

Washington Watch

As Biden fights inflation, economists warn his weapons for this battle look ‘extremely limited’

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Top White House economist: ‘The president is doing what he can’

President Joe Biden says fighting high inflation is his “top domestic priority,” and his administration has touted the moves it’s making to help Americans with rising costs.

They range from the largest-ever release from the U.S. Strategic Petroleum Reserve and expanded use of gasoline with 15% ethanol, to pause for federal student-loan repayments and initiatives that make internet service free for 48 million low-income households.

Other steps include a housing plan that boosts financing for manufactured homes, a fix for an Obamacare glitch that should lower healthcare costs for an estimated 5 million Americans and additional student-loan efforts — such as canceling debt for 40,000 borrowers and correcting for past mistakes that denied 3.6 million borrowers credit toward forgiveness.

Economists continue to warn, however, that every president — whether Democrat or Republican — lacks powerful weapons for battling high prices. They’re reiterating a view that they voiced three months ago, before Biden talked up his efforts to tackle inflation in his State of the Union speech.

“A president has an extremely limited range of steps that can be taken to address this sort of inflationary shock driven by geopolitical events,” Joe Brusuelas, chief economist at consulting firm RSM US, told MarketWatch in an interview, referring to Russia’s invasion of Ukraine, which has lifted prices for energy and food.

“The release from the strategic oil reserves is what one would expect and really represents the upper boundary of that range,” Brusuelas said. But even that unprecedented release won’t have a “significant medium- to long-term impact on pricing,” he added, saying that’s because the “financialization of oil markets is just so large compared to the physical delivery of supply.”

Economists stress that it's primarily the job of the Federal Reserve to fight inflation, and the American central bank — which is intended to be independent of the president and Congress — has started to do exactly that by raising interest rates.

“The bottom line is that there really isn't all that much that can be done, except for the Fed to significantly begin to dampen demand,” said **Bernard Baumohl**, **chief global economist at the Economic Outlook Group**, a nonpartisan forecasting firm.

The Biden administration “tapped the Strategic Petroleum Reserve, and yet we still have gasoline prices at record high levels. That in itself should tell you the limited power that the administration has,” **Baumohl** added.

'Essentially Band-Aids'

The **Economic Outlook Group** expert is downbeat on the likely effects of Biden's moves with E15 gasoline, free broadband internet and Obamacare's “family glitch.”

“These are essentially Band-Aids. You will not see consumer prices come down in any tangible way, even with those policies being put in place. There's just too many other factors at this moment that are driving prices as high as they are right now,” **Baumohl** said, referring to drivers such as Russia's war on Ukraine and a range of supply-chain problems sparked by the COVID-19 pandemic.

“I'm afraid the tools, the weapons that the administration have are rather limited.”

RSM's Brusuelas put forward a similar take, saying such efforts have to do with “optics” and help “around the margins.”

“You really want to help out? Extend the enhanced Child Tax Credit and make it permanent, but that's not happened,” the economist said, referring to monthly payments to families that stopped in December after Biden's “Build Back Better” plan stalled in the Senate.

Brusuelas offered some praise for Biden's housing plan, saying it represents a “good first step” toward a solution to “what's going to evolve into a housing crisis.” He also was upbeat on the measures for boosting housing production proposed in a recent Wall Street Journal op-ed by the director of the White House's National Economic Council, Brian Deese, who wrote that column with the head of the U.S. Chamber of Commerce.

White House economist responds

When asked by MarketWatch about Biden's limited ability to tackle inflation, a top White House economist said the question goes to the fact that it's the Federal Reserve's job to ensure price stability and full employment.

"So first and foremost, the president and his entire administration respect the independence of the Fed, and also understand that this is largely their mandate — to address inflation," said Cecilia Rouse, who chairs Biden's Council of Economic Advisers.

It's important that Congress has been confirming Biden's Fed nominees, "so that the Federal Reserve is fully staffed and ready to take on this challenge," she added.

"We support the policy changes that they're making in order to address inflation. That said, the president is doing what he can as well," Rouse also said, with her remarks coming Friday at the end of a panel discussion hosted by the Center for American Progress, a liberal think tank. She pointed to steps such as the release of oil reserves and allowing the summertime sale of E15 gas.

Analysts have been predicting defeats for Biden's Democratic Party in November's midterm elections if high prices persist.

Republicans are widely expected to regain control of the U.S. House of Representatives in those elections, with betting market PredictIt giving an 87% chance for that outcome. The GOP is getting good odds for taking back the 50-50 Senate, too, as PredictIt puts them at 76%.

Democratic lawmakers have joined Biden in working to address inflation ahead of the midterms, with the House last week narrowly approving a bill aimed at alleged "price gouging" at gas pumps.

"We view this as the latest messaging bill designed more to show that Democrats are fighting inflation than to become law. The fact that Democrats struggled to pass even low-impact legislation that mirrors existing law in a majority of states highlights the challenges in addressing fuel prices," said Benjamin Salisbury, director of research at Height Capital Markets, in a note.

What's next

Republicans have frequently criticized Biden over high inflation and charge that the \$1.9 trillion stimulus package that he signed into law last year has contributed to high prices, with Senate Minority Leader Mitch McConnell saying in a recent floor speech that it's "directly responsible for as much as 3 percentage points of our current inflation."

The Economic Outlook Group's **Baumohl** argued that the American Rescue Plan probably has done more good than harm by helping the U.S. economy bounce back, and he said it would be hard for Republicans to come up with a strategy that would bring inflation down quickly.

"They might be willing to deregulate more of the energy industry," he said. "But that's not going to be the solution, because that's going to take time, in any event, for refiners to build more refineries — nor do I think that they're willing to do so because they can see the future, and they know that that renewables and sustainability is the path for a lot of private capital spending."

His firm sees inflation coming down to about 4% by the end of the year, with that forecast assuming no more major COVID outbreaks in the U.S. and Europe, along with Russian President Vladimir Putin ending his war on Ukraine this summer, because of the conflict's toll on Russia's military and economy.

Baumohl also stressed that the private sector is addressing inflation regardless of what Washington is trying.

"Every company in every industry is right now exploring ways with which to come up with a new strategy that will help them deal with what seems to be a changing economic and business landscape," he said.

"There's a lot that's going on the economy right now on its own in dealing with inflation, and that to me is the real untold story."

RSM's Brusuelas cautioned that food prices are "going to be the real problem later this summer into fall, even as top-line inflation is coming down." That's because of sanctions on Russian grains and Moscow's blockades of Ukraine's wheat harvests.

"Patience is what the public is going to have to have, in terms of waiting for prices to return back to earth," he said, adding that he sees the Fed getting the U.S. back to its long-term target of 2% inflation over the next two or three years.

One other step that Biden could take is cutting Trump-era tariffs on Chinese goods. He said Monday that he was considering such a move, as U.S. inflation runs at its hottest pace in 40 years.

U.S. stocks have tumbled this year, with the S&P 500 down about 17%, as investors fret about inflation, the Fed's rate hikes and the potential for a recession.