Excise taxes on fuel vary dramatically across countries: the U.K. has the highest rate among industrial countries and the U.S. the lowest. In Britain, the excise tax on gasoline is about $2.80 per U.S. gallon; in the U.S., federal and state taxes together are only about $0.40/gal. This presentation describes an analytical framework to assess the second-best optimal gasoline tax in both countries, taking into account unpriced pollution, congestion, accident externalities and fiscal concerns. The calculations show that the optimal gas tax for the U.S. is more than double the current rate, while that for the U.K. is less than half the current rate. Both countries could better address the external costs of driving with other instruments, such as "value pricing" or a tax on vehicle-miles of travel. But given current political factors the prospects are remote for substantial change in the policies of either nation.

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