

### **Abstract**

This article examines the retail pricing policy of gasoline, high speed diesel, and the vehicle tax policy in Thailand between January 2002 and August 2005. The pricing policy of gasoline and high speed diesel is characterized by cross price subsidy from the gasoline consumers to the high speed diesel consumers. The vehicle tax policy is characterized by heavy tax rates that are higher for the gasoline engine vehicles relative to the diesel engine vehicles.

The vehicle tax policy caused considerably greater welfare losses than the pricing policy of gasoline and high speed diesel. The efficient pricing criterion is proposed as a package to correct the welfare losses. The package includes replacements of all the transfer payments items in the price structure of gasoline and high speed diesel by their global pollution components; the replacements of all vehicle taxes by the congestion charges or the 'pay while you drive' vehicle taxes.

In addition, the local pollutions externality, the traffic accidents externality, and other externalities related to the operations of vehicles must be internalized through appropriated control laws. The efficient policy package will generate less tax revenue from gasoline and high speed diesel. Moreover, the government will have to forego the entire vehicle taxes collected under the existing policy. The congestion charges can, however, be designed to offset the revenue deficits.

Keywords: Thailand; gasoline; high speed diesel; vehicles; externalities; welfare

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