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Do State and Local Governments Need to Worry About Inflation?

Much depends on their tax structures, particularly if Prop. 13-style tax caps are in place. But inflation-driven pressure for wage increases could squeeze budgets and crush pension funds.

Wall Street is abuzz about inflation. Recent Consumer Price Index data showing a 4.2 percent rise from a year ago spooked investors briefly as costs spiked for food, energy, used cars and commodities ranging from microprocessors to lumber. But one or two hot readouts alone do not signal persistent inflation — or at least that is what White House and Federal Reserve officials are preaching. Should state and local leaders brace for something worse?

Let's be optimistic and assume that Congress eventually passes some kind of physical infrastructure bill paid for with tax increases and user charges. That's unlikely to stir up inflation by itself. But the remainder of the Biden agenda, which includes "soft" infrastructure and the American Family Plan's social spending, seems unlikely to secure enough votes for offsetting tax increases to avoid yet more deficit spending. Add to that the certainty that a big blue health-care bill will surface next year, and the recipe for inflationary deficits is bubbling in the federal fiscal kitchen.

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