



The Daily Dish

Gas Tax Follies

DOUGLAS HOLTZ-EAKIN | FEBRUARY 15, 2022

ABC News [reports](#) that “Two Senate Democrats up for reelection proposed a bill ... to temporarily suspend the federal gas tax through the end of 2022, as millions of Americans grapple with the economic impacts of surging oil prices. The Gas Prices Relief Act from Sens. Maggie Hassan, D-N.H., and Mark Kelly, D-Ariz., would suspend the \$18.4 cents per gallon federal gas tax through Jan. 1, 2023, according to a summary of the proposal shared with ABC News.”

A gas tax holiday is a solution in search of a problem.

First, it is not a remedy for inflation. Inflation is a broad-based, continuous rise in the general price level. A gas tax would affect the price of a single commodity – gasoline – in a one-time fashion. This is mixing apples and oranges. Moreover, if rhetorically suspending the gas tax is an anti-inflation policy, then rhetorically reinstating the tax is a pro-inflation policy. I don’t think they want to run on a platform of igniting inflation on January 2, 2023.

Second, it is not a remedy for high gas prices. I am painfully aware of this having had to defend the late Senator John McCain’s proposed gas tax holiday in the 2008 presidential campaign. Democrats pilloried the proposal, and with good reason. Over the time span of a few months, the demand for gasoline is quite inelastic – as the price rises, purchases fall relatively little because it is hard to quickly adjust the car one drives, the locations of homes and work that determine commuting distance, and so forth.

To get a feel for the implications, suppose demand is super inelastic – people buy essentially the same amount regardless of the price. Then getting rid of the gas tax is just an invitation for gas stations to jack up prices 18.4 cents per gallon, a raise that they would get to pocket.

Now, I will hasten to add – as I did back in 2008 – 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. (For proof, donate \$500 [here](#).) Saving 9 cents is not going to save these politicians from irate voters.