

# Introductory Macroeconomics

Lecture 9: fiscal policy (in extraordinary times)

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1st Semester 2021

# Online Quiz

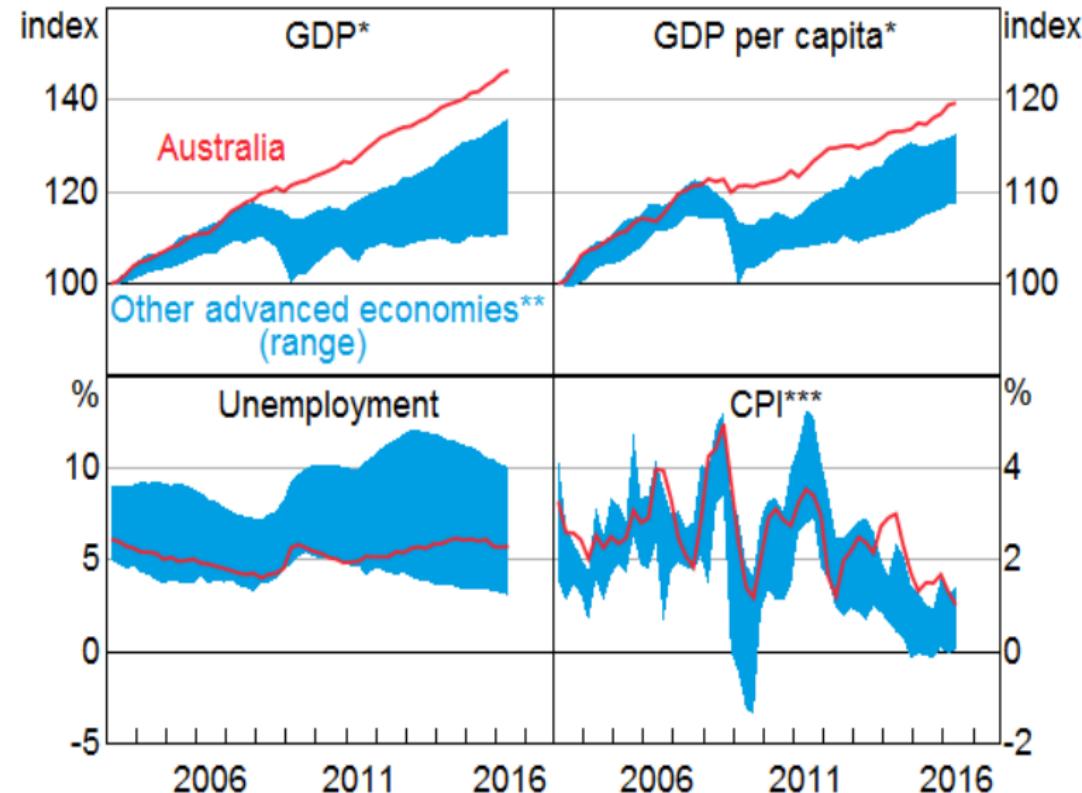
- Reminder
  - 30 minute online quiz, 10 questions
  - quiz available from 9:00 March 31 to 16:00 April 1
  - covers lectures 1 to 6 and tutorials 1 to 3

# This Lecture

- Fiscal policy in extraordinary times
  - global financial crisis
  - coronavirus pandemic
- Reading: Should We Worry about Government Debt? Thoughts on Australia's COVID-19 Response

