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BIDEN INFRASTRUCTURE AND FAMILIES PLANS WOULD HAVE SIGNIFICANT POSITIVE MACROECONOMIC BENEFITS FOR US ECONOMY, NEW LEVY ECONOMICS INSTITUTE STUDY SAYS

Analysis of Pandemic Impacts on US Economy and Prospects for Recovery Finds Inflation Fears Unwarranted but Warns of Increasing Trade Deficit

ANNANDALE-ON-HUDSON, N.Y.— As President Biden and a bipartisan group of senators agreed to a compromise deal on a partial infrastructure deal this week, a new study from the Levy Economics Institute of Bard College projects a significant increase in the growth rate in 2021 as a result of the American Rescue Plan Act and, furthermore, that President Biden's infrastructure and families proposals, if enacted, will have additional positive macroeconomic benefits. In their new Strategic Analysis, "The Pandemic, the Stimulus, and the Future Prospects for the US Economy," Levy President Dimitri B. Papadimitriou and Research Scholars Michalis Nikiforos and Gennaro Zezza use the Levy Institute's stock-flow macroeconometric model to examine possible future paths for the US economy.

"Our model shows that a large-scale infrastructure plan or one that contributes to education and childcare—like those now under discussion in Washington—will have significant positive macroeconomic effects, even if they are offset by an increase in the taxation of high-income households," write Papadimitriou, Nikiforos, and Zezza, warning, however, that US policymakers must prioritize decreasing the trade deficit. "One reason for concern is that the current account deficit is likely to widen. In this case, if the government tightens its budget in the future, as it most likely will, US economic growth will once again become dependent on the private sector becoming a net borrower."

The Levy Scholars add that a large-scale infrastructure plan or investment in education and childcare will also have significant productivity effects, which will lead to second-round economic benefits that could help address the trade deficit. "Containing the increase in the current account deficit without sacrificing economic growth should be one of the main targets of US economic policy," they write. "Policies that will contribute to productivity increases can also be helpful in this respect."

To conclude, Papadimitriou, Nikiforos, and Zezza argue that concerns about a sharp increase in inflation spurred by the fiscal stimulus are unwarranted.

“First, the economy was not close to full employment even before the pandemic. Second, because of the US economy’s present structural configuration, the mechanisms that can propagate an acceleration in inflation are weak,” the Levy authors write. “In the near future, the US economy might experience higher inflation rates, but this will mostly be due to ‘base effects,’ as prices return to their normal trajectory after the pandemic, or because of bottlenecks in the global value chains, such as the recent shortage in semiconductors.”

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Strategic Analysis: “The Pandemic, the Stimulus, and the Future Prospects for the US Economy”

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit levyinstitute.org/publications/the-pandemic-the-stimulus-and-the-future-prospects-for-the-us-economy.

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