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Rapid Inflation Fuels Debate Over What's to Blame: Pandemic or Policy

The White House is emphasizing that inflation is worldwide. Economists say that's true — but stimulus-spurred consumer buying is also to blame.


By Jeanna Smialek and Ana Swanson

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The price increases bedeviling consumers, businesses and policymakers worldwide have prompted a heated debate in Washington about how much of today's rapid inflation is a result of policy choices in the United States and how much stems from global factors tied to the pandemic, like snarled supply chains.

At a moment when stubbornly rapid price gains are weighing on consumer confidence and creating a political liability for President Biden, White House officials have repeatedly blamed international forces for high inflation, including factory shutdowns in Asia and overtaxed shipping routes that are causing shortages and pushing up prices everywhere. The officials increasingly cite high inflation in places including the euro area, where prices are climbing at the fastest pace on record, as a sign that the world is experiencing a shared moment of price pain, deflecting the blame away from U.S. policy.

But a chorus of economists point to government policies as a big part of the reason U.S. inflation is at a 40-year high. While they agree that prices are rising as a result of shutdowns and supply chain woes, they say that America's decision to flood the economy with stimulus money helped to send consumer spending into overdrive, exacerbating those global trends.

The world's trade machine is producing, shipping and delivering more goods to American consumers than it ever has, as people flush with cash buy couches, cars and home office equipment, but supply chains just haven't been able to keep up with that supercharged demand.

Kristin J. Forbes, an economist at the Massachusetts Institute for Technology, said that "more than half of the increase, at least, is due to global factors." But "there is also a domestic demand component that is important," she said.

The White House has tried to address inflation by boosting supply — announcing measures to unclog ports and trying to ramp up domestic manufacturing, all of which take time. But rising inflation has already imperiled Mr. Biden's ability to pass a sprawling social policy and climate bill over fears that more spending could add to inflation. Senator Joe Manchin III, the West Virginia Democrat whose vote is critical to getting the legislation passed, has cited rising prices as one reason he won't support the bill.

The demand side of today's price increases may prove easier for policymakers to address. The Federal Reserve is preparing to raise interest rates to make borrowing more expensive, slowing spending down, in a recipe that could help to tame inflation. Fading government help for households may also naturally bring down demand and soften price pressures.

Inflation has accelerated sharply in the United States, with the Consumer Price Index climbing by 7 percent in the year through December, its fastest pace since 1982. But in recent months, it has also moved up sharply across many countries, a fact administration officials have emphasized.

"The inflation has everything to do with the supply chain," President Biden said during a news conference on Wednesday. "While there are differences country by country, this is a global phenomenon and driven by these global issues," Jen Psaki, the White House press secretary, said after the latest inflation data were released.

It is the case that supply disruptions are leading to higher inflation in many places, including in large developing economies like India and Brazil and in developed ones like the euro area. Data released in the United Kingdom and in Canada on Wednesday showed prices accelerating at their fastest rate in 30 years in both countries. Inflation in the eurozone, which is measured differently from how the U.S. calculates it, climbed to an annual rate of 5 percent in December, according to an initial estimate by the European Union statistics office.

"The U.S. is hardly an island amidst this storm of supply disruptions and rising demand, especially for goods and commodities," said Eswar Prasad, a professor of trade policy at Cornell University and a senior fellow at the Brookings Institution.

But some economists point out that even as inflation proves pervasive around the globe, it has been more pronounced in America than elsewhere.

"The United States has had much more inflation than almost any other advanced economy in the world," said Jason Furman, an economist at Harvard University and former Obama administration economic adviser, who used comparable methodologies to look across areas and concluded that U.S. price increases have been consistently faster.

The difference, he said, comes because "the United States' stimulus is in a category of its own."

White House officials have argued that differences in "core" inflation — which excludes food and fuel — have been small between the United States and other major economies over the past six months. And the gaps all but disappear if you strip out car prices, which are up sharply and have a bigger impact in the United States, where consumers buy more automobiles. (Mr. Furman argued that people who didn't buy cars would have spent their money on something else and that simply eliminating them from the U.S. consumption basket is not fair.)

Administration officials have also noted that the United States has seen a robust rebound in economic growth. The International Monetary Fund said in October that it expected U.S. output to climb by 6 percent in 2021 and 5.2 percent in 2022, compared with 5 percent growth last year in the euro area and 4.3 percent growth projected for this year.

"To the extent that we got more heat, we got a lot more growth for it," said Jared Bernstein, a member of the White House Council of Economic Advisers.

While many nations spent heavily to protect their economies from coronavirus fallout — in some places enough to push up demand, and potentially inflation — the United States approved about $5 trillion in spending in 2020 and 2021. That outstripped the response in other major economies as a share of the nation's output, according to data compiled by the International Monetary Fund.

Many economists supported protecting workers and businesses early in the pandemic, but some took issue with the size of the $1.9 trillion package last March under the Biden administration. They argued that sending households another round of stimulus, including $1,400 checks, further fueled demand when the economy was already healing.

Consumer spending seemed to react: Retail sales, for instance, jumped after the checks went out.

Americans found themselves with a lot of money in the bank, and as they spent that money on goods, demand collided with a global supply chain that was too fragile to catch up. Jutharat Pinyodoonyachet for The New York Times

Adam Posen, president of the Peterson Institute for International Economics, said the U.S. government spent too much in too short a time in the first half of 2021.

"If there had not been the bottlenecks and labor market shortages, it might not have mattered as much. But it did," he said.

Inflation F.A.Q.

What is inflation? Inflation is a loss of purchasing power over time, meaning your dollar will not go as far tomorrow as it did today. It is typically expressed as the annual change in prices for everyday goods and services such as food, furniture, apparel, transportation costs and toys.

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Virus outbreaks shut down factories, ports faced backlogs and a dearth of truckers roiled transit routes. Americans still managed to buy more goods than ever before in 2021, and foreign factories sent a record sum of products to U.S. shops and doorsteps. But all that shopping wasn't enough to satisfy consumer demand.

The Port of Los Angeles is a window into the mismatch. The port had its busiest calendar year on record last year, processing 16 percent more containers than in 2020. Even so, it still has a huge backlog of ships waiting to dock, several of which, as of Friday, have been waiting a month or more.

The extra help the government provided to families last year mattered to inflation because of those bottlenecks, economists said. Giving households more money to buy camping equipment or a new kitchen table widened the gap between what consumers wanted and what companies could actually supply.

As goods came into short supply and began to cost more to transport, businesses raised their prices.

Government checks haven't been alone in driving strong U.S. demand. As virus fears prevent consumers from planning a trip to Paris or a fancy restaurant dinner, many have turned to refurbishing the living room instead, making goods an unusually hot commodity. Lockdowns that forced families to abruptly stop spending at the start of the pandemic helped to swell savings stockpiles.

And the Federal Reserve's interest rates are at rock bottom, which has bolstered demand for big purchases made on credit, from houses and cars to business investments like machinery and computers. Families have been taking on more housing and auto debt, data from the Federal Reserve Bank of New York shows, helping to pump up those sectors.

But if stimulus-driven demand is fueling inflation, the diagnosis could come with a silver lining. It may be easier to temper consumer spending than to rapidly reorient tangled supply lines.

People may naturally begin to buy less as government help fades. Spending could shift away from goods and back toward services if the pandemic abates. And the Fed's policies work on demand — not supply.