

Study on the Impact of COVID-19 and America Fiscal Policy and Monetary Policy

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Abstract. There are some problems in the economy and society, which cannot be adjusted only by the market mechanism, so the intervention of the state is needed, that is, the "visible hand" of Keynes. Fiscal policy and monetary policy are the two basic means of macro-control. But why tax policy when the state can print money? Can we start the "money printing mode" and rely solely on new money to adjust the economy? The COVID-19 is one of the most disturbing issues for all human beings during recent years, even though the virus destructiveness was weakened due to the effort paid by the experts and governments worldwide. The corresponding issue is still quite severed and obvious. This template is specifically motivated to demonstrate the Fed fluctuated rate hikes under the impact of the COVID-19, which will briefly recap on the stagnant economic atmosphere of the United States. After finish reading this essay. Readers will get clearly and sufficient understanding on how does the national economy in the United States is changed due to several different factors, since the COVID-19 sparked at the end of the year 2019, and expounds the advantages of tax policy and the advantages and disadvantages of issuing more money, and concludes that the problem can be solved not only by printing money, but also by comprehensive use of various economic adjustment means.

Keywords: Fiscal policy, monetary, tax.

1. Introduction

COVID-19 had sparked long-lasting worldwide financial issue. As the statistics shown in lamurga.net, the Fed's federal funds rate was sharply reduced by the end of 2019, due to the influence from COVID-19, most of the domestic industry were in depressed circumstances, and the interest rate were adjusted downward in order to stimulate the citizen's will to consume commodity through currency, and refresh the economic condition. The policies and governmental actions play a crucial role during the formation of the final solution, bank's decision also ought not to be overlooked, since it will affect the citizen's decision on their capital distribution: "Whether to invest or to consume?" In the intricate web of financial institutions, two key categories of banks collaborate closely to navigate the complex terrain of economic challenges: policy banks and central banks. These distinct entities form a symbiotic relationship, with policy banks assuming a significant role in decision-making and addressing economic obstacles that align with the overarching goals of the central bank. The synergy between these two types of banks plays a critical role in shaping the trajectory of a nation's financial landscape [1]. Policy banks, often operating at the forefront of economic strategy, are instrumental in formulating decisions aimed at tackling multifaceted economic challenges. These banks possess a deep understanding of the intricacies and nuances of their domestic industries, making them well-equipped to address sector-specific issues. Their role extends beyond mere decision-making; they are frequently tasked with devising targeted solutions to the unique challenges faced by various economic sectors. In doing so, policy banks function as catalysts for economic rejuvenation, working towards the overarching goals of stability, growth, and prosperity [2]. The central bank, on the other hand, assumes a pivotal position in the financial ecosystem, wielding significant influence over monetary policy and overall economic direction. It is responsible for overseeing the nation's money supply, interest rates, and currency stability. In the context of the collaborative relationship with policy banks, the central bank often takes action based on the decisions

and recommendations put forth by these specialized institutions. This symbiotic interaction between policy banks and central banks reflects a dynamic process of informed decision-making and coordinated action that strives to steer the nation's economy toward a path of resilience and recovery. It is worth noting that the decision-making process involving policy banks and central banks is rooted in a deep analysis of economic data, trends, and forecasts. This comprehensive assessment informs strategies and actions aimed at mitigating the impact of economic challenges and crises. The ultimate goal is to foster an environment conducive to sustainable growth, while also safeguarding the interests and well-being of citizens [3]. In summary, the collaboration between policy banks and central banks represents a harmonious partnership within the financial landscape. Policy banks, with their sector-specific expertise, contribute valuable insights and recommendations that guide the central bank in formulating and executing effective monetary policies. This collaborative effort is a linchpin in addressing economic obstacles and ensuring the stability and vitality of a nation's economy [4].

