Washington Watch

What can Biden and Congress do to fight inflation? 'Simply not much of anything'

Feb. 28, 2022

By Victor Reklaitis

Russia-Ukraine war is latest driver of higher prices for American households and prolonged conflict would boost U.S. recession odds

Democratic-run Washington already was struggling to find effective ways to fight high inflation — and then Russia invaded Ukraine, helping to drive prices up even further for oil and other commodities.

President Joe Biden last week said he "will do everything in my power to limit the pain the American people are feeling at the gas pump," but analysts are stressing that the White House and Congress face real constraints in what they can do.

"Does Washington have any ability to prevent inflation from sharply escalating in the short run? My answer to that is no," said **Bernard Baumohl, chief global economist at the Economic Outlook Group,** a nonpartisan forecasting firm.

If the Russia-Ukraine war begins to wind down by April, then the U.S. inflation rate is likely to stay at around 7% to 8% possibly through this year's second quarter, according to **Baumohl**.

"If we're talking about a more protracted war in Eastern Europe, then we're looking at at least another 2 percentage points higher — 10% and even more — because there's really not much we can do under the short term to be able to offset the new restrictions on supply-chain flows for and natural" the economist told MarketWatch.

He added that in that case, there's a higher probability of a recession for the U.S., putting it at 45%, along with a 70% chance of recession for Europe and a 60% chance for Japan.

One thing that Washington could do is "put forward direct transfer payments," similar to what it provided last year with monthly payouts from an enhanced child tax credit, as that would "mitigate near-term increases in the cost of living for middle- and lower-income households," said Joe Brusuelas, chief economist at consulting firm RSM US. That would help households as they "bear the burden of adjustment due to the current global crisis," but curbing price rises in the short run is essentially impossible, he said.

"Putin's invasion of Russia will result in rising commodity and energy prices and overall inflation in the near term, and there is simply not much of anything that the American political authority can do about it," Brusuelas said.

Gas-tax holiday? Open the SPR?

Western sanctions thus far have included exceptions for Russia's energy sector, but that may not prove sustainable, said Tobin Marcus, a policy and politics strategist at Evercore ISI, a research business.

"The unexpectedly effective Ukrainian military resistance and unexpectedly rapid escalation of sanctions are raising the risk of more brutal tactics from Russia, which in turn will create more pressure to further escalate sanctions," said Marcus, who worked as a Biden economic adviser when the veteran politician was vice president. "And in the event that sanctions do get applied directly to Russian oil and gas exports, or that Russia cuts off exports in a cycle of mutual escalation, I don't see any realistic path for D.C. to fully offset that stagflationary shock, even if we get an unexpected bipartisan agreement on a gas tax holiday or other steps."

A proposal for a gasoline tax holiday came in early February from some Democratic lawmakers. It would stop collection of an 18-cent federal tax until Jan. 1, but skeptics have said it's not likely to draw enough support to become reality.

"If you're going to reduce or eliminate the tax on gasoline, you're depriving Congress from funds that were supposed to be needed for infrastructure, so I'm not so sure that's the route that Congress will necessarily go," said the Economic Outlook Group's **Baumohl**, adding that it would "infuriate environmentalists" and only provide short-term help for drivers.

Other moves that Washington can make to address inflation include a release from the U.S. Strategic Petroleum Reserve. Officials from the U.S. and other major oil-consuming nations reportedly could agree to a coordinated release from their reserves as Monday or Tuesday, and that would come after Biden tapped the country's emergency stockpile in November. But analysts don't think much of such moves.

"The general consensus is that does not have a particularly large impact and that that's more of a thing to point to, rather than a thing that's really going to move the needle," Evercore ISI's Marcus said. "Coordinating it internationally does amplify the effectiveness, compared to the typical version of the Strategic Petroleum Reserve release that you'd see, but it's always been treated in policymaking circles as a bit of a gimmick."

Lifting lumber tariffs, targeting meat processors and more

While the Biden administration has eased some Trump-era tariffs on other countries' goods, analysts say more could be done and it would address inflation. However, it's tricky to execute.

"That is a genuinely meaningful thing that they could do," Marcus said. The White House hopes to "get to fairly widespread tariff rollbacks sometime this year," but the constraints include not wanting to announce those rollbacks until negotiating for some changes in China's industrial policies, he said.

"The Canadian softwood lumber tariff needs to be rolled back to zero," Brusuelas of RSM US told MarketWatch, saying it "would help on the margin, especially given the rising price of shelter."

He stressed that housing costs are likely to serve as the key medium- and long-term driver for inflation, so Washington needs to "mobilize to provide a lot more homes" after severe underbuilding since the 2008 financial crisis.

Biden administration officials have touted their efforts to scrutinize meat processors amid that industry's rising prices and consolidation. But Brusuelas criticized that type of approach, saying it's "counterproductive," even as the public is looking for someone to blame.

While a pared-down Build Back Better plan could end up getting enacted this year, **Baumohl** said he doesn't see such a measure as being "particularly inflationary" because expenditures could be laid out over five years or longer. The timespan and the potency will be much different from the 2020 and 2021 COVID-19 relief spending, which hit the economy over shorter periods.

“Fiscal policy will be much more restrictive and as a result that should help weaken inflation pressures,” the **Economic Outlook Group** expert said.

The Federal Reserve is widely expected to raise interest rates this year to address high inflation, but it’s independent of the White House and Congress. Still, could Democratic-run Washington have tried to nominate and confirm more hawkish Fed officials?

“I don’t think either substantively or politically that there’s much interest in trying to put a sort of super-hawk type in place. There is a real risk of overshooting in the tightening,” Marcus said. He said the Biden slate of Fed appointees is largely “latent doves,” though they currently “are going to be taking inflation very seriously and are going to lean hawkish.”

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