## Fiscal Response to GFC

## Australia and the Global Financial Crisis



## Australia Pursued Fiscal Stimulus

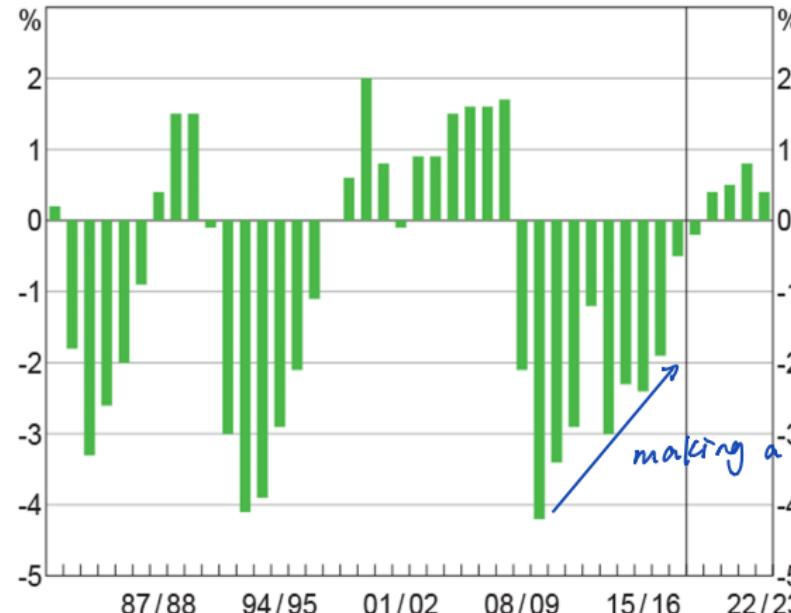
- Australia pursued a fairly aggressive fiscal stimulus
  - October 2008: \$10 billion. \$5 billion for pensioners, \$4 billion for families, \$1 billion first home buyers  
(\$1400 one-off pensioner payments, \$1000 one-off family benefit, tripling of first home buyer grant...)
  - February 2009: \$42 billion. \$26 billion infrastructure, \$12.7 billion cash payments, \$2.7 billion small-business tax breaks  
(\$200k per school building program, \$4 billion insulation scheme, \$950 one-off payment for most taxpayers...)
- In many other countries, especially in Europe, fiscal policy focused on trying to keep budget in balance — ***'austerity'***