2. Is the "Printing Money Mode" Feasible?

Since the outbreak of COVID-19, countries have taken measures to counter the economic downturn. During this period, the United States implemented massive easing policies, issued huge amounts of U.S. bonds, and printed money regardless of the cost to prevent the economy from falling further into recession. Since then, in order to recover from the epidemic, European countries have introduced various policies to stimulate the economy [5]. The initial response by many governments and central banks to economic downturns, such as the one triggered by the COVID-19 pandemic, has often been to engage what is colloquially referred to as "money printing mode." This involves the creation of additional currency with the intent of jumpstarting consumption and investment. While this approach has been adopted by several mainstream economies worldwide, it prompts a critical question: Is the "money printing model" beneficial for all stakeholders? The "money printing model," officially known as quantitative easing (QE), is a monetary policy tool frequently utilized by central banks to address economic crises and stimulate economic recovery. It involves the central bank purchasing financial assets, such as government bonds and securities, which injects newly created money into the economy. The intended outcome is to lower interest rates, encourage borrowing, and boost spending. One of the primary arguments in favor of the "money printing model" is its potential to avert economic catastrophes. By infusing liquidity into the financial system, central banks aim to prevent a credit crunch, stabilize financial markets, and prevent widespread bankruptcies. In times of crisis, this approach can act as a lifeline for businesses and individuals, averting a complete collapse of economic activity. However, the "money printing model" is not without its complexities and potential drawbacks. One concern is the risk of inflation. When too much money is introduced into the economy without a corresponding increase in the production of goods and services, it can lead to rising prices. Inflation erodes the purchasing power of money and can disproportionately affect lower-income individuals who struggle to keep up with escalating living costs. Moreover, the benefits of quantitative easing do not always trickle down evenly throughout society. In some cases, the primary beneficiaries are financial institutions and wealthier individuals who have access to investment opportunities, while the broader population may not experience significant improvements in their financial well-being. This can exacerbate income inequality and social disparities. Additionally, the "money printing model" can have unintended consequences on financial markets. The abundance of liquidity can lead to asset bubbles, where the prices of certain assets, such as stocks or real estate, become artificially inflated. When these bubbles burst, it can result in financial crises and economic downturns, as witnessed in the 2008 global financial crisis. Furthermore, reliance on the "money printing model" may create a moral hazard, wherein financial institutions and corporations engage in riskier behavior, knowing that central banks are likely to come to their rescue during times of crisis. This can incentivize reckless financial practices and undermine market discipline. In conclusion, the "money printing model" is a complex and multifaceted approach to addressing economic challenges. While it can be an effective tool in preventing economic catastrophes and supporting recovery, it is

not a one-size-fits-all solution. Policymakers must carefully weigh the potential benefits against the risks and unintended consequences, and consider how the model can be tailored to ensure its benefits are distributed more equitably throughout society. Ultimately, the "money printing model" is a powerful instrument that, when wielded judiciously, can help safeguard economic stability and promote prosperity, but its implementation requires thoughtful consideration and oversight.

3. The Advantages of Issuing More Money

3.1. Promote Economic Development

In economics, according to Keynesian economic theory, the market mechanism cannot completely guarantee the sustainable and balanced development of economy, and there will be insufficient demand, which will lead to unemployment and economic crisis. Therefore, the government needs to intervene. When the government implements expansionary monetary policy to issue more money, the money supply will be greater than the demand, and the interest rate will be lowered to stimulate social demand. The most important of these is to stimulate investment demand, which, amplified by the multiplier effect, can reduce unemployment and boost the economy.

3.2. Enhance International Trade Competitiveness

Issuing more money can increase the amount of money in the country, and when it exceeds the actual amount of money needed, it will lead to devaluation of the money. At present, more and more countries are participating in world trade, so from the international perspective, money value is mainly the ability to exchange foreign money. When the money depreciates, the ability of a unit of domestic money to exchange foreign money is reduced, so the price of domestic commodities in export is reduced, which is conducive to the export of commodities for a country, reducing imports and reducing the trade deficit. At present, many countries use it as a means to improve the competitiveness of international trade.

3.3. Reduce Debt Burden to Some Extent

When examining the debt of an enterprise or a country, one critical factor to consider is whether the debt is denominated in the nation's own currency. This distinction has significant implications, as it provides the opportunity to manage the debt burden through monetary policy tools, including the issuance of more money. This practice, while potentially offering relief, also raises important questions about its long-term consequences and impact on the broader economy. When debt is measured in a country's own currency, it is referred to as domestic debt. In such cases, the government or central bank can employ the strategy of increasing the money supply, often termed "printing money," to address the debt situation. This approach essentially entails creating new currency and injecting it into the economy. By doing so, the nominal value of the debt remains constant, but its real value diminishes due to the inflationary effect of an expanded money supply. The primary advantage of this approach is that it can help reduce the debt burden on the country or enterprise, at least in nominal terms. Debt servicing becomes more manageable because the debt remains fixed while the value of the currency declines. This can provide a degree of relief, especially during economic crises or when debt obligations become particularly onerous. However, the reliance on this strategy is not without drawbacks and risks. One of the most significant concerns is inflation. The injection of large quantities of money into the economy can lead to rising prices, eroding the purchasing power of the currency. Inflation can have detrimental effects on a nation's citizens, particularly those with fixed incomes, savings, or pensions, as they may find it increasingly challenging to meet their financial needs [6]. Additionally, the use of monetary policy tools to manage debt can undermine confidence in the national currency and financial stability. If excessive money printing becomes a frequent or uncontrolled practice, it can erode trust in the currency's value, leading to capital flight, exchange rate volatility, and economic instability. Furthermore, the strategy of "printing money" to reduce debt is not a sustainable long-term solution. It may offer temporary relief, but it does not address the

underlying issues that contributed to the accumulation of debt. It can create a cycle of debt accumulation and inflation if not accompanied by sound fiscal and economic policies. Moreover, this approach may not be available to countries with debt denominated in foreign currencies. In such cases, the government cannot control the currency in which the debt is issued and must rely on foreign exchange markets to meet debt obligations, which can expose the country to exchange rate risk [7]. In conclusion, the practice of using monetary policy, including the issuance of more money, to reduce the debt burden of a country or enterprise when debt is denominated in its own currency is a complex and multifaceted strategy. While it can offer short-term relief, it must be employed judiciously and in conjunction with comprehensive fiscal and economic policies to address the root causes of debt accumulation. The potential risks of inflation, currency devaluation, and loss of confidence in the financial system underscore the importance of careful consideration and responsible governance when utilizing this approach. Ultimately, the management of debt, whether domestic or foreign, requires a balanced and sustainable approach that prioritizes the long-term economic health and stability of the nation or enterprise.

