What Aren’t We Doing to Fix Inflation?

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There’s no one weird trick to tackle inflation overnight. If there were some magic lever to pull, President Joe Biden, Fed Chair Jerome Powell, and Democrats up and down the ballot already would have pulled it.

Efforts to tame high prices in the United States — largely through interest rate hikes from the Federal Reserve — aren’t bringing prices down much yet, though the hope is that eventually they will.

Still, it’s not a perfect approach. Much of what’s contributing to inflation — Russia’s war in Ukraine, Covid-19, continued supply chain issues — is really out of the US central bank’s sphere of influence altogether. Interest rate increases take time to work their way through the economy, and the Fed’s rate hikes are likely to cost jobs and could even push the country into a recession. This means they’re going to make things worse before, at some point, they get better.

I reached out to seven experts across the ideological spectrum to ask where we go from here. While monetary policy — the Fed’s decisions about interest rates — is typically seen as the main tool for bringing down inflation, is there more that policymakers can and should be doing to help address this mess?

Their answers, edited for length and clarity, are below.

Meg Jacobs, senior research scholar at the Princeton School of Public Health and International Affairs

There are alternatives to raising interest rates that make sense today and also have historical precedent.

One thing presidents have historically done — and we've seen Joe Biden do this for about a year now — is good old-fashioned jawboning, where he uses the bully pulpit to put pressure on corporations to moderate their price increases. Then there's what I would call jawboning plus, which is doing the same thing but with a little more muscle behind it. That's relying on the Federal Trade Commission on areas where there's concentration, such as meatpacking or shipping or other areas that the government feels it has some basis for using its authority to investigate and put pressure on corporations.

Then there are more direct measures aimed at price setting, most directly through price controls. Price controls are something that economists are very wary about because they believe markets better allocate resources and that the price level is the way to send the proper signal. But policymakers and politicians recognize that there are moments when markets are broken or not functioning properly or under unusual periods of crisis, like in war, and have been willing to intervene. Even if economists are skeptical about price controls, they're very popular with the public because they appear to be a way for presidents and politicians to signal, "We're taking care of you, we're not letting corporations get away with charging exorbitant profiteering prices."

Whether or not those could be used today or not, Joseph Stiglitz — the Nobel Prize-winning economist — believes that there's room, for instance, to use targeted price controls on things like gas prices, which are up because of the volatility in the market given the Ukrainian war and Covid. He believes that markets aren't properly functioning and there would be a way to inject targeted controls, pegging them to some predetermined marginal cost that you could retroactively figure out. In Europe, they're very much on the table too, both for oil and for natural gas. We've seen other efforts to do price setting, whether that's through relief through the strategic petroleum reserve or Biden's efforts to form a buyers' cartel.

There's another bundle of proposals that might not affect the consumer price index overall, but they would target bringing down the cost of living for individual households. If we think about lowering prescription drug prices or subsidizing child care or the child tax credit or college debt forgiveness, those are all things that make a difference in the individual households' bottom line. We don't necessarily count them as inflation-fighting tools, but in terms of the money every family has, they certainly matter.

Another category, and we saw this in the Inflation Reduction Act, is the longer-term investment in infrastructure that would lead to greater productivity and growth, like green transition and making us more energy efficient. It's what some people have called supply-side liberalism, that kind of investment in production.

Brian Riedl, senior fellow in budget, tax, and economics at conservative think tank the Manhattan Institute

The Federal Reserve is going to have to do most of the work to fight inflation, but Congress and the administration can determine how hard of a brake pedal they have to use. The more that the Biden administration and Congress do to worsen inflation, the harder the brake pedal will be, and the more likely we're going to go into a recession.

There's a lot that can be done. Step one, stop the spending. The student loan bailout is inflationary, the American Rescue Plan is one of the main drivers of inflation, and proposals for additional spending will worsen inflation. I'm not saying Congress has to cut a trillion dollars, I'm just saying stop digging so rapidly.

Secondly, take a look at tariffs. I like to cite a Peterson Institute for International Economists study that says a 2 percentage point reduction in tariffs could lower inflation by 1.3 percentage points and save $800 per household. If they just repealed some of the Trump tariffs, that would help — they don't have to go to the free trade utopia that I would prefer.

In looking at things the White House has done that's worsened inflation, Buy Americaprovisions [which require government agencies to source more domestically for federally funded infrastructure] are worsening inflation. The White House is also expanding Davis-Bacon [which requires workers on infrastructure projects be paid the average wage of other workers in a similar occupation in a similar area], and expanding project-labor agreements[which are pre-hire collective bargaining agreements with unions that determine conditions for work on specific construction projects]. I think the White House is going the wrong way on a lot of these because everything I just mentioned would cross organized labor.

Additionally, the more we can do on oil and gas exploration should make a dent in gas prices, although there's going to be a time lag on that. Suspending the Jones Act [that requires goods shipped between American ports be transported on an American-built, -owned, and -crewed ship] would lower inflation, and anything to open ports, although it's hard with ports because that's another area where it's an issue with union rules. Those are tougher for the White House because those aren't necessarily government policies.