# Budget Moves Back Into Deficit

tax-spending  
deficit if spending > tax

Australian Government Budget Balance\*

Per cent of nominal GDP



\* Underlying cash balance; 2019/20 Budget

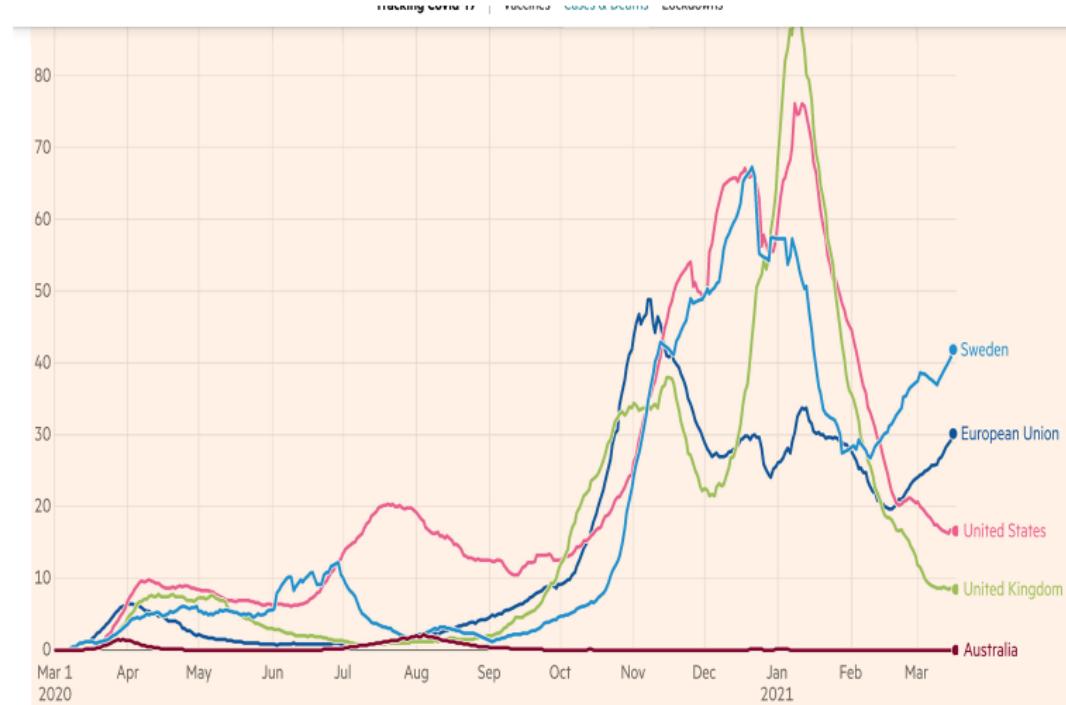
Source: Australian Treasury

# Budget Moves Back Into Deficit

- Budget moves into deficit for two kinds of reasons
  - *automatic stabilisers*: more unemployed, more newstart etc recipients, less tax collected from individuals and businesses  
(in boom, automatic stabilisers work in reverse, reduce deficit) → Jobseeker Program
  - *discretionary spending*: one-off transfer payments, new infrastructure projects etc
- For future reference, note peak deficit about 4% of GDP
- Optimistic forecasts of return to surplus — ‘*back in black*’

## Fiscal Response to Coronavirus Pandemic

# Coronavirus Pandemic: Confirmed Cases

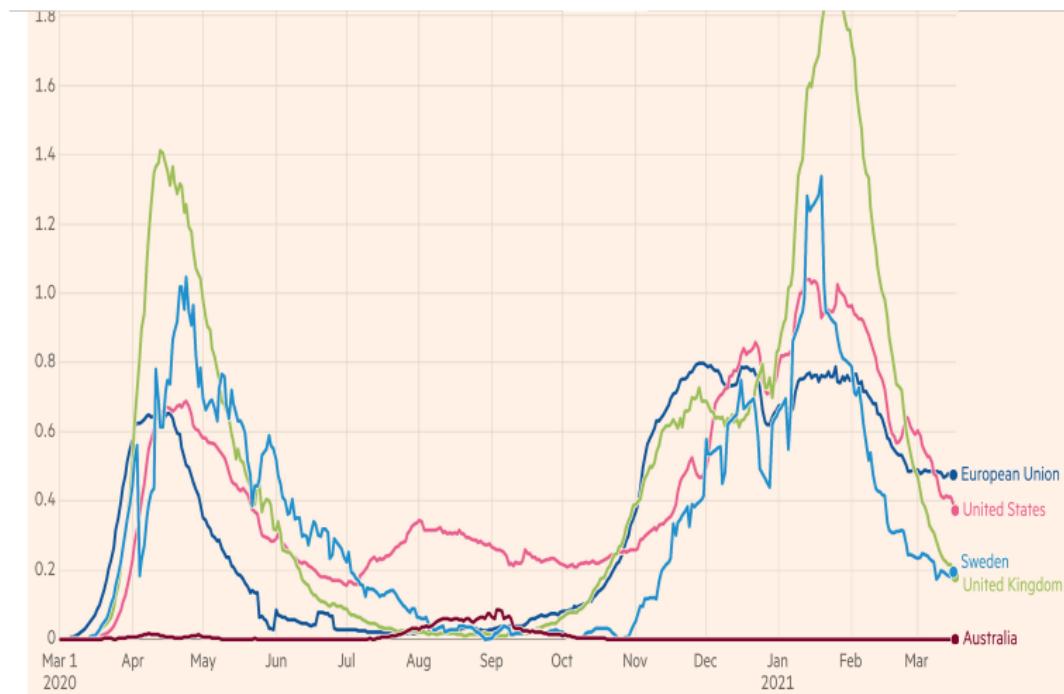


Source: Financial Times analysis of data from the Johns Hopkins CSSE, the World Health Organization, the UK Government coronavirus dashboard and the Swedish Public Health Agency.  
Data updated March 18 2021 9.13am GMT. Interactive version: [ft.com/covid19](https://ft.com/covid19)

FINANCIAL TIMES

- Per 100,000, seven-day rolling average

# Coronavirus Pandemic: Deaths



Source: Financial Times analysis of data from the Johns Hopkins CSSE, the World Health Organization, the UK Government coronavirus dashboard and the Swedish Public Health Agency.  
Data updated March 18 2021 9.13am GMT. Interactive version: [ft.com/covid19](https://ft.com/covid19)

