

[Monetary-Fiscal Regimes, Fiscal Financing, and Redistribution](#)

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Understanding how monetary and fiscal policy interact is central to debates on inflation, public debt, and inequality, but the distributional consequences of different financing choices remain poorly quantified. By linking policy regimes to household outcomes within a unified and empirically grounded framework, this paper offers clear insights into why similar policy actions can have very different effects across the economy, making it directly relevant for policymakers and researchers concerned with both stabilisation and distribution.

We build a unified macro model that brings together monetary policy, fiscal policy, money, and household balance sheets in one framework. We split households into borrowers and savers, track public debt and money, and estimate the model on US data so behaviour is anchored in the data rather than calibrated assumptions. We then use this estimated setup to compare how the same fiscal expansion plays out under different policy configurations, changing only the policy rules to isolate the role of financing and policy interactions. This makes it possible to trace, in a transparent way, how fiscal shocks move inflation, interest rates, debt, and ultimately consumption for different households.

The way fiscal expansions are financed is central for both macro-outcomes and distribution. When spending is debt-financed and monetary policy stabilises inflation, borrowing costs rise and borrowers cut consumption more than savers. When the same expansion is financed through money creation, inflation erodes the real value of debt and boosts borrowers' consumption relative to savers, reversing the distributional pattern. Evidence from the estimated model also shows that shifts in the effective inflation stance play an important role in shaping debt dynamics and household outcomes, especially in recent decades.

Policy choices that look similar in aggregate can have very different distributional effects. Financing fiscal expansions through debt tends to be less supportive for constrained households when monetary policy tightens to stabilise inflation, while financing through money shifts resources towards borrowers via inflation. This creates a clear trade-off: stabilising inflation through interest rates versus easing the debt burden through price-level adjustment. Policy design therefore needs to consider not only the size of fiscal interventions, but also how they are financed and how monetary policy responds, as these jointly determine who gains and who loses.