A Comparative Study on the Coordination of Fiscal Policy and Monetary Policy inside and Outside China

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Abstract. In recent years, under the background of economic globalization, sudden international events have brought a huge impact on the global economic pattern and order. At the same time, in view of the fact that fiscal policy and monetary policy play an important role in the macro-control of various countries, this paper analyzes the strategic choices and effects of different countries in economic regulation by comparing the coordination and cooperation practices of fiscal policy and monetary policy, in order to provide experience and enlightenment for the coordination of China's fiscal and monetary policy. This paper first Outlines the basic theory of fiscal policy and monetary policy, then introduces the practice and experience of fiscal policy coordination and coordination at home and abroad, then makes a comparative analysis, and finally puts forward suggestions for optimizing the coordination and coordination of China's fiscal and monetary policies.

Keywords: Fiscal Policy; Monetary Policy; Coordination and Cooperation; Comparison

1 Introduction

At present, the impact of the global novel coronavirus epidemic has not been completely eliminated, and the Russia-Ukraine conflict combined with the Federal Reserve's interest rate hike has brought strong impacts on China and abroad. At the same time, factors such as large-scale tax and fee cuts in China, strict control of hidden debt, and continuous expansion of rigid spending on people's livelihood have significantly tightened available financial resources in various regions of China. It is urgent to innovate the way of fiscal spending and improve the efficiency of fund use[1]. Fiscal policy and monetary policy, as the two main means of macroeconomic regulation, differ greatly in terms of scope, target focus, mode of action and means of regulation. Coordination and cooperation should be paid attention to, which is conducive to slowing the surge of inflation and maintaining an acceptable level of economic growth[2].Therefore, the comparative study on the coordination and cooperation between fiscal policies and monetary policies at home and abroad is of great practical significance for summarizing

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experience in the process of sorting out foreign practices and optimizing China's policy mix.

2 Basic Theories of fiscal Policy and Monetary Policy

Fiscal policy refers to the policy of the government to affect the economic operation by adjusting taxes, expenditures and other means. Monetary policy refers to the policy of the central bank to adjust the money supply and credit scale by adjusting the interest rate, the deposit reserve ratio and other monetary tools, thus affecting economic activities. What they have in common is that both belong to macroeconomic policies and have the same ultimate goal. The difference between the two is that they have different priorities in macro-control. Because fiscal policy directly affects the real economy, the policy lag is relatively short; Monetary policy mainly indirectly affects the operation of the real economy, and the time lag of monetary policy is relatively long[2]. In the interaction between monetary policy and fiscal policy, currency issuance and open market operation affect asset prices and adjust fiscal policy indirectly. However, the large-scale fiscal stimulus significantly affects the control of monetary aggregate and credit supply, and in turn affects the monetary policy[4].The coordination and cooperation between fiscal and monetary policies means that they coordinate with each other in terms of policy objectives, tool selection and implementation timing, and form synergy to achieve better macro-control results. Such coordination and cooperation can help to adjust the money supply[5], cope with the financial crisis[6], reduce the loss of social welfare[7], control inflation[8], so as to avoid policy conflicts and superimposed effects, improve policy efficiency, and promote stable and healthy economic development.

3 Practice and Experience of Coordination between Fiscal Policy and Monetary Policy in Foreign Countries

3.1 Practice of Coordination and Coordination of Fiscal and Monetary Policies in the United States

As a major economic country in the world, the United States has a typical representation of fiscal and monetary policy coordination. Since the outbreak of the global financial crisis in 2008, the government has taken active measures to stimulate economic growth and stabilize the financial market in terms of fiscal policy. For example, the government has introduced a large-scale tax reduction program and increased government spending to improve the consumption and investment capacity of households and businesses. In addition, the government has provided financial assistance and guarantees to help financial institutions tide over difficulties and maintain the stability of the financial system. In terms of monetary policy, the Federal Reserve has adopted unconventional monetary policy tools to deal with the financial crisis and economic recession. This included sharply lowering the federal funds rate to a record low and launching four successive rounds of large-scale quantitative easing, buying large amounts of Treasury bonds and other financial assets to inject liquidity into the market and lower long-term interest rates. There has also been coordination between fiscal policy and monetary policy. For example, during the implementation of the quantitative easing policy, the government increased spending and cut taxes to complement the monetary policy to stimulate economic growth. Specifically, during the COVID-19 epidemic, the United States government launched a $1.9 trillion rescue plan and a "$6 trillion" US budget bill, and its fiscal policy and monetary policy once again played a powerful "combination". Such coordination and cooperation helped quickly restore market confidence and promote economic recovery. However, excessively loose policies, also known as "unconventional" policies like the one in the United States, often have consequences such as sharp increases in the prices of assets, scarce goods and services and a widening gap between the rich and the poor. Moreover, the causes and consequences of "unconventional" policies may cause and effect each other, forming a vicious circle. It has been proven that the long-term easing of monetary policy in the United States has led to a significant increase in the fiscal deficit. For example, since the Biden administration took office in 2021, the size of the United States national debt has risen sharply, and this pattern of fiscal deficit growth poses a threat to the sustainability of the economy. Moreover, the US debt ceiling has been reached, and inflation is at its highest level in 40 years. Therefore, with the risk of high inflation still existing, the coordination between fiscal policy and monetary policy, the two major levers of US macroeconomic policy, will enter a new stage[9].

3.2 Challenges and Countermeasures of Fiscal and Monetary Policy Coordination in the Euro zone

Looking back at the course of history, the practice of coordination between fiscal policies and monetary policies in the euro zone shows the characteristics and coping strategies of different stages. On January 1, 1999, the Euro zone was officially established, marking the implementation of the unified monetary policy. At the beginning of its establishment, it set up the fiscal policy of "no excess fiscal borrowing" and the monetary policy of "no excess monetary issuance", and also established the corresponding fiscal and monetary policy rules[10]. But the practice of the policy gradually deviated from the ideal setting.

According to the review, the following coping strategies are summarized: (1) Coping with inflation: In the face of high inflation pressure, the European Central Bank usually adopts tightening monetary policies such as raising interest rates to restrain consumption and investment, slow down the velocity of money circulation, and thus control inflation. At the same time, the eurozone governments will adjust tax and public expenditure and other fiscal policy means, and monetary policy coordinated combat, common control inflation. (2) Handling the Debt crisis: During the European debt crisis, eurozone governments strengthened fiscal discipline and reduced fiscal deficits by cutting public expenditure and increasing taxes in order to restore market confidence. At the same time, the European Central Bank also adopted unconventional monetary policy measures, such as the Long-Term Refinancing Operation (LTRO) and Outright Monetary Transactions (OMT), to provide liquidity to the market and mitigate the impact of the crisis on the economy. (3) Promoting economic growth: During the economic downturn, the Euro area will adopt relatively loose fiscal policies, such as increasing public investment and implementing tax cuts, to stimulate economic growth. At the same time, the European Central Bank will also lower interest rates, implement quantitative easing and other monetary policy measures to support economic recovery.

3.3 Features and Inspirations of Japan's Fiscal and Monetary Policy Coordination

After entering the 21st century, Japan is faced with multiple challenges such as sluggish economic growth and aging population. To cope with these challenges, the Japanese government has adopted a proactive fiscal policy. However, after the COVID-19 epidemic, the Japanese government launched two rounds of fiscal stimulus[11] packages with a total scale of up to 100 trillion yen, coupled with the narrowing of the tax base and the increase of public spending due to the aging of the Japanese population, Japan's fiscal situation has gradually deteriorated, and the scale of debt has been rising. Faced with such a situation, the Japanese government and central bank have adopted a series of innovative measures to deal with the economic downturn and deflation.

The characteristic practice of fiscal and monetary policy coordination in Japan is mainly reflected in the following aspects: (1) Coordination of policy objectives: The Japanese government and the central bank pay attention to the coordination of policy objectives when formulating fiscal policies and monetary policies. For example, when economic growth slows down, the Japanese government will increase public investment, while the central bank will lower interest rates to jointly stimulate economic activities. (2) Flexibly responding to economic challenges: In the face of changing economic environments at home and abroad, the Japanese government and central bank have been able to quickly identify economic risks and challenges and take appropriate policy measures to address them. For example, in the face of the global financial crisis, the Japanese government implemented a massive fiscal stimulus program while the central bank adopted a quantitative easing monetary policy to stabilize the financial market and promote economic recovery. (3) Focus on long-term fiscal health: Although fiscal policy may focus on stimulating the economy in the short term, the Japanese government also focuses on long-term fiscal health. In formulating fiscal policy, the Japanese government takes into account factors such as debt sustainability and tax reform to ensure the long-term stability of public finances. In order to prevent the local government debt problem, Japan has adopted comprehensive prevention and resolution measures before, during and after the event. This long-term perspective can help avoid over-reliance on short-term stimulus measures and lead to more sustainable economic growth.

4 History and Current Situation of China's Fiscal and Monetary Policy Coordination

Since the reform and opening up, the coordination and cooperation of China's fiscal and monetary policies has experienced a process from preliminary exploration to gradual maturity. In order to more directly and clearly observe and comb the course of China's fiscal and monetary policy coordination, the following table 1 shows the specific GDP growth rate, deficit to GDP ratio, actual deficit to GDP ratio, fiscal policy and monetary policy from 1997 to 2023.

Table 1. GDP growth rate, deficit-to-GDP ratio, actual deficit-to-GDP ratio, fiscal policy and monetary policy from 1997 to 2023

Year	GDP Growth rate (%)	Deficit ratio (%)	Actual deficit ratio (%)	Fiscal policy	Monetary policy
1997	9.2	0.7	0.7	Moderately tight	Prudent
1998	7.8	1	1.1	Mid-year: Proactive	Prudent
1999	7.7	2	1.9	Be more proactive	Prudent
2000	8.5	2.9	2.5	Proactive	Prudent
2001	8.3	2.7	2.3	Proactive	Prudent
2002	9.1	2.6	2.6	Proactive	Prudent
2003	10.0	2.4	2.1	Proactive	Steady yet tight
2004	10.1	2	1.3	Proactive	Steady yet tight
2005	11.4	1.6	1.2	Robust	Steady yet tight
2006	12.7	1.3	0.8	Robust	Steady yet tight
2007	14.2	1.1	0.6	Robust	Steady yet tight
2008	9.7	3	0.4	Mid-year : Proactive	Tight
2009	9.4	2.9	2.2	Proactive	Loose
2010	10.6	3.0	1.6	Proactive	Moderately loose
2011	9.6	2.0	1.1	Proactive	Prudent
2012	7.9	1.6	1.6	Proactive	Prudent
2013	7.8	2.0	1.8	Proactive	Prudent
2014	7.4	2.1	1.8	Proactive	Prudent
2015	7.0	2.3	3.6	Be more proactive	Prudent
2016	6.8	3.0	4.3	Proactive	Prudent
2017	6.9	3.0	4.7	Proactive	Prudent and neutral
2018	6.7	2.0	5.7	Proactive	Prudent and Neutral
2019	6.0	2.6	7.2	Proactive	Prudent and Neutral
2020	2.2	2.8	10.0	Be more proactive	Prudent
2021	8.45	3.6	6.9	Proactive	Prudent
2022	3	2.8	7.7	Proactive	Prudent
2023	5.2	3	7.2	Proactive	Prudent

Data source: the Ministry of Finance website (http://www.mof.gov.cn/index.htm) National Bureau of Statistics of China (https://www.stats.gov.cn)

After reviewing the development history, the practice of China's fiscal policy and monetary policy since 1997 can be roughly divided into the following four stages:

(1) The first stage (1997-2004): Faced with the impact of the Asian financial crisis and the downward pressure of the domestic economy, China began to adopt a proactive fiscal policy and a prudent monetary policy. This policy mix was aimed at stimulating economic growth and maintaining price stability and the stability of the financial

system. While effectively coping with the impact of the Asian financial crisis, it has also laid a solid foundation for China's economic development.

(2) The second stage (2005-2007): During this period, the Chinese government adopted a prudent fiscal policy and a steady and tight monetary policy. With the rapid economic growth, some structural problems gradually emerged, such as overcapacity, overheated investment, rising prices and so on. At the same time, under the combined influence of domestic and foreign factors, China needs to manage its macro economy more prudently. A prudent fiscal policy will help control government spending and avoid excessive fiscal deficits, while a steady and tight monetary policy will help control the money supply and credit scale and prevent economic overheating and inflation.

(3) The third stage (2008-2010): From 2008 to 2010, China adopted a proactive fiscal policy and a tight to loose monetary policy, which were necessary measures to cope with the impact of the international financial crisis and maintain stable economic growth. Before November 2008, China's monetary policy was relatively tight due to the overheating of the domestic economy and the high inflationary pressure. However, as the impact of the international financial crisis intensified, China's economic growth slowed down significantly, exports declined and employment pressure increased. In response to these challenges, the government began to gradually loosen monetary policy, increase market liquidity and reduce financing costs for enterprises. After 2009, China's economy gradually came out of the trough, but the foundation for recovery is not yet solid. In order to consolidate the momentum of economic recovery, the government continued to implement a proactive fiscal policy and a moderately loose monetary policy.

(4) The fourth stage (2011 to present): The Chinese economy has been facing some financial risks and challenges, such as the real estate bubble and local government debt. Prudent monetary policy helps prevent and defuse these risks and maintain financial stability by strengthening financial supervision and controlling the scale of credit. At the same time, the international economic environment is full of uncertainties, such as the rise of global trade protectionism and geopolitical conflicts. The combination of proactive fiscal policy and prudent monetary policy will help enhance the resilience and resilience of the Chinese economy to cope with uncertainties in the international economic environment.

5 Comparative Analysis of the Coordination and Cooperation between Domestic and Foreign Fiscal Policies and Monetary Policies

5.1 Comparison of Consistency of Policy Objectives

The practice of fiscal and monetary policy coordination shows that the consistency of policy objectives is the basis of coordination and cooperation. All countries are committed to achieving the two core goals of stable economic growth and price stability. However, due to differences in national conditions, economic systems and cultural backgrounds, there are differences in the specific formulation and emphasis of policy objectives. In fiscal policy, China has placed more emphasis on the role of counter-cyclical adjustment to stabilize macroeconomic operations, and paid attention to preventing and defusing debt risks. In terms of monetary policy, the central bank influences market interest rates and money supply by adjusting interest rates, reserve requirement ratio and other monetary policy tools to achieve macroeconomic objectives. The United States, on the other hand, focuses more on stimulating economic growth and creating jobs through fiscal policy, while the United States Federal Reserve focuses more on adjusting market interest rates and credit conditions in monetary policy. Fiscal policy in the euro zone, on the other hand, is more focused on coordination and consistency to ensure stability and prosperity throughout the economic area. In monetary policy, the European Central Bank mainly influences market interest rates and money supply by adjusting the benchmark interest rate and asset purchase program and other monetary policy tools. Japan's fiscal policy has focused on boosting growth through massive public spending and infrastructure development, and maintaining a low interest rate environment to support business investment and private consumption. In monetary policy, the Bank of Japan has pursued a long period of monetary easing, including maintaining very low interest rates and buying large amounts of government bonds.

5.2 Comparison of Tool Mix and Transmission Mechanism

Different countries' economic conditions, policy preferences and international environment have also led to differences in the mix of fiscal and monetary policy tools and transmission mechanisms. China is implementing a socialist market economy system with Chinese characteristics, and the combination of fiscal and monetary policy tools emphasizes "prudent" and "proactive". Fiscal policy tools mainly include taxation, expenditure and government bonds, while monetary policy tools cover the required reserve ratio, interest rates and open market operations. In terms of transmission mechanism, China has paid more attention to macro-control and counter-cyclical adjustment of policies, and guided steady and healthy economic development through the synergy of fiscal and monetary policies. The United States, on the basis of its highly market-oriented economic system, uses more of a combination of tax cuts and spending increases in its fiscal policy tools to stimulate economic growth. In terms of monetary policy, the Fed influences market interest rates and money supply by adjusting the federal funds rate, implementing quantitative easing and other means to achieve its economic objectives. In terms of transmission mechanism, the market economy system of the United States is relatively mature, and the transmission effect of monetary policy is relatively good, which can affect economic activities quickly. The euro zone is a monetary union consisting of several countries, and when it comes to fiscal policy instruments, eurozone countries abide by certain fiscal rules and disciplines to ensure the sustainability of fiscal policies. In terms of monetary policy, the European Central Bank is responsible for formulating the monetary policy of the eurozone, influencing market interest rates and money supply by adjusting interest rates and conducting open market operations. In terms of transmission mechanism, the transmission effect of monetary policy in the euro zone is affected by the differences in economic structure and financial markets of various countries, so there are certain differences and complexities. Japan faces the challenge of deflation and economic recession for a long time. In terms of fiscal policy, the Japanese government has implemented large-scale public investment and tax reduction measures to stimulate economic growth. In terms of monetary policy, the Bank of Japan has adopted very loose monetary policies, including zero interest rate policy and quantitative easing policy, in order to cope with the challenges of deflation and economic recession. In terms of transmission mechanism, Japan's fiscal and monetary policy transmission mechanism mainly relies on the expansion of public spending and the easing of monetary policy.

6 Suggestions on Optimizing the Coordination between China's Fiscal and Monetary Policies

Through combing and comparison, it is found that there are still some problems in the coordination between China's fiscal policies and monetary policies, such as the imperfect mechanism, low efficiency of policy transmission, and insufficient mechanism of policy effect evaluation. Therefore, the following optimization suggestions are put forward in response to these problems.

6.1 Strengthen Policy Communication and Coordination

The government should establish a sound fiscal and monetary policy coordination mechanism, strengthen communication and cooperation among policy departments, and ensure the consistency of policy objectives. First, a special coordination body with the participation of the financial departments and monetary authorities can be established to assess the effects of policies on a regular basis, adjust the direction and intensity of policies in a timely manner. At the same time, financial departments and monetary authorities should establish an information sharing mechanism to exchange macroeconomic data. But on the basis of clarifying their respective policy objectives, fiscal policy and monetary policy should also clarify their respective responsibility boundaries, avoid policy overlap and conflict, and improve policy efficiency.

6.2 Improve Policy Tools and Transmission Mechanisms

The government should further improve the selection and application of fiscal policy tools and monetary policy tools, and improve the pertinence and effectiveness of policy tools. Innovative fiscal policy tools, such as issuing special bonds and setting up industrial investment funds, can be adopted to better support the development of key areas and weak links. To optimize monetary policy tools, while monetary policy should continue to improve traditional tools such as open market operations, reserve requirement ratio and interest rate, explore new monetary policy tools, such as targeted RRR cuts and re-lending, to better meet market demand. It should also strengthen the construction of the policy transmission mechanism to ensure that policies can be transmitted to the real economy quickly and effectively, and improve the effectiveness of policies.

6.3 Strengthen Risk Prevention and Response

The government should strengthen its ability to prevent and respond to risks in the coordination of fiscal and monetary policies, establish a sound risk early warning and disposal mechanism, and strengthen monitoring and assessment of risk points such as cross-border capital flows, the real estate market and local government debt, and formulate well-targeted risk prevention measures. We should promptly respond to possible risks and problems. At the same time, we should pay more attention to and evaluate the international economic situation, improve the emergency response mechanism, and be better prepared to deal with external shocks. When emergencies or major risks occur, the financial authorities and monetary authorities should promptly activate the emergency response mechanism, take effective measures to stabilize market confidence and prevent the spread of risks.

7 Conclusions

By comparing and analyzing the practice and experience of fiscal policy and monetary policy coordination, we can find that different countries have differences in policy objectives, tool combinations, transmission mechanisms and other aspects. It is of great significance to learn from the practical experience of foreign countries and optimize the coordination and cooperation of fiscal and monetary policies in combination with China's actual conditions for promoting the steady and healthy development of China's economy. In the future, we should further strengthen policy communication and coordination, improve policy tools and transmission mechanisms, and strengthen risk prevention and response capabilities, so as to better leverage the role of fiscal and monetary policies in macro-control.

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