

Jerome Powell's Double Standard About Taxes and Inflation

The Fed chairman fixates on the possible effects of tariffs but has said nothing about other tax hikes.

By Donald L. Luskin

Federal Reserve Chairman Jerome Powell, in the **press conference** after the Federal Open Market Committee's June meeting, treated the inflationary effect of President Trump's tariffs as settled science. He said, "Everyone that I know is forecasting a meaningful increase in inflation in coming months from tariffs because someone has to pay for the tariffs." The only question for Mr. Powell is how bad and how long-lasting. But there are other important questions he is sidestepping.

He is right that someone has to pay for the tariffs. Tariffs are taxes, and someone always has to pay. But Mr. Powell and his colleagues seem obsessed with the inflationary effects of these particular taxes in a way they never have been with any other taxes.

Over the seven FOMC meetings since President Trump was elected, the word "tariff" was mentioned 158 times in the chairman's press conference. In the official minutes of those meetings, the word was mentioned 82 times. Perhaps deservedly so, considering that the tariffs are estimated to add up to a **\$2.1 trillion tax bill** over a decade. Corporations importing goods and parts will write most of the checks, and perhaps try to pass on some of the cost to consumers.

Yet in 2021 President Biden's American Jobs Plan would have raised corporate income taxes by **\$2.1 trillion**. Here too, corporations would write all the checks. And if corporations can be expected to pass on to consumers—and into inflation—their tax expense from tariffs, why not their expense from higher income taxes? In both cases, firms would be trying to protect their margins against higher tax costs.

Yet from Mr. Biden's election in 2020 through the February 2022 defeat in the Senate of the legislation to implement his tax-hike plan, the possible inflationary effect of that massive corporate tax increase was never mentioned in the press conferences after 11 FOMC meetings, nor in the official minutes. In those minutes, the word "tax" appeared only four times amid 106,509 words.

The same thing is true for Mr. Biden's American Families Plan, the companion legislative initiative in his Build Back Better agenda. According to Penn Wharton, it would have raised taxes on individuals over a decade by **\$1.3 trillion**. When individuals in the service economy pay higher taxes, shouldn't they too seek to pass on the cost to their customers, just as corporations are presumed to do? Yet the Federal Reserve never mentioned this once.

Over a decade, the One Big Beautiful Bill Act will lower taxes on corporations and individuals by **\$4.3 trillion** compared with prior law. If it is settled science for the Fed that higher taxes from Mr. Trump's tariffs will increase inflation, shouldn't Mr. Trump's tax cuts offset it, or even cause deflation, considering that the tax cuts are more than twice as large as the tax hikes? Yet, again, the Fed has never mentioned this.

Nor has the Fed contended with the fact that, as I **pointed out on these pages** in January, there is no evidence that Mr. Trump's tariffs in 2018 and 2019 led to any inflation at all, and they seemed large at the time.

This time, with higher tariff rates already resulting in \$75 billion in tax collections year-to-date versus last year, the Bureau of Economic Analysis **reported last week** that goods inflation—the category most likely to be affected by tariffs—was only 2.2% at an annual rate in the first quarter, slightly above the Fed's 2% target—and only 0.2% in the second quarter.

Yet in the FOMC press conference on July 30, the same day that data was released, Mr. Powell said. "You could argue we are a bit looking through goods inflation by not raising rates. You know, we haven't reacted to new inflation." What new inflation? What goods inflation?

Even if this time tariffs eventually end up in higher consumer prices, the Fed should think carefully about whether raising interest rates would be effective in addressing it. If the settled science is that corporations will pass through their tariff costs—despite the lack of evidence so far—how do higher interest rates keep them from doing that? How does it help anything to tighten financial conditions, which would slow economic activity that has possibly already been slowed and distorted by tariffs?

We think Mr. Trump's new tariffs are likely a serious economic policy error. And certainly the Fed should take them into account. But obsessing about them as it never has with any other large potential tax hike—and ignoring offsetting tax cuts—could lead to the Fed compounding Mr. Trump's error.

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