4. The Disadvantages of Issuing More Money

4.1. Malicious Inflation

The unlimited issuance of additional money could easily lead to the serious consequence of hyperinflation. Excessive money circulation will lead to rapid money depreciation, thus leading to inflation. Although in the actual economic society, a certain degree of inflation is conducive to economic development, malicious inflation will do great harm to the economy and society if the money circulation is not properly controlled, such as affecting the stability of exchange rate and financial order, and shrinking national income. People's living standards have been seriously affected.

4.2. The Income Gap

Although overissuing money can relieve some of the burden on the poor, it is generally more beneficial to the rich. First of all, as mentioned above, excessive money issuance will lead to inflation. The poor will be greatly affected due to their limited income, while the rich can gain more income through asset appreciation due to their large assets. In addition, they can also deal with it through investment or purchase of consumer goods. Secondly, according to Cantillon effect, people who get money first will push up commodity prices, resulting in inflation, while for another part of the society, the inflation policy is a kind of plunder. Therefore, issuing more money may not benefit everyone, which will further widen the gap between the rich and the poor [8].

4.3. Reduced Government Credibility

Money exists as a medium of exchange. If money is not issued in control, the problem of persistent inflation mentioned above will occur. If so blindly, the domestic money will be like waste paper, unable to assume the role of a medium of exchange, and people will choose other countries' money or other general equivalents to replace it. Behind the role of money, the reputation of a country's government is used as a guarantee. If problems are solved by blindly issuing more money, the crisis will not be solved eventually, and the reputation of the country will be damaged. Countries such as Venezuela are a cautionary example, because the overissue of money not only causes domestic economic chaos, but also loses international credibility, greatly reducing the purchasing power of the domestic money, and ultimately harming the interests of the local people.

5. Fiscal and Monetary Response

COVID-19 had brought tremendous impact on the global economy. Businesses are facing problems such as deficit and unstable supply chains as the quarantine regulation has started ever since 2020. The pandemic had greatly restricted economy's development and caused the rapidly increasing

unemployment rate [9]. Countries have taken both monetary policies and fiscal policies as a response to the current dilemma. The central banks started to act, however, the stock market and oil industry are still under great pressure. In order to deal with impact of the pandemic, the US Federal Reserve had cut their key interest rate to near zero in March, 2020. This is a joint-effort between multiple countries, which had not been seen ever since the 2008 financial crisis, but this strategy failed to stimulate up global investor sentiment. The stock index kept descending and the global oil prices kept plummeting [10]. The United Kingdom has also announced fiscal spending measures. The government had promised to pay 80% of the wages of employees who are unable to work. The Danish government announced that if private owned companies promise not to cut employees, the government will cover 75% of employee's salaries. The European Union has implemented fiscal policies to shore up the economy worth more than 3 trillion Euros. The United States had also took measures such as supplemental unemployment insurance benefits, The Paycheck Protection Program and etc.

6. Conclusion

In conclusion, the role of government intervention in the economy, often referred to as the "visible hand" in economic theory, is indispensable, especially when market mechanisms alone cannot address pressing economic and societal issues. Fiscal and monetary policies represent the two fundamental tools for macroeconomic control. However, the question of why tax policy is necessary when the state can print money arises, and whether solely relying on the "money printing mode" is a viable solution. While it may be tempting to consider a "money printing mode" as a panacea for economic challenges, it is essential to recognize its limitations. Printing money can lead to inflation, eroding the purchasing power of the currency and creating economic instability. Moreover, it may not effectively address the root causes of economic issues, such as structural imbalances or external shocks like the COVID-19 pandemic. The COVID-19 pandemic serves as a stark reminder of the complexities and unpredictability of global events. While monetary policy, including rate hikes by central banks like the Fed, can be used to respond to such crises, it is just one facet of a multifaceted approach. Tax policy, on the other hand, plays a critical role in redistributing wealth, incentivizing certain behaviors, and funding essential public services. In addressing economic challenges and crises, a comprehensive approach that leverages both fiscal and monetary policies, along with other economic adjustment measures, is often the most effective course of action. While money printing can provide short-term relief, it should be utilized judiciously and in conjunction with sound fiscal policies to ensure long-term economic stability. In essence, the solution to complex economic issues goes beyond simply printing more money. It requires a balanced and well-coordinated approach that takes into account the broader economic context, societal needs, and the potential consequences of monetary expansion. As demonstrated by the COVID-19 pandemic, unforeseen events can have profound and lasting impacts on the economy, underscoring the importance of a multifaceted economic strategy that utilizes various policy tools to address diverse challenges.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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