All of that could collectively not fix inflation, but it could chop it down two, three, four points, which would allow the Federal Reserve to have an easier time. You can make a case for any of these policies on an individual level, but collectively, they're going to worsen inflation, and it's just the trade-off you're making. You can do one or two of them, but you can't do all of them. I don't want to suggest that every one of these policies is inherently terrible; I can make a case for any of them in a vacuum. But in an inflationary environment, it's tough to do all of them.

J.W. Mason, economist at John Jay College and fellow at progressive think tank the Roosevelt Institute

First of all, we should explicitly have on the table the possibility that we don't need to bring down inflation, or that the options we have to bring down inflation are not worth the cost. Part of the problem with this conversation is the premise that we absolutely cannot tolerate 8 percent inflation, that it's out of the question that we should allow this to persist for a couple more years, and therefore, if you don't have something better than what the Fed is doing, then you have to let the Fed do its thing.

I don't know that inflation won't come down on its own, perhaps relatively soon; I think there was a premature closing of the debate over transitory inflation. But even in the case that inflation remains high for some extended period, we actually have to have a conversation about whether the

costs of that are greater than the costs of a weaker labor market, high unemployment, and, very likely, a deep recession [that will be caused by aggressive interest rate hikes].

That said, I think there are other options, and they tend to be more targeted. A lot of the inflation that we're seeing is coming from energy, and to the extent that we can move away from our dependence on fossil fuels, that's going to bring down inflation. That's not going to happen overnight, but neither are interest rates going to be effective overnight. The Inflation Reduction Act is a good step in that direction.

"WE SHOULD EXPLICITLY HAVE ON THE TABLE THE POSSIBILITY THAT WE DON'T NEED TO BRING DOWN INFLATION"

We have rent regulation in New York City, and a lot of other jurisdictions are looking at that. A big component of inflation right now is rent.

We know that health care prices are big — not necessarily in current inflation, but in the long run — and we know that we have policy tools to control health care inflation and some success stories there.

And then, of course, the supply-side stuff. The fact that manufactured goods prices are rising is one of the distinctive features of what's happened over the past year compared to what's happened historically. Manufactured goods prices were falling for decades, and now they're rising. The notion that this is a permanent loss of our capacity to produce goods, that we've forgotten how to make stuff more cheaply, is extraordinarily pessimistic.

It's much more plausible to say we still have ongoing disruptions to global supply chains and we have the knock-on effects of high energy prices, which show up in a lot of places besides direct energy costs. Those are problems that we can continue working on addressing, whether it's something like the CHIPS Act, onshoring some important inputs that are where a lot of the disruption has been happening, or policies to get rid of transportation bottlenecks at ports and elsewhere. People seem to have gotten bored with that conversation.

Claudia Sahm, founder of Sahm Consulting and former Fed economist

The best tool we should be using right now is patience. Financial markets are clearly fragile, and the Fed is putting an immense pressure on the economy.

There are things Congress needs to avoid doing. I was disconcerted, but not surprised, when I saw some of the saber-rattling about the debt ceiling. The last thing we need is for them to play chicken on the debt because, again, the Fed is fighting inflation and trying to get this thing back on track.

It's kind of like we're in a china shop. The Fed has contributed to that, but they're not the only ones — Covid and Putin get a lot of credit, and they are making things more and more fragile. Every time a policymaker releases a bull into the china shop, bad things happen. The UK is a canary in the coal mine. If Congress does not raise the debt ceiling, that's another bull, and it will take the eye off the ball on inflation. Unforced policy errors just can't happen right now. Congress

and the White House need to be awake at the wheel. Really, everybody needs to be boring and just do what they normally do.

"THE FED'S WRONG THAT IT SAYS IT NEEDS UNEMPLOYMENT TO GO UP"

Frankly, the White House has pulled basically every lever they have to get gas prices down, and I am extremely heartened by the Inflation Reduction Act. We also see workers coming back to work, we see supply chains easing, we're going to see lower import prices because the dollar is strong. We've had some healing, and it's taken a long time because of Covid, but we are seeing some relief.

For the vast majority of people, their income is from their paycheck, and as long as people keep their jobs, they will be able to keep spending. Losing their jobs is when you throw it in reverse. The Fed's wrong that it says it needs unemployment to go up; it needs patience.

Lindsay Owens, executive director of progressive think tank Groundwork Collaborative

There are three components that are driving the price growth that we're seeing: wage growth, input costs — like materials, sales and marketing, and energy — and the mark-up, meaning the difference between the selling price of a good or service and the cost of that good or service. Fed Chair Jerome Powell is uniquely suited to be hammering away at the pieces of this inflation that are really coming from the demand side.

Congress and the administration are uniquely suited to be approaching the components of inflation, the components of price growth, that are being driven by the mark-up and how much companies are charging consumers. Let me focus on three areas where they could act.

One is really disincentivizing the mark-up by taxing back excess profits. The government can say that you don't get to keep your excess winnings, your winnings go to the Treasury Department [through taxes], meaning you're less incentivized to increase prices so much.

In some cases, we're seeing true windfall profits. Take oil and gas companies — they're not making better oil and gas, but they're really profiting off the scarcity and volatility resulting from the war in Ukraine. It makes a ton of sense just to tax that back.

