Want to Ease Inflation? Start by Lifting the China Tariffs

The tariffs are doing significantly more harm than good.

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In March, inflation reached 8.5 percent, the highest level since 1981. From the Federal Reserve to the Biden administration to Congress, policymakers are increasingly looking at ways of putting downward pressure on prices. During an interview last week with Bloomberg TV about ways to combat inflation, Treasury Secretary Janet Yellen said that lowering tariffs on imports from China is "worth considering." As my Cato colleague Scott Lincicome noted on Twitter, it's not worth *considering*, it's worth *doing*.

Inflation is being driven by a complicated imbalance of supply and demand — loose fiscal and monetary policy are the primary culprits in pushing up demand. Meanwhile, the tariffs are a serious impediment to increasing supply. Smarter trade policy is not a silver bullet for reducing inflation, but it could help on the margin. Indeed, there are a number of reasons for the Biden administration to lift the tariffs on imports from China – and other Trump-era tariffs.

First, as noted, with inflation reaching 40-plus year highs, recent research from Gary Hufbauer, Megan Hogan and Yilin Wang of the Peterson Institute for International Economics (PIIE) finds that eliminating the Trump administration's trade war tariffs on Chinese imports as well as steel and aluminum imports could shave about 1.3 percentage points off inflation. Likewise, PIIE's research finds that relaxing Buy American rules for federal procurement would cut inflation by 0.6 percent. Together, these measures could cut nearly 2 percent off inflation. Such measures are within the Biden administration's existing authorities and can be accomplished quickly. Likewise, they are much more likely to stem price increases than the administration's increasing focus on utilizing antitrust enforcement to lower prices, which is a dubious strategy.

The tariffs were ostensibly designed to force Beijing to make systemic changes to its economic policies ranging from intellectual property protections to forced technology transfer. Many of us predicted from the start of the trade wars in 2018 that it was unlikely that tariffs would change China's behavior. Now policymakers are increasingly coming to terms with this reality; in testimony before Congress recently, U.S. Trade Representative Katherine Tai acknowledged that the tariffs did not induce Beijing to make the changes the U.S. demanded – stating "[the tariffs have] not incentivized China to change."

Even before the onset of inflation, the tariffs were imposing significant costs on American families and firms. The New York Federal Reserve estimates that the tariffs increased the costs for average American households by about $830 per year, accounting for direct costs and efficiency losses, and resulted in approximately $1.7 trillion in lost market capitalization for firms through investment slowdowns. Likewise, Moody's Analytics estimates that the trade wars cost 300,000 jobs.

China's 21st century mercantilism does pose significant challenges to the rules-based trading system, which demands a smarter response than outdated tariffs and purchase commitments. Outcompeting China should be a top priority for policymakers and it simply belies common sense that weakening ourselves through tariffs is the way to accomplish that goal over the long term. Instead of tariffs, policymakers should be pursuing policies to improve dynamism and global competitiveness, including immigration and educational reforms, tax changes and unilateral trade liberalization for intermediate inputs and capital goods. Likewise, the U.S. should be leveraging allies to expand trade and set high quality commercial standards in the Pacific Rim region by rejoining the Comprehensive and Progressive Trans-Pacific Partnership and crafting new anti-subsidy rules through the World Trade Organization (WTO); partnering with like-minded allies to pursue trade enforcement against China through the WTO's dispute settlement system, and coordinating narrow multilateral export controls for sensitive products.

The tariffs are doing significantly more harm than good. Eliminating them won't completely tame inflation, nor will it alleviate all that plagues U.S.-Sino commercial relations. But it would be a good place to start.

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