



## Gas prices, taxes, and other fixations

For a while now I've been trying to figure out which is more irrational: the way people freak out about gasoline prices, or the way they complain about taxes. In both cases, the anger and outrage seems to make them completely impervious to the force of reason.

Let's start with gasoline. As has been pointed out many times, even at around one dollar a litre, gasoline would be cheaper than bottled water, coffee, wiper fluid, or pretty much any other liquid that people routinely consume. Furthermore, everyone who understands how capitalism works knows that the price of gas should be much higher than it is.

With bottled water, the price that one pays at the cash register reflects pretty much the entire cost that one's consumption imposes upon society. Consumption of gasoline, on the other hand, generates significant negative externalities. Even with the taxes that we have, consumers pay nothing even close to the true cost that their consumption of gasoline imposes upon others.

The other persistent red herring in the debate over gasoline prices is the idea that the big oil companies somehow collude to maintain artificially high prices. What makes this belief so perverse is that consumers are actually mistaking the signs of an intensely competitive market for evidence of price-fixing.

Unlike most things they buy, consumers are extraordinarily price-sensitive when it comes to gas. Despite considerable effort, no oil company has yet succeeded in building an effective brand for its product. Consumers will defect to a rival whose prices are even a fraction of a cent lower. Thus the type of price spreads among essentially indistinguishable products that one sees in other markets — for exam-

ple, for bottled water — cannot be sustained in the market for gas.

As a result, prices tend to cluster together, as retailers respond with increasing speed to price competition from each other. This is hardly surprising. If people cared as much about the price of bottled water as they did about gas, you can be sure that water would be selling at the same price everywhere. In a perfectly competitive market, prices are supposed to be the same.

Thus when people complain about the price of gas, the only ones who make any sense are the free riders — the ones who simply want to avoid paying their own way. Anyone who tries to make an *argument* against high prices, one that moves beyond an appeal to their own immediate self-interest, quickly falls into incoherence.

Turning to the case of taxes, the situation is not much different. First of all, there is the fact — much lamented by the right wing in Canada — that the income tax system is progressive. As a result, the top quintile pays more than 50 percent of all incomes taxes. The immediate implication is that John Q. Public doesn't come anywhere near paying the full cost of the education that he receives, the roads that he drives on, much less the heart bypass that he will someday require. People think it's normal for their mortgage to eat up a huge chunk of their income, yet fail to realize that the value of government services they receive easily exceeds the cost of an average home.

Furthermore, there is good reason to think that taxes (especially so-called "green taxes") are too low in this country. There is lots of evidence to show that any increase in the personal disposable income of the average consumer gets immediately absorbed into

one or another form of competitive consumption (bigger house, bigger car, bigger TV...) and therefore generates no overall increase in welfare. Public goods, on the other hand, tend to have a less competitive structure.

Of course, there are a lot of bad reasons for thinking that taxes should be lower. There is, for example, the economic fallacy underlying the claim that the private sector produces wealth, while the public sector consumes it (such that we need a large private economy in order to be able to "afford" all our public spending on things like health care).

In actuality, markets don't produce wealth, and neither does the state. People produce wealth, and other people consume it. Whether these people use markets to coordinate these exchanges, or else taxation combined with public provision, is a matter of fundamental indifference from an economic point of view. Assets are not magically transformed into liabilities the moment they pass through the hands of the taxman.

What one sees, again, is that the only people with a coherent argument for lower taxes are the free riders — the ones who want to pay less, then have others step in and foot the bill for public services. Short of these appeals to naked self-interest, proponents of tax cuts have systematically failed to make a coherent case for their position.

My next project is to figure out which political party behaved more despicably in the last election: the NDP for trying to exploit popular resentment of gas prices, or the Conservatives for adopting a hare-brained pledge to cut taxes.

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