

Our View

The Gasoline Tax Hoax: A Nationwide Holiday Benefits Refiners

Why Economics Is the Dismal Science

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May 12, 2026

President Trump's decision to cut the federal gasoline tax has raised widespread questions about its effect on retail gasoline prices.

The correct answer is that there will be no effect unless the supply increases.

However, reporters have been quick to cite a study published by the University of Pennsylvania's Wharton School that showed that consumers in some states saw lower prices when the state gasoline tax was cut. Consumers in Maryland, for example, received 72 percent of the state's tax cut, while consumers in Georgia and Connecticut received larger shares of similar cuts. The study authors added, though, that "these price reductions were often not sustained during the entire holiday."¹

Bloomberg reporters who canvassed political and economic commentators suggested that "a pause on the gas tax would likely lower prices between 10 and 16 cents a gallon, according to research from the Bipartisan Policy Center in April, citing estimates from the impacts of state-level gas tax suspensions in 2022."²

The commentary is correct. The prediction is wrong. This is where the science of economics becomes dismal.

The Wharton School report showed that consumers in some states saw price declines when their states cut gasoline taxes, while those in other states did not. This should not surprise anyone. For example, if the state of Maryland, which accounts for around eight percent of national gasoline use, cuts its gas tax, demand will increase in Maryland. However, the impact on the nation's total gasoline consumption will be negligible. Thus, the citizens of Maryland will see savings because nationwide demand for gasoline remains unchanged.

One can also offer an extreme example in which, say, the state of Rhode Island decides to subsidize gasoline to bring prices there down to \$1 per gallon in a world of \$4.50-per-gallon gasoline. Gasoline sales in Rhode Island would surge, while gasoline purchases in neighboring Connecticut

¹ Zheli He and Xiaoyue Sun, "Effects of a State Gasoline Tax Holiday," Penn Wharton Budget Model, University of Pennsylvania, June 15, 2022 [<https://tinyurl.com/ye3bsnf3>].

² Caitlin Reilly, Ari Natter, and Will Kubzansky, "Trump Floats Temporary US Gas Tax Halt as Pump Prices Soar," Bloomberg, May 11, 2026 [<https://tinyurl.com/z4ram8jr>].

and Massachusetts would drop. Assuming suppliers could adjust the supply distribution to keep the tanks in Rhode Island full, there would be a minimal impact on national consumption, and consumers who could get to Rhode Island would see the price cut benefit.

The situation would be different, though, if the cut that brought prices to \$1 per gallon were extended to all consumers. The resulting 75-percent decline in nationwide prices would boost national consumption by perhaps as much as six percent, based on the very low short-run price elasticity of demand.

However, a problem would quickly arise unless suppliers could boost supplies by six percent. If not, prices would quickly jump back to \$4 per gallon. Refiners and marketers would pocket the government subsidy.

This is the fallacy of a nationwide cut in gasoline taxes. Prices will not fall unless supply increases.

Given the tightness in global markets, there appears to be little chance that gasoline supplies to US consumers will rise. Instead, they may decline.

Consumers, then, will see no benefit from the proposed gasoline holiday. Refiners, on the other hand, will profit.