

Is gas tax holiday a terrible idea? This economist says yes

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A Northeastern expert believes that a three-month gas tax break, suggested by President Joe Biden, is a bad policy proposal amid an existential environmental crisis.

"The proposed gas tax holidays is a horrible idea," says Robert Triest, chair of the Department of Economics and a former vice president at the Federal Reserve Bank of Boston. "The only thing that I can think of in favor of the gas tax holiday is that, perhaps, [it] is good politically for the president. But I can think of nothing else to say in favor."

Triest listed three main reasons for his unfavorable assessment of the president's suggestion: Climate change; limited supply of refined petroleum products; and concern for infrastructure funding.

If the U.S. is serious about meeting its commitments under the Paris climate accord and mitigating climate change, it needs to transition away from [fossil fuels](#). And now is the perfect opportunity to do so, Triest says.

"I do think that the [climate change](#) is an existential threat," Triest says. "While it doesn't get headlines day-to-day, it is something that is actually much more important in terms of human welfare than something like the current inflation crisis."

High fuel prices are necessary to provide consumers with an incentive to use less gasoline and transition to more fuel-efficient or [electric vehicles](#), Triest says. It will take a number of years for consumers to adapt to a situation of sustained high fuel prices, and for manufacturers to recognize a change in demand for more fuel-efficient and electric vehicles and adapt their supply.

"But it is necessary to have those [high prices](#) that will be sustained in the long run in order for both the consumers and the manufacturers to respond to those prices," Triest says, noting that consumers turned to more fuel-efficient vehicles in the late 1970s, when gas prices spiked, and in 2008, when Americans quickly pivoted toward fuel efficiency due to skyrocketing prices for gasoline, while many manufacturers

discontinued many gas-guzzling vehicles.

In the short-term, consumers could try to reduce unnecessary trips or combine trips to stores; take public transit; carpool; or work more days from home. If the president wants to provide relief to particularly vulnerable or low-income consumers, the government could introduce, for example, larger income tax credits, Triest says, which would not be as harmful in terms of their effect on the currently high inflation.

"I am certainly concerned about equity," Triest says. "There may be a need to do things like subsidize charging stations in low-income neighborhoods to help low-income areas with the transition to electric vehicles."

But it is important that economic relief does not come in the form of lower fossil fuel prices, he says.

Triest believes a gas tax holiday won't likely have a desirable effect on consumers due to a limited supply of fuel from manufacturers.

"Right now, at the national level, refineries are pretty much at full capacity, and it is not likely that we can increase the supply of gasoline to the market in the short-run at reasonable cost," Triest says.

The limited supply of fuel on the national level will likely lead to a substantial increase in pre-tax prices, thus canceling out the effect of the gas tax holiday, he says. There might be some flexibility of supply between individual states, but if every state reduces gas taxes, Triest argues that the result will be the same: rising pre-tax gas prices.

In addition, Triest worries that a gas tax holiday will negatively impact the Highway Trust Fund used to accumulate gas tax revenue to fund critical infrastructure like highways and public transportation.

"While there are other ways of funding infrastructure, the gas tax is kind of a built-in mechanism to generate that revenue," Triest says. "And it seems like we need more money for infrastructure rather than less."

Biden called on Congress and individual states to suspend federal and state gas taxes for three months on Wednesday in order to provide relief to American consumers. According to the White House, the federal tax is currently 18 cents per gallon of gasoline and 24 cents per gallon of diesel.

Biden suggested that the country could use other revenues to continue financing the Highway Trust Fund. The Biden Administration estimated the cost of a three-month gas tax holiday at about \$10 billion.

Provided by Northeastern University

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