Perpetual Equity Investment Company Limited

Perpetual knowledge bank series: fiscal stimulus

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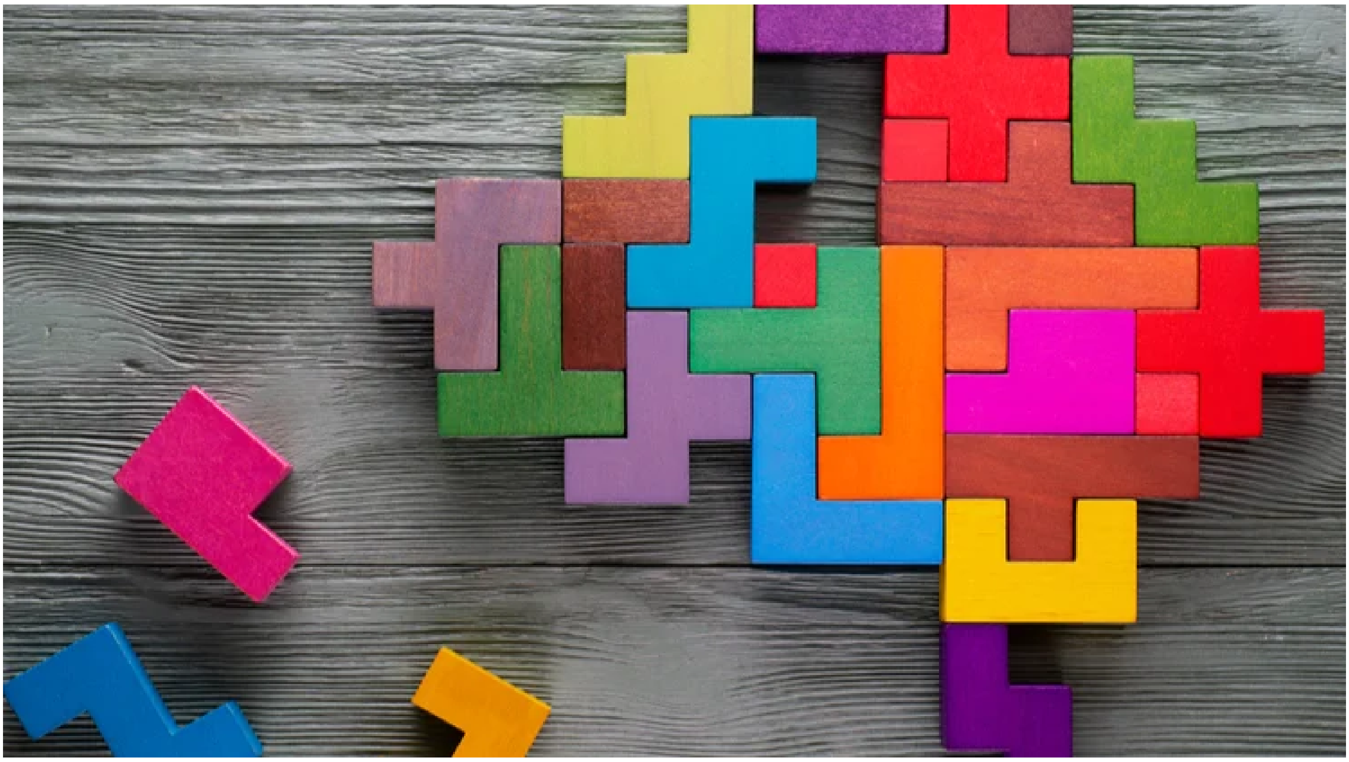

Fiscal stimulus is an important tool for policymakers to consider and governments to implement. Along with monetary stimulus – to be discussed in a future KBS article – fiscal stimulus is the main tool governments can use to fix or safeguard their economies.

Broadly, examples include increased government spending, tax cuts or distribution schemes to shore up household and business demand for goods and services during, or to prevent, a recession. More specifically, it could be asserted that massive fiscal stimulus packages like JobKeeper sheltered Australia from the worst of the economic impacts of Covid-associated lockdowns. And while the wage subsidy program was the largest economic support in Australia's history, costing over $89 billion, questions persist about its administration and effectiveness as a relief package.

According to economic theory, effective fiscal stimulus should deliver a government “bang for their buck” by generating the largest economic boost possible for the smallest cost to the taxpayer. In some cases, these sorts of stimulus policies deliver resources quickly and effectively to the households most likely to need help making ends meet. In others, it may be that targeting consumers’ discretionary spend is the goal to keep hospitality and tourism destinations afloat. And while tax cuts may play a role, the biggest problem that businesses often face in a recession is lack of customers. Businesses are unlikely to hire more workers or purchase more raw materials or intermediate goods from their suppliers if they cannot sell their products. Thus, broad-based tax cuts are usually poorly targeted to get cash to those firms that need help surviving until their customers can return.