

## FINANCIAL TIMES

### Letter: Increased spending has inescapable consequences

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I agree with Martin Wolf in the likelihood of “a huge expansion in spending and little in the way of additional taxation” (“Lessons for investors as the spectre of inflation rises again”, Opinion, Money, FT Weekend, March 27).

Wolf’s warning of the possibility of inflationary overshoot seems compelling, especially if deficits are monetised.

The fundamental issue is that an increase in spending implies a shift of resources to government (and thence to the venues chosen by government). Over the past two decades offshore investors, particularly from China, have lent their resources to the US government. That era may be drawing to a close. However, there is an alternative to monetising deficits.

The US government could finance its deficits, up to some amount, through financial “repression”; requiring regulated financial institutions to hold more Treasuries. Banks, money market funds, pension plans and insurers collectively intermediate a majority of savings and their portfolios are subject to regulation.

Financial repression could possibly cause a crowding out of private investment, slower growth and a reduced return on retirement savings. If that were to occur, the frugal would get clipped by a reduction in real interest rates, just as with inflation.

To sum up, the US may avoid inflation, but it cannot escape the consequences of increased government spending, for good or ill.

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