The Daily Dish

A Gas Tax Holiday Is No Picnic

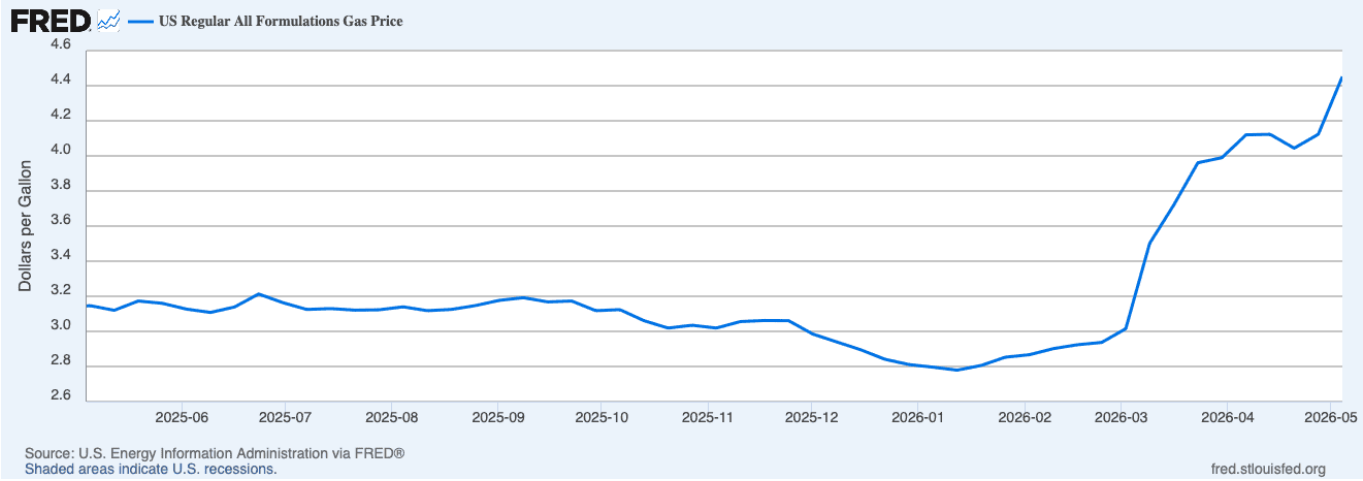
DOUGLAS HOLTZ-EAKIN | MAY 12, 2026

There is a certain madness that grips presidents and presidential wannabes when gasoline prices rise. Per *The Wall Street Journal*:

> *President Trump said he supports suspending the federal gasoline tax, responding to a surge in fuel prices driven by the war in Iran.*
>
> *"I'm going to," he told reporters in the Oval Office on Monday, arguing that gas prices will "drop like a rock" once the war winds down. Asked how long the tax should be suspended, Trump said, "Until it's appropriate," adding that the tax is a relatively small proportion of the cost of gas "but it's still money."*

We've now heard it from President Trump. We heard it from then-President Biden. And we heard it from presidential candidate John McCain.

The problem, of course, is the sharp run-up in gasoline prices evident in the graph below. Unfortunately, the federal gas tax is only 18.4 cents per gallon, so there is no way that eliminating it will alter the pain of an increase of roughly $1.40. Even worse, it is quite likely that the pump price will not change at all; instead the suppliers of gasoline will simply pocket the foregone tax.



Why? The amount of gasoline purchased does not respond much in the near term – commutes are fixed, autos are owned or leased, and work hours are set. The same driving will get done and the same gasoline will get purchased. (The economic lingo for this is that demand is inelastic.) Why should a gasoline seller cut her price if it doesn't bring in more business? It makes more sense to keep the pump prices unchanged and make more money. The voters will *love* that!

Now, I will hasten to add – as I did back in 2008 and again in 2022 – that in the near-term the supply of gasoline is also inelastic, and the ultimate impact on prices is determined by the relative size of the demand and supply elasticity. If the demand and supply responses are roughly comparable in magnitude, the decline in the purchase price should be about half the gas tax. Even if "it's still money," cutting gas prices by 9 cents is not going to save any politician from irate voters.

A gas tax holiday is worse than an empty political gesture. Because it will quickly be recognized as empty – gas prices won't fall – a holiday will actually backfire.