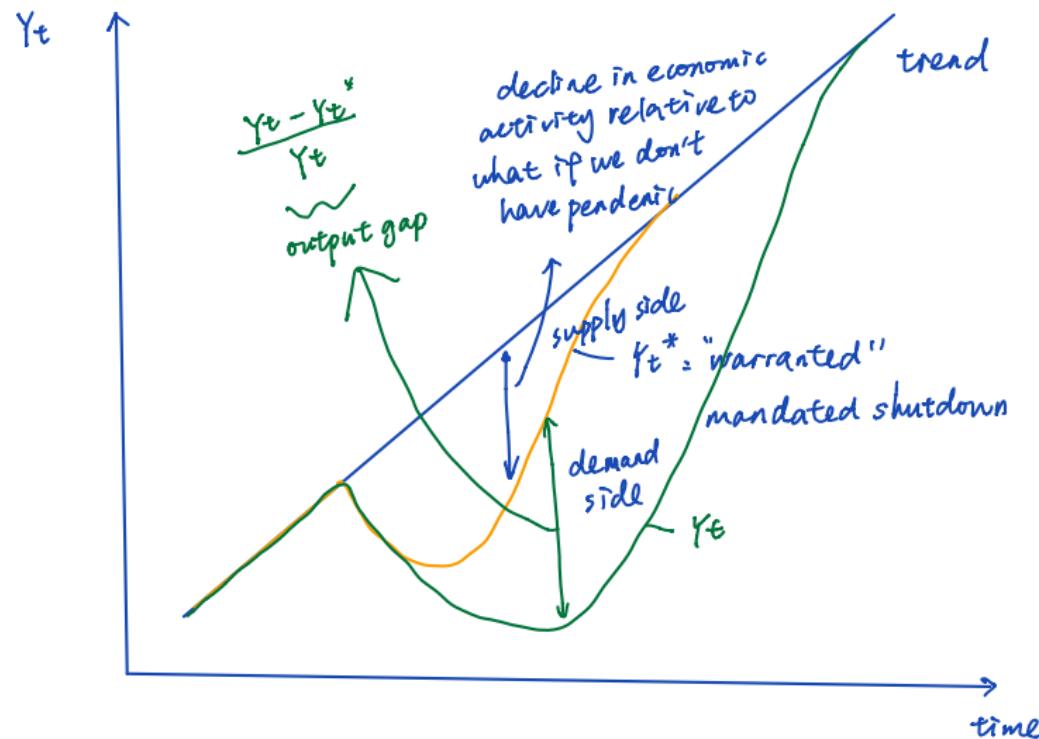
FINANCIAL TIMES

- New deaths per 100,000

## Sudden Stop in Economic Activity

- The public health response to the coronavirus pandemic requires a large reduction in economic activity
- Mandated shutdowns mean lost incomes for some workers. That plus reduced opportunities to spend leads to further reductions in spending and hence further reductions in income for other workers
- Result is a *sudden stop* in economic activity

# Sudden Stop in Economic Activity



# Australia: 1.4m Jobs Directly At Risk

## Affected by closures ordered by government

Industry	Employment	Rationale for inclusion
Cafes, restaurants and takeaway food services	689,800	Closure ordered by government – Takeaway still currently available
Real estate services	130,200	Restrictions on activities ordered by government
Sports and physical recreation activities	114,000	Some closures due to government policy
Accommodation	97,800	Negative effect due to government mobility restrictions
Pubs, taverns and bars	92,500	Closure ordered by government
Clubs (hospitality)	51,700	Closure ordered by government
Air and space transport	51,700	Negative impact on air travel due to border closures
Creative and performing arts activities	45,400	Closure ordered by government
Tourism and travel-related services	42,800	Restrictions on activities ordered by government
Motion pictures and videos	32,600	Closure due to government restrictions
Gambling activities	31,300	Likely negative effect due to closure of major sporting competitions
Parks and gardens operations	26,300	Some closures ordered by government

Jeff Borland “Which jobs are most at risk from the coronavirus shutdown?” *The Conversation.*

