

[Fiscal anticipation and inequality: the role of the monetary-fiscal mix](#)

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This paper examines how increases in government spending affect household consumption inequality, focusing on an important distinction between spending that happens unexpectedly (surprise) and spending that is announced in advance (anticipated). Using U.S. data from 1981 to 2019, we find that these two types of spending have opposite effects: a surprise increase in government spending reduces consumption inequality, while an announcement of higher future spending initially increases it at the time of announcement.

We explain this empirical finding in a theoretical framework wherein inequality is defined as the difference in consumption between households with savings/financial assets and those that are hand-to-mouth, i.e. live on their current income. When government spending rises unexpectedly, it immediately stimulates economic activity, employment and wages. Households that depend only on their current earnings benefit particularly strongly from this increase in labour income, so their consumption rises relative to that of savers, and the consumption gap between the two groups narrows. Announcements of future spending work differently because the government has not yet started spending. Instead, households respond to what they expect will happen to interest rates and the wider economy in the future. The effect therefore depends heavily on how monetary and fiscal policy interact.

In what we call a monetary-led regime in the model, where the central bank actively responds to inflation and the government acts to keep debt under control, an announcement of future spending leads households to expect higher real interest rates once that spending takes place. This reduces consumption and economic activity before implementation, lowering wages and disproportionately affecting households that depend on current income. Consumption inequality therefore rises when the spending is announced, before falling once the spending actually takes place and the positive employment and wage effects begin. By contrast, in a fiscally-led regime in the model, where monetary policy is more accommodating and fiscal

policy does not adjust to stabilise debt, expected real interest rates fall, and consumption, output and wages increase as soon as future spending is announced. In this case, both anticipated and surprise increases in government spending reduce consumption inequality.

To conclude, government announcements can reshape inequality before any spending occurs, meaning that treating anticipated and surprise spending as equivalent can mask effects that run in opposite directions. The effect on inequality depends critically on when households learn about it and how monetary policy responds.