# Debt Maturity Management Under Fiscal-Monetary Bargaining

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**Abstract**

The Treasury and Federal Reserve finance spending by utilizing U.S. debt markets to implement tax and inflation directives. The authorities internalize financing costs differently: raising taxes is costly for fiscal policymakers, while higher inflation is costly for central bankers. What determines the inflation/tax rate composition and supporting debt portfolio when operationally independent fiscal and monetary policy authorities behave non-cooperatively?

I investigate fiscal and monetary non-cooperation under a maturity structure of nominal debt, varying commitment power at the institutional level. I define and study an economy's dilution rate of government debt, which measures the relative amount of newly-issued short-term debt maturing alongside previously-issued long-term debt. Expected dilution affects government indebtedness through the term structure, while surprise dilution provides current financing at future governments' expense.

I then examine how fiscal-monetary bargaining outcomes determine an economy's equilibrium financing mix. Greater fiscal power drives reduced distortionary taxation through increased surprise inflation. I document substantial U.S. fiscal bargaining power during the 1970s and a recent spike after COVID. Of the two, the recent COVID spike better approximated first-best outcomes because surprise inflation provides more financing for highly-indebted governments.