



Gasoline Tax Holiday.....Well-Intended or Self Preservation? 4/10/22

Several states have decided to temporarily reduce the state taxes on gasoline. The move to lower the price of gasoline has enormous public appeal that is not lost on our representatives. Gasoline is a necessity and its causing enormous pain for low- and middle-income households. So is everything else they buy. Keep in mind the definition of inflation: **too much money chasing too few goods.**

That's the state of our general economy. Too much demand chasing too little supply. Now look at the parallels with the oil market. Stocks declined in every quarter last year. And the balances are still tight despite the fact that through mid-March we lost little Russian exports due to the invasion. The market is anticipating further losses, but up until recently the losses were about 1/2MMB/D. Just like the general definition of inflation, the demand for oil currently is in **excess** of available **supply**.

Thus, it is essential to bring **demand down to available supply**. In a market economy that's (sometimes painfully) the job of **price**. If we arbitrarily reduce price, we increase demand at the margin. The gas tax holiday is a gunshot approach. It lowers the price to all gasoline consumers. It's an overreach by the political system because it has wide public support. (Do I hear mid-terms?)

The wealthy don't need the help, and the gas holiday doesn't help the low- and middle-income households who don't own cars but are suffering from the sharp increases in everything they buy. The states should focus the dollar amounts they are prepared to give up and **target** those revenues to the low- and middle-income households who so desperately need the help. The states know how to reach these households.