# Australia: 0.9m Jobs Indirectly At Risk

## At risk of households cutting discretionary and durables spending

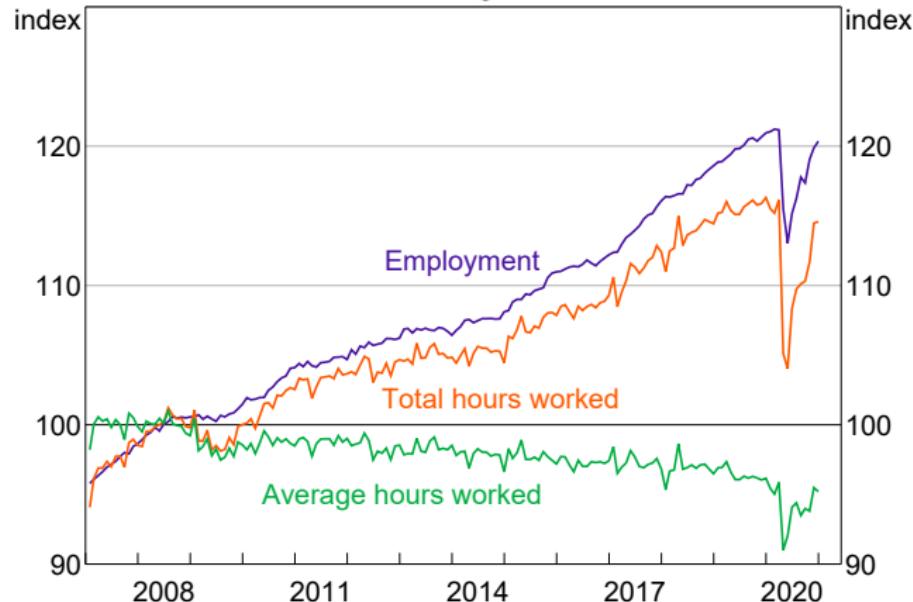
Industry	Employment	Rationale for inclusion
Tertiary education	255,200	Negative impact due to reduced number of international students – especially English language colleges
Adult, community and other education	208,400	Decrease in demand due to avoidance of COVID-19
Retail – Clothing, footwear and personal accessories	151,600	Negative impact due to households reducing purchases of durable goods
Personal care services	110,900	Decrease in demand due to avoidance of COVID-19; Could be affected by future government closure
Retail – Department stores	66,800	Negative impact due to households reducing purchases of durable goods
Retail – Motor vehicles	64,000	Negative impact due to households reducing purchases of durable goods
Retail – Furniture, floor coverings,	61,700	Negative impact due to households reducing purchases of durable goods
Other personal services (Parking services etc)	55,500	Negative impact due to reductions in household travel
Retail – Recreational goods retailing	48,200	Negative impact due to households reducing discretionary purchases
Furniture manufacturing	40,300	Negative impact due to households reducing purchases of durable goods
Wholesale – Motor vehicles and motor vehicle parts	21,200	Negative impact due to households reducing purchases of durable goods

Jeff Borland “Which jobs are most at risk from the coronavirus shutdown?” *The Conversation.*

# Australia and the Global Pandemic

## Employment and Hours Worked\*

2008 average = 100



\* Seasonally adjusted

Sources: ABS; RBA

# Fiscal Response in Australia

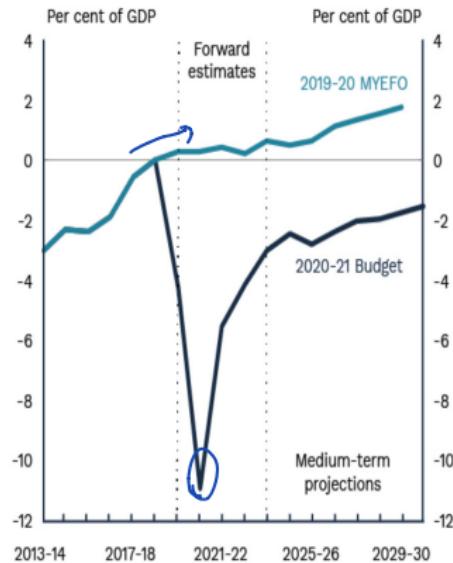
- Why is fiscal policy playing the lead role?
  - monetary policy has almost reached its limits → e.g. low interest rate indirectly
  - fiscal policy more direct
- Key elements of fiscal response in Australia: Immediate
  - March 12: \$18 billion. Bulk is business investment and cash-flow support. First one-off \$750 payment to social security etc recipients
  - March 22: \$66 billion. \$550pw coronavirus supplement to *JobSeeker* etc recipients. Second one-off \$750 payment to social security etc recipients. Limited early access to superannuation, up to \$10k
  - March 31: \$130 billion. \$750pw *JobKeeper* subsidies for workers in conditions significantly affected by downturn. Total cost ultimately revised down to roughly \$80 billion

