Monetary and fiscal policy mix currently being adopted by the uk authorities essa...

Countries, England

Monetary policy refers to the government changes in the exchanges and interest rates that influence the governments effects on the rate of total demand, money supply and hence the rate on inflation. Monetary policies are instituted by the government so as to attain a stable of economy and hence a higher rate of economic growth. No nation can make advances in their economic growth scale if its economy is not stable. To achieve such a stable economy, a monetary policy that addresses the commercial banks lending interest rates to put a check on money in supply. For instance, economic recessions should be accorded low interest rates to encourage investments and counteract a situation of inflation through raising the interest rates to discourage borrowing by the public. In this way, inflation would be taken care off. (Tucker 2010)

On the other hand, fiscal policy refers to the government expenditure policies which determine the general macroeconomic landscape of that country. These government fiscal policies can include changes in the tax rates and government spending capacity so as to achieve a desirable state of economy. Just like the monetary policy, fiscal policy also seeks to control the economy to a desirable level. It does so by using cyclical tax and spending statistics to ensure lower unemployment rates rather than lower rates of inflation. The fiscal policy also tends to avoid fiscal deficit which results in to high aggregate demand. This is because a high demand is always associated with high interest rates and high prices. Therefore, a budget demand is preferable as it lowers the aggregate demand, interest rates and hence low prices. This scenario is illustrated below.

The United Kingdom government is currently undertaking a policy mix that

involves a strong fiscal consolidation. The United Kingdom government has made great progress towards eliminating fiscal risks by achieving a more sustainable budgetary strategy. This government has also brought on board strong monetary stimulus and free operation of automatic fiscal stabilizers to support the economy. Such a macroeconomic policy adopted by this government has the capability of restoring economic balance to cope with both investment and internal demand. A combination of these two policies leads to attainment of a stable state of economy. Owing to the high population of the United Kingdom, the country can easily adopt this fiscal policy to reduce or curb inflationary pressure on the economy. This is because with such a population, inflation can be reduced while a substantial improvement on the budgetary deficit is also registered. (Mankiw 2011)

The United Kingdom authorities are combining these two policies to achieve a desirable state of economy. The Bank of England does a study on a range of economic variables so as to ascertain the country's inflationary trends. This bank vests keen interest on unemployment, exchange rate index, consumer confidence and the economic growth. Through thorough analysis of this data, the bank is able to predict the situation of country's inflation in the near future. All these activities fall under the mandate of the Monetary Policy Committee of the Bank of England. This committee therefore aspires to achieve a strong economic growth by maintaining an inflation rate of only 2%, reducing unemployment and avoiding large deficit. For instance, on the 7th of May 2012, this committee anonymously voted for a bank rate of 0. 5% on commercial bank reserves and the committee further maintained the stock asset purchases of the insurance central banks at £375. (Jacas, 2013,

p. 7)

The brisk action of the Bank of England in combating inflation in the United Kingdom economy has been echoed by the International Monetary Fund. Having taken good care of the inflation, the economy of this nation has more room to flourish. The government can therefore reduce the interest rates and pump more money into the economy through quantitative easing.

Dangers of this fiscal policy mix

The United Kingdom chancellor's plan to cut down on the welfare expenditure is not very safe. For instance, this expenditure reduction by £10 will lead to high rent areas accumulation and may even lead to homelessness especially to those who may be defeated to clear such balances. So reducing these housing and bedroom tax laws will be devastating to the public. Secondly, the Bank of England's monetary policy of funding for lending scheme is a big discouragement for savings. Furthermore, even those who save will have diminishing and eventually no returns at all. In regard to this, the inflation rates must really go down to go well with higher rate tax. Economists predict that if situation remains as it is today, then the purchasing power of cash will have to reduce by half. (Jacas, 2013, p. 15)

In conclusion, the monetary and fiscal policy mix that the United Kingdom government is currently using can revive and sustain its economy. These policies can greatly help in reducing inflation and unemployment simultaneously. However, much caution must be taken as there are some dangers that accompany the implementation of such endeavors. As long as the government is employing these policies in achieving a sustainable

economic situation in the United Kingdom, it should have the interest of its public at hand.

References

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