The timing of infrastructure spending

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Regardless of their party affiliation, most people support certain types of government spending. For instance, they approve of spending that supports the police and fire departments; they also favor infrastructure spending. The political arguments about infrastructure spending do not center around whether or not to spend money on these endeavors, but rather they center around how much to spend. The options are 1) spend a lot and 2) spend three times more than a lot. Given the widespread popularity for infrastructure spending, it might surprise you that I am against spending much money on infrastructure in the next year or so. It is not that I do not see the value in infrastructure spending; I do. But rather, it is because I don't think now is a good time for us to undertake this spending spree.

It is not the right time because of our current economic situation. Firms are already having trouble finding enough workers. According to the Wall Street Journal, workers are quitting jobs at higher rates than we've seen in over 20 years. Workers typically, quit their current jobs if they can find higher paying jobs elsewhere. In our current environment, workers are getting better paying jobs since firms are bidding against each other to get the workers and resources they need to produce their products.

We've seen the negative impact of this bidding war start to show up in the inflation rates. Inflation is a measure of the increase in the average price level. When inflation goes up by 4 percent, each dollar's purchasing power declines by 4 percent. The erosion in purchasing power really hurts people who have saved money for their retirements. Inflation makes the value of their nest eggs decline and reduces the standard of living they can expect in retirement.

A large infrastructure spending bill would hurt people with savings by causing a further increase in the inflation rate. The inflation rate would rise because the government would be yet another bidder trying to get workers and other resources. For example, in a tight labor market, like we have now, the government could not get the construction workers they need to build a bridge by only hiring unemployed workers. There are not enough of them. Instead, the government will have to pay higher wages to convince workers to leave the jobs they have building houses. We will be left with fewer houses and a new bridge. In a similar manner, the government will have to bid higher than normal prices for all of its construction materials, which will also increase the prices of these goods. Now that the government is soaking up resources, firms throughout the economy will bid against each other for the remaining resources, driving up these resource prices and further contributing to inflation.

The bidding war for resources, started by the new infrastructure spending, will not make workers better off. Even though workers will earn higher wages, they will also have to pay higher prices for the goods they want to buy. Their purchasing power will not improve.

A large infrastructure spending bill should be put on hold until it won't cause a bidding war for resources that will lead to inflation. Infrastructure spending is as popular as apple pie and ice cream, but timing matters. Much like this dish is better served in the summer, when people most appreciate the cold temperature of the ice cream; infrastructure spending is better done when there is enough slack in the labor and resource markets so that the infrastructure spending won't lead to inflation.