## Fiscal Response in Australia II

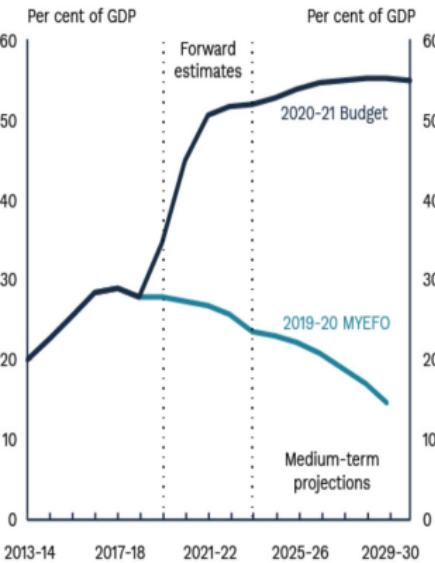
- Key elements of fiscal response in Australia: The 2020-21 Budget
  - \$17.8 billion personal income tax cuts
  - Business investment incentives (instant asset write off)
  - Home Builder and Infrastructure Spending
  - JobMaker and supporting apprentices and trainees
- The Treasury estimates total direct support around \$162 billion to June 2021
- The budget demonstrated little awareness of the unusual nature of the crisis — witness the problems in the vaccination program

# Estimated Effects of Total Stimulus

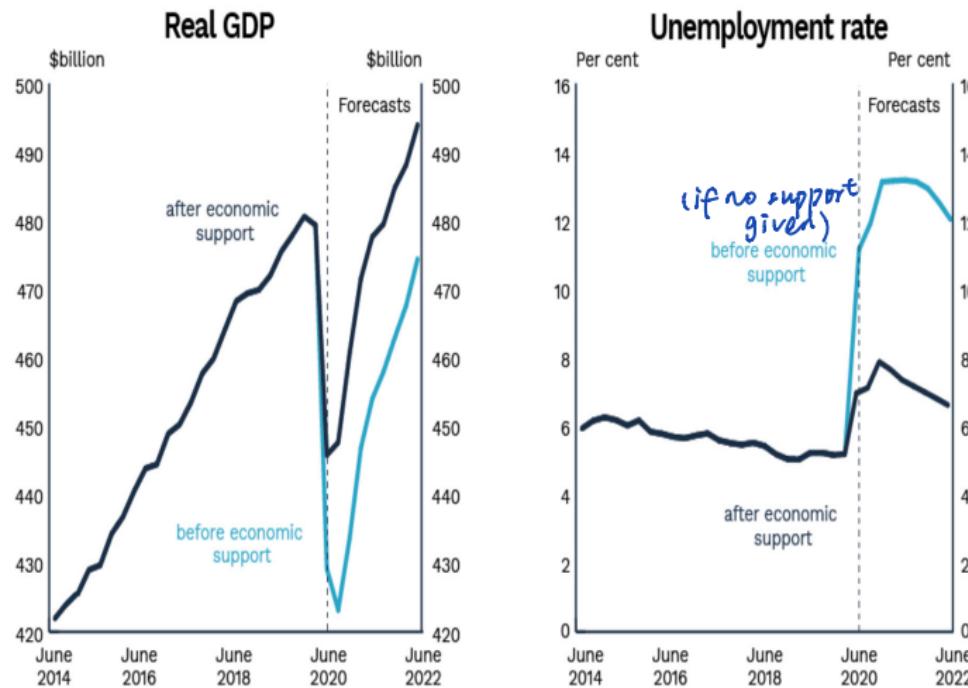
Underlying cash balance



Gross debt



# Estimated Effects of Total Stimulus



# JobKeeper Program

not closed permanently  
value between the employee and firm  
↓  
job match  
skills

