

Effectiveness of Fiscal Policy in Dealing with Public Health Emergencies

Yubo Ma*

School of Eleanor Roosevelt College, University of California, San Diego, California, USA

*Yum089@ucsd.edu

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Abstract: In the past decades, there have been several outbreaks that are associated with various economic implications. For instance, Ebola outbreaks have been pandemic during the last five years, although the economic implications were exhibited in the West African nations. Normally, such pandemics have been associated with economic stagnation since the production sectors are impacted negatively. Also, the tourism sector has been the most affected since international travels are banned in an elusive quest to contain pandemics. During the Ebola crisis, the West Africa economy deflated by 30% due to a decline in foreign gains. The pandemic was also associated with disruptions in the supply chain, thus resulting in food shortages. This is because the military was mandated with the task of maintaining roadblocks to ensure that the pandemic was contained. This study investigates the effectiveness of fiscal policies in fostering economic recovery. The study has established despite the fact that fiscal policies may seem to offer a short-term remedy to the economy during pandemic periods, the long-term impacts of fiscal policies cannot be overlooked since they are associated with high levels of debts. Emerging economies mainly resolve to external borrowings as the major fiscal policies. As a result, small businesses are developed at the expense of debt accumulation, which will impact the future generation. Therefore, fiscal policies have resulted in the exhibition of a vicious cycle of poverty in developing economies. Also, borrowed funds are mostly squandered by the elites, thus hard to benefit the vulnerable groups during a public health emergency. This promotes crowding in impacts since more debt is accumulated. Therefore, this study concludes that major economies suffer from debt accumulation under the implementation of any fiscal policies.

1. Introduction

The impact of fiscal policies on economic development cannot be overlooked as they have been effective in fostering a quick economic recovery. Generally, fiscal policies are depicted as the measures implemented by governments to adjust tax rates and consumption in an elusive attempt to influence and stabilize the economy. The economic state determines if the government will incept expansionary or contractionary fiscal policies [1]. On the one hand, expansionary fiscal policies are incepted during economic recessions to boost quick recovery through fostering regional and global growth. On the other hand, contractionary fiscal policies are applied when the economy is growing immensely, thus having to be regulated to ensure that all resources are not fully exploited. Generally, expansionary fiscal policies involve cases where the government increases spending on infrastructural development and other related sectors. Expansionary fiscal policies also involve reducing tax rates to control inflation rates [1]. This is because tax reduction results in increased consumption and investments in society. The applications of fiscal policies have been recorded during various economic recessions, for instance, during the global financial turmoil in 2008. During the past years, there have been increased pandemic outbreaks emanating from the SARS family. Although the majority of them have not been declared as a global pandemic, the affected areas have implemented various policies to enhance economic growth and recovery. This study investigates the effectiveness of fiscal policies in fostering economic recovery. The first section of the study

investigates the impact of pandemics on the economy of impacted nations, while the second phase investigates the fiscal policies implemented and their effectiveness, while the last section provides various recommendations to enhance their impact on society.

2. Literature Review

In essence, the impact of public health on the global economy cannot be overlooked since it is associated with various containment measures that discourage investments and growth in the production sector. For instance, the world has experienced a global lockdown during the current pandemic crisis since SARS-Virus is contagious. Global flights have been shut, which implies that the tourism sector has experienced a decline in visitors. Besides, distribution and supply chains have been disrupted since many folks would not ship any products from impacted areas [2]. This implies that overall production has declined over the past months due to the immobility of production factors. As a result, governments need to implement relevant measures to boost the growth of all affected sectors.

Generally, the mining sector was disrupted since the governments ordered the termination of any ongoing activities in an elusive attempt to contain the pandemic. The current pandemic has also been associated with similar implications since international flights are still not acceptable in many nations. Therefore, global pandemics are associated with increased healthcare sector expenditures, disruptions in supply chain operations, and reduced activities in tourism and hospitality activities. This translates to increased unemployment rates, reduced consumption, and investments, which results in a decline in the rate of economic growth [1]. Many nations have incepted various policies to foster quick economic growth. In many cases, expansionary fiscal policies have been commonly adopted by governments to create employment opportunities and increase consumption levels in the economy. However, little research has been done on the effectiveness of fiscal policies on economic recovery after a public health emergency.

Global productions have declined significantly due to the immobility of production factors