and cost-of-living concerns.

Australians are precious about fuel prices. In most developed countries, including Australia, pre-tax retail prices are around \$1.00 a litre. Our taxes — GST and excise — bring that up to around \$1.50, but in most countries taxes bring the retail price up to \$2.00 or even \$2.50 in many European countries. Only in North America are prices lower.

Unsurprisingly, with such low prices, our passenger vehicle fleet is fuel-inefficient — on average our cars consume 11 litres per 100 km, around twice the consumption to be expected from contemporary model cars used in an urban environment. The false idea that big cars are safe (particularly large 4WDs), use of automatic transmission, congestion, and aggressive driving all contribute to this poor result.

While fuel prices have been rising for a long time, the real (inflation-adjusted) cost of motoring has been falling for the last twenty years. It is now about nine per cent lower than it was in 1994. That's mainly because cars have become cheaper as tariffs have fallen and cars have become more reliable. The graph alongside, derived from CPI data, shows how fuel and car prices have moved over that period.

Unfortunately this logic tends not to register, because we buy a car only every ten years or so, while we refill every few weeks, and we tend to regard the purchase price as a sunk cost. Also there is something of a 'car culture' in Australia — the car is more than a utilitarian means of transport. That's why the price of fuel is so



unpopular and therefore ripe for political exploitation, particularly in light of Abbott's foolish promise not to increase taxes.

Labor's stance against the tax is pure political opportunism, and it undermines its credibility on any commitment to carbon pricing. Party strategists still don't understand that opportunistic populism makes it hard for the party to build enduring voter support around any consistent set of principles.

The Greens seem to support the tax, although there is some talk of opposing it unless all the increase is spent on public transport. There is a good case for using some motoring taxes to support public transport, in that for urban commuting at least, any switch from cars to public transport eases pressure on roads, thus reducing congestion and emissions.

But for the most part roads and public transport are not substitutes — they serve different purposes. The roads proposed to be funded by the Commonwealth are mainly along commercial corridors, not along commuting routes. The days of building major roads to bring commuters into urban CBDs are long gone. If those in the outer suburbs, such as tradespeople with their tools of trade in their vehicles, know that while they sit in congested traffic their fuel taxes are subsidising trains and ferries for well-off CBD commuters, of course they are going to be angry.

Our cities need both roads and light and heavy rail systems. When Australians visit European cities with their high-quality public transport they tend to overlook the fact that these cities also have excellent road systems around the urban peripheries.

Also there are deficits in our long-distance roads and in our outback roads. Chris Graham's article last week on Utopia reminded us of the hardships in remote Aboriginal communities. They are served by roads that would shake the average urban car to pieces. Urban dwellers would be outraged if their roads were so rough that they had no option but to use Land Cruisers or similar high-price and high-fuel-consumption vehicles.

We need roads. We need public transport. We need to cut our greenhouse gases. We should stop grizzling and pay our taxes to bring all our transport infrastructure up to a high standard.