- Goals:

- reduce costs of employing workers, allow businesses to retain workers even if substantial downturn in revenue
- maintain employer-employee relationships, maintain job-specific skills and know-how etc
- hope makes it easier for economy to recover after shutdown

- Payments:

- fixed \$750 per week per worker (full time, part-time, long-term casual, self-employed) for *up to 6 months* (subsequently extended to March 31, 2021)
- can be topped up, super etc, *at employers discretion*
- payments as of March 30, paid out from May (backdated)

# JobKeeper Program

- **Eligibility:**

- citizens and permanent residents, some visa holders
- monthly sales decline > 30% relative to year ago (< \$1 billion sales)

or

monthly sales decline > 50% relative to year ago (> \$1 billion sales)

- ① – employer ‘not subject to the Major Bank Levy’

*major 4 banks*

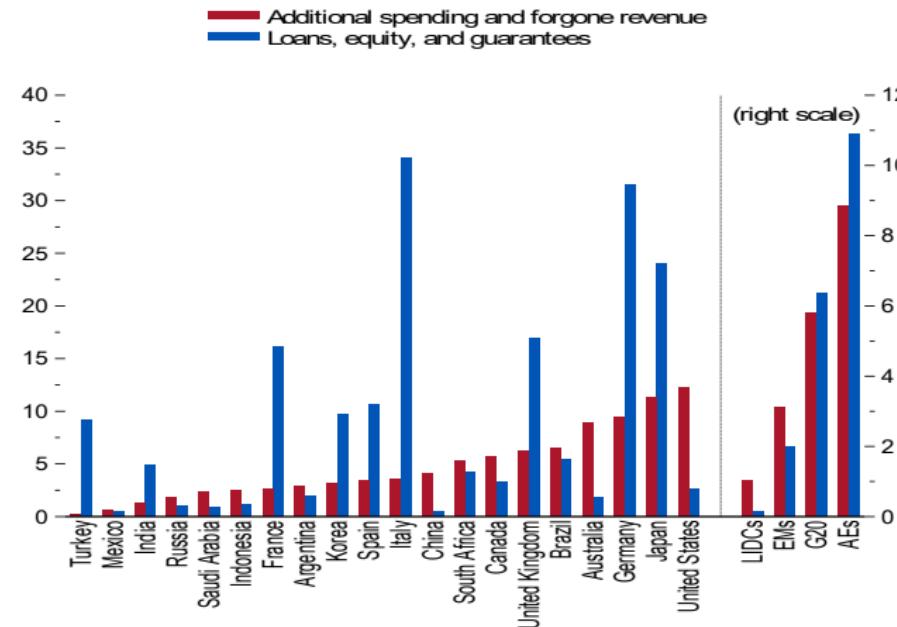
- eligibility backdated to March 1, *hence applies to recently unemployed, stood down*

## How Big Is This Fiscal Response?

- Initially: Approx \$200 billion fiscal response in approx \$2000 billion economy, so about 10% GDP on impact
- Announced programs already 3 to 4 times larger than fiscal stimulus during GFC

# Fiscal Responses Across Countries

Countries are providing sizable fiscal support through budgetary measures, as well as off-budget liquidity.



- Source: IMF data, June 2020

## Is This A Lot of New Debt?

- Australia begins with low levels of gross and net debt. Existing net debt about 20% GDP. Adds about 10% GDP
- Approx \$200 billion amongst 13 million workers, \$15k per worker. Not nothing, but not a generations-long crippling amount either
- Example debt servicing costs
  - ≈ \$28 per week per worker at 5% interest for 15 years
  - ≈ \$22 per week per worker at 1% interest for 15 years
- Current interest rates for Australian government debt are near zero and we can lock this in over long maturity
- In short, this is not a lot to pay for *a lot of wage insurance*

## Next Lecture

- Monetary policy in ordinary times
  - basic monetary policy concepts
  - monetary policy transmission mechanism
  - monetary-fiscal interactions
- Monetary policy in extraordinary times
- BOFAH chapter 10