In a recent paper, "Fiscal Deficits and Inflation across OECD Countries, 2019-2023," we studied the connection between the surge in fiscal deficits in 2020-2021 and the surge in inflation in 2020-2023 across 37 OECD countries. The underlying framework viewed the inflation surge as a way effectively to finance part of the spending surge through the inverse effect of unexpected inflation (from the standpoint of 2019) on the real value of public debt. The effective revenue generated through this channel was large, typically 10-15% of annual GDP. Aside from the dependence of inflation on the size of the fiscal expansion, two less obvious channels involved the initial debt-GDP ratio and the duration of the public debt. A higher debt-GDP ratio predicted less inflation (because more debt meant that less inflation was needed to generate a given amount of effective real revenue), and longer duration predicted a lower inflation rate per year (because the inflation could be spread out over a longer interval). These distinctive aspects of the approach were borne out by the data for the panel of OECD countries.

Another result concerned the 17 Euro countries in the sample. We found that the data accorded with the view that these countries should be viewed as a single economic entity with regard to the link between inflation and fiscal expansion. Specifically, a Euro country's inflation rate 2020-2023 reacted to Euro-wide fiscal expansion rather than to the individual country's expansion.

The plan in the present paper is to apply the Euro findings to the U.S. states. Specifically, we plan to relate U.S. inflation to U.S.-wide and individual state fiscal patterns to assess whether the connection involves the U.S. aggregate fiscal surge as opposed to each state's surge. The parallel to the Euro findings would be that the U.S. aggregate is mostly what matters here.

At present, this analysis has been delayed because of holdups in two key parts of the data. The U.S. state CPIs for 2019-2023, generated from the micro BLS data, have been unavailable because the BLS office has been closed due to COVID. Now this office has reopened, and we anticipate getting the required data soon. Second, the state-level data on government spending and public debt have been held up because of delays in releasing the Census of Governments for 2023. We anticipate that these data will also be available soon.