FISCAL SHOCKS AND THE SURGE OF INFLATION

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Using a structural vector autoregression, I document the dominant role of fiscal policy in the recent surge of inflation in the United States. The comovement of output, prices, and primary deficit yields unique restrictions that allow me to identify the causal effects of an exogenous fiscal stimulus. I show that fiscal policy has long been a key driver of inflation—no chronicle of US inflation can omit the role of fiscal shocks. Yet, its outsized influence in the recent surge reflects the sheer, unprecedented scale of fiscal interventions. In the Euro Area, inflation also has a fiscal component, with the timing of interventions explaining its lag behind the United States. I show that a model with monetary and fiscal policy interactions – where Ricardian equivalence fails due to households' finite planning horizon – can account for fiscal inflation in the recent period.