The second is to really take a close look at whether these mark-ups rise to the level that they constitute something that we call, colloquially, price gouging. Thirty-eight states have price gouging laws on the books, and there is legislation before Congress to impose a federal price gouging statute that Sen. Elizabeth Warren (D-MA) has introduced and that there are a number of supporters for in the House and Senate. They say, "Hey, during periods of market transition, we take a look at the mark-up, how much and how far people are going on pricing in excess of the price levels that they were getting before the pandemic."

The third thing that we might take a look at is the underlying root causes of the stickiness or stability of the mark-up. So how is it that companies are able to push so far on the mark-up? Well, it's because they have pricing power. Why do they have pricing power? Because they have market

power. And so here, we need to be looking at reforms to take on really pervasive concentrated market power. That means antitrust reforms, including enforcing laws already on the books where some of this does already rise to the level of collusion and price fixing. Also, there are new pieces of legislation, including a bill that Rep. Katie Porter (D-CA) has introduced to take a finer gaze at some of the loopholes in existing antitrust laws to go after some of the sources of solution.

Skanda Amarnath, executive director at liberal think tank Employ America

If you think you're going to solve inflation from the demand side, you're talking about lowering expenditures on consumption and slowing down the pace of consumer spending. But it turns out there's not a lot of consumption that is very closely tied to interest rates; the parts of interest rate-sensitive spending where you saw a lot of price increases, like automobiles, weren't driven by credit-intensive activities. Beyond that, in places like rent or food services or food or gasoline or utility bills or higher tuition, it's really hard to say, "We'll just put the clamps on interest rates and that's going to lead to lower spending."

What rate hikes are more likely to lead to is businesses that just stop spending altogether and liquidate their workforces and investments in physical capital at a time when you think that the supply-side answer would involve more investment and maybe some more hiring. The Fed's actions undercut the prospect of a supply-side response. That said, I don't think you're really seeing evidence of that either, outside of housing.

The Fed's actions have yet to really bite. They might bite soon.

Commodities prices have hit new highs in certain areas, like diesel prices, and that's affected a lot of retailers' margins and retail pricing on various goods and services. This is a place where the Biden administration should be thinking about how to provide more stability. They've done that to some degree through their strategic commodities releases and in improving and providing incentives around investment in production in the future, like the CHIPS Act. They've also promised to be buying oil at a floor price to try to keep the market stable, to keep the industry reasonably profitable, and to not worry about these big, hellacious swings. They could go one step further in contractually obligating themselves to purchase, and instituting some sort of a soft floor under a lot of commodity prices. It could apply to food, energy, and other things; there's a whole host of commodities where we need more stability.

On the demand side, it's a question of what's the least bad option.

You could think of how you might actually want to reduce consumption through tax policy. For example, you can think about consumption taxes or even income taxes that are targeted. You don't want to raise consumption taxes for everything where prices have already gone up, but you could be doing stuff at least to try to progressively tax consumption. Now, could you design that ideally and get it passed and not have to worry about it? It's obviously hard; Congress is not a nimble animal. Placing such power in a more nimble part of government is equally difficult. But hopefully this experience wakes people up to the idea that there are probably better ways to try and reduce consumption other than through interest rates.

Norbert Michel, vice president and director of the Center for Monetary and Financial Alternatives at libertarian think tank the Cato Institute

I have to preface this by saying that Congress did delegate this responsibility primarily to the Federal Reserve, so they have to let them handle it.

One big piece of that is Congress has to stop passing stimulus bills. Unless they want more inflationary pressure, they have to stop doing it — there's no way around it. So maybe this time they'll stop.

"CONGRESS HAS TO STOP PASSING STIMULUS BILLS"

Beyond that, I think it's less of a "what are we going to do fix inflation" and more of a "what are we going to do to let what the Fed's doing work better," and that really does, for the most part, entail doing whatever they can to make it easier for people to produce and sell more goods and services. It's more long term, and there are a million things they can do there.

Trade is one of the biggest, most obvious places to start, and the energy sector. Honestly, I understand — or I don't understand it, actually — the climate change stuff. If you want to actively do a whole bunch of things that make it harder to access and use the cheapest, most efficient source of fuel we have, you shouldn't be surprised when it becomes more expensive. If you want to do something about that, you have to produce more of it, not less of it.

Stop subsidizing things, because that's more government spending that puts price pressures in places that you don't want it. You can do things like getting rid of the renewable fuels standard — even the Government Accountability Office says the renewable fuels standard pushes fuel prices higher and doesn't have much, if any, benefit.

The tariffs list goes on forever; the place to start is getting rid of tariffs on necessities like food and clothing, steel, construction goods. There are all kinds of little things even at the state and local level, like occupational licensing [that require workers to hold licenses in certain jobs], that hurt poor people more than they hurt wealthier people.

Based on where we are now, inflation is probably a little bit more demand than supply, but I would definitely say that there was a major set of supply problems that were caused by government shutdowns and that sort of thing, and I don't know that all of that is completely cleared. If you want to really get into the weeds, that is a problem for the Fed, because they can't really do much about that.