

PUBLIC FINANCING IN A CRISIS: KEY AIMS

Musgrave's (1956) classical work on public finance theory frames government budgets as having three purposes: (1) provision of public goods; (2) distribution of resources; and (3) stabilisation, i.e., maintaining high levels of employment and price stability. The fiscal measures deployed to address the economic impact of COVID-19 might be described as geared primarily towards stabilisation; however, allocation and distribution measures also played a part in reducing the negative economic impact on businesses, households, and individuals.

Stabilisation

During the COVID-19 pandemic, economic stabilisation was a top priority for both Singapore and Hong Kong. Fiscal responses towards this end often took the form of wage subsidies for companies and training programmes to help redeploy those laid off from the worst-hit industries, thereby reducing the unemployment rate. Support was also given to businesses that would have not been viable under the pandemic—in the form of bridging loans to address short-term liquidity issues. Such measures helped stabilise companies, reduced corporate closures and saved jobs. By injecting state credit and liquidity into markets, both governments also sought to maintain confidence in the overall economy.

The measures from both governments did keep unemployment relatively low: in the fourth quarter of 2020, Singapore's unemployment rate was at 3.3%¹ while Hong Kong's unemployment rate was at 6.6%.²

Distribution

The poor were much more adversely affected by the pandemic. Some weaknesses of modern society had been exposed by the unprecedented crisis as family support was not sufficient for individuals to cope with the negative shocks.

The pandemic highlighted vulnerabilities and inequalities in societies the world over. Both Singapore and Hong Kong SAR governments intensified distributive measures to help cushion the financial difficulties associated with the economic downturn due to COVID-19. A range of social programmes were introduced to address the situation of the less privileged. These included direct unconditional cash transfers, increases in government matching funds for donations, as well as support towards digital adoption and bridging the digital divide.

Provision of Public Goods

Both Singapore and Hong Kong strengthened public goods provision, particularly in bolstering their healthcare systems to cope with the pandemic. This included enhancing the capacity to test for and treat COVID-19 cases, expanding quarantine and isolation facilities, and providing for related needs such as protective masks, vaccinations and mental wellbeing.

Notes

1. Ministry of Manpower, "Summary Table: Unemployment", April 28, 2021, accessed May 21, 2021, <https://stats.mom.gov.sg/Pages/Unemployment-Summary-Table.aspx>.
2. *Reuters*, "Hong Kong Fourth-Quarter 2020 Unemployment at 16-Year High, Hit by Economic Slowdown", Yahoo! Finance, January 19, 2021, accessed May 21, 2021, <https://finance.yahoo.com/news/hong-kong-fourth-quarter-2020-091316621.html>.