



Yes Virginia There Is a Santa Claus There May Be No Free Lunch in Economics, But There Seems to Be One in Presidential Politics (06/23/2022)

Once again, the President is about to choose wrong. He is proposing a 3-month holiday on the Federal tax on fuels. He knows he can't do it himself and that it takes an act of Congress to get it done.

He also must know that the odds of passage are very low. There is opposition within his own party to it. Yet, he can take credit for being on the side of the stressed consumer at no cost. Let's look at the idea of a temporary tax holiday and see why it is **bad economic policy**.

At the margin, it would stimulate demand, albeit very little, but it sends the wrong signal. Gasoline supplies are tight, and we don't want to encourage any incremental demand. It will add to the deficit and debt at a time when interest rates are rising rapidly and the net interest on the debt is about to explode.

Not all households own cars, they can't afford them. Many of these households live in urban areas and many are in low-income households. They will not benefit. Ye, they should be the target market of any help.

It is not clear that the tax holiday will be fully passed through.

Like many programs, it is not targeted but a gunshot approach. The high-income households benefit while it's the low-income households that need the help. **It will win him style points, but once again it is bad policy.** The average household uses 50 gallons of gasoline per month (50 times 18.4 cents), that's \$9.20/month or 30 cents a day if fully passed through. Did we just make a mountain out of a mole hill?



If you really want to help all low-income and low-middle-income households, expand an existing program that reaches them: The Low-Income Home Energy Assistance Program (LIHEAP). Clean it up, expand eligibility and raise the amount of money that goes to these households. They need help for more than just the next three months. And the program must be audited very intensively.