The Influence of American Expansionary Monetary and Fiscal Policies on China's Inflation

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Abstract: With the deepening of economic globalization, the interaction between China's economy and the U.S. economy is more obvious. Since the U.S. formulated the expansionary monetary and fiscal policies, these policies have brought a significant impact on China's inflation. This paper will discuss the causes of China's inflation by combining the specific content of the U.S. policy and the actual situation of China's inflation. I will put forward some strategies and means to make some suggestions on China's response to changes in US policy.

1. Introduction

The expansionary monetary and fiscal policies of the United States are a measure taken to deal with the economic crisis in 2008. For decades, through political, economic and financial means, it has affected many countries in the world. The United States forcibly treats many developing countries as "flood discharge areas" of economic crisis and transfers its own crisis.

2. The Main Contents and Characteristics of Expansionary Monetary and Fiscal Policies

2.1 The Concept of Expansionary Monetary Policy

Expansionary monetary policy is mainly to stimulate the total demand of society by increasing the total amount of money in the market. Under the guidance of this policy, the loan interest rate of individuals and enterprises will gradually decrease, in the form of cash in circulation and deposits of individuals, enterprises and institutions in banks.

2.2 The Concept of Expansionary Fiscal Policy

Expansionary fiscal policy refers to that the state implements active fiscal policy to alleviate the problem of inadequate market demand, and stimulate domestic demand, improve national consumption capacity, invest in infrastructure, promote job growth as well as increase employment rate through a large number of state investment.

2.3 The Main Drawbacks of Expansionary Monetary and Fiscal Policies

Although the expansionary fiscal and monetary policies play a certain role in improving market demand and increasing the total amount of social consumption, at the same time, because the expansionary fiscal policy needs a large number of national financial expenditure, it will increase the government debt greatly and form a financial deficit.

2.4 The Implementation of American Expansionary Monetary and Fiscal Policies

Since the outbreak of the world-class economic crisis in 2008, the United States has taken a series of economic measures to rebuild its economy, trying to restore its original economic structure, economic situation as well as financial market environment and implementing expansionary monetary policy and fiscal policy to get rid of the curse of the economic crisis through strong policy orientation. However, in the context of the gradual integration and interconnection of the world economy, no single country can stand on its own in the economic crisis. Therefore, for quite a long time after the policy was formulated in the United States, it did not effectively solve the problem of inflation in the United States, and it took a long time to gradually get rid of the follow-up effects of

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the economic crisis.[1] Not only that, it also had a huge impact on the U.S. finance, increasing the burden of national financial expenditure and ultimately affecting the rights and interests of American taxpayers without effectively protecting the interests of the American people and stopping the tragedy.

3. The Influence of American Expansionary Monetary and Fiscal Policies on Other Countries

3.1 Other Countries Have to Make Adaptive Adjustments to Us Policy Changes

It is well-known that the United States is the only superpower in the world. Its economic power policy manipulates the world economy from both finance and the U.S. dollar. The U.S. dollar, like a "sluice", not only supports the "deficit" caused by the overdraft consumption and large-scale spending of the American people, but make all countries in the world pay for their political and economic mistakes. Both "flood discharge" and "gate closing" will have a significant impact on the world. All countries in the world must make adjustments of a certain extent based on the economic policies of the United States. However, these adjustments are often not suitable for the development of other countries' domestic market, which is likely to cause more serious economic consequences than inflation and will cause significant damage to the interests of the country and the people.[2]

3.2 Import and Export Trade Surplus is Too Large

Financial data show that if the active fiscal policy is not well controlled, it is easy to cause inflation, such as "stagflation" in the United States. At the same time, the inflation of a country, especially that of a superpower, will affect many countries that have long-term economic and trade exchanges with it. The expansionary policy of the United States makes the purchasing power of American society decrease, and the average price rises sharply when the demand for goods remains unchanged. It is beneficial for other countries to export to the United States, but tariffs will be imposed on imports of goods from other countries to the United States. It is unfavorable for enterprises in various countries cooperating with the United States, especially for some processing enterprises that depend on imported parts from the United States, which will be affected by the problem of high cost, resulting in a substantial increase in the production cost of products. In the case of inflation in the United States, the long-term excess of export surplus in international trade will affect the quality of economic development of other countries to a certain extent, resulting in a certain imbalance of economic structure.[3]

4. The Influence of American Expansionary Monetary and Fiscal Policies on China's Inflation

4.1 The Impact of Policy Has Increased Inflation in China

Although the expansionary monetary and fiscal policies of the United States is easy to have a serious impact on other countries that trade with it, in fact, the policy of the United States will not have a direct impact on China's inflation, but in a more subtle way. The competition between the United States and China in the global market is very fierce. When inflation occured in the United States, its overall purchasing power declined and the economy was in recession, which was undoubtedly a good opportunity for China's capital export. However, the changes in US economic policy has affected the adjustment of China's economic policy to a certain extent. Due to the U.S. dollar directly linked to gold and oil and other world economic reasons, China's economy has to adjust its economic policy to a certain extent in order to adapt to its changes and reduce the impact of its spillover effect, which has become an important reason for China's inflation. Therefore, the role of policy channel makes the expansionary macroeconomic policy of the United States indirectly raise inflation in China.

4.2 The Problem of Market Price Adaptability Occurs Frequently

After the financial crisis, compared with the United States and other developed countries, China's inflation has a certain fiscal attribute. The impact of policy shock on inflation is also transformed into the applicability of price formation mechanism in China from the perspective of fiscal policy. Blind dependence on full employment has a significant effect on improving output in the short term, but deeper contradictions such as overcapacity crisis, shelving of structural transformation and investment decline will further push China's economy to an unbalanced state.

5. The Ways for China to Deal with the Influence of American Expansionary Monetary and Fiscal Policies

5.1 Set Rules for Fiscal and Monetary Policies Correctly

China should observe calmly and prepare for the future as well as formulate a response plan in advance through a certain forecast on the policy adjustment of the United States. Only by making adjustments as soon as possible can we speed up inflation. We can monitor inflation through national debt, bank deposit rate and financial investment, avoid the disadvantages brought by policy adjustment to the economy to the greatest extent, gradually reduce the dependence of the economy and market on policies, adopt appropriate policies to guide economic development, and avoid the influence of policy adjustment from other countries. The reform of China's economic system and the repair of its economic weakness will also play a certain role in the change of inflation in the future. In the reform, the rules of fiscal and monetary policies must be well planned and regarded as an important part of China's future financial system reform.

5.2 Focus on Taking the Objective Facts of China's Economy as the Guide

In the face of changes in the external environment, China should not blindly make adaptive adjustments to its own policies based on the policy adjustments of other countries, but to take the objective facts of China's own economy as the guide, carefully analyze the internal situation, analyze the changes in China separately, and then consider the external situation comprehensively. China doesn’t make subjective assumptions, but make reasonable and effective policy adjustments by scientifically analyzing data and following the empirical laws of the domestic market.

5.3 Build a Decision-Making System Supported by Information

The 21st century is the era of information. The formulation and implementation of national policies must also pay attention to global information. We should make comprehensive analysis and correct interpretation of specific data, integrate information at home and abroad to explore the similarities and differences of its development and finally make correct policy adjustments to promote scientific and rational decision-making.

5.4 Focus on the Optimization and Adjustment of Economic Structure

Reduce the regulatory effect of policies on the market and promote the vigorous development of market economy with flexible market and loose policies. The continuous optimization and adjustment of the economic structure can effectively improve the stability and reliability of the domestic economy, enhance the financial strength of the country and finally establish a strong economic system to protect the fundamental interests of the people and the country, fundamentally promoting the rapid growth of state-owned enterprises and forming a good picture of sustainable economic development.

5.5 Focus on the Development of Virtual Economy

China should pay enough attention to the virtual economy under the Internet. With the increasing liquidity of global information and the deepening of Internet, in today's world, the phenomenon of virtual economy replacing the U.S. dollar real economy under the Internet is more and more obvious. In addition, the “decentralization” of the Internet will inevitably lead to the breaking of the information monopoly. The result will be the transfer of power, which will deepen the multipolar pattern of the world. China should pay attention to seizing the opportunity of economic development. While vigorously developing the real economy, China should also develop the corresponding virtual economy to reduce the pressure of the U.S. dollar on us.[4]

6. Conclusion

To sum up, how to reasonably control the adjustment direction of domestic policies and the strength of policy implementation is a problem that China must carefully consider. Only by grasping the changes of China's economic situation and analyzing all kinds of information and ultimately deciding which kind of adjustment should be taken to the China's economy can we continuously optimize the economic structure and reduce the influence of policy adjustment of other countries on our market.

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