



The Daily Dish

Infrastructure and Inflation

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Eakinomics: Infrastructure and Inflation

Monday's Eakinomics examined the inflationary pressures in the economy, and yesterday's worried we are stuck in a perpetual infrastructure week. Lucky readers, today I'm combining these two fears! Some folks on Capitol Hill have become [worried about inflation](#) (which is reasonable) and whether the bipartisan infrastructure framework being contemplated in the Senate is a recipe to exacerbate it. So [Michael Strain](#), the Director of Economic Policy Studies at the American Enterprise Institute, and I weighed in on the issue with a short memo. We put our heads together and concluded that this concern was misplaced.

This is what we wrote:

In our view, inflation is a real risk facing the economy. Congress should be concerned about inflation, and we encourage members to seek clarity from the Federal Reserve about its expectations and plans, and to apply close scrutiny to future spending plans. But we do not view a well-structured infrastructure plan as a meaningful upside risk to the inflation outlook.

Inflation occurs when economic demand for goods and services increases faster than the economy's ability to produce goods and services. Much of President Biden's spending plans would be inflationary because they would increase demand. Increased payments to households are one example.

A well-structured infrastructure bill would boost the supply side of the economy, reducing inflationary pressures. Improving roads, bridges, and ports would make it less costly for businesses to operate, allowing them to increase their output per hour, and putting downward pressure on consumer prices.

In addition to boosting productivity, the timing of the proposed infrastructure plans mitigates concern about inflation. The goal of the proposed infrastructure plan is not to boost the demand side of the economy, giving it a quick, Keynesian jolt through “shovel-ready” projects. This type of infrastructure spending could be inflationary. Instead, the goal is to increase the productive capacity of the economy over the course of nearly one decade. Under the plan, (roughly) no money would be spent in 2021. The vast majority of the money would be spent after 2022. We expect inflationary pressures from President Biden’s February stimulus, reopening, and pandemic-related supply constraints to have abated by 2023. So spending under the infrastructure plan would overwhelmingly occur after current concerns about inflation have subsided.

There are a million things I worry about in President Biden’s fiscal and economic plans, but inflation from infrastructure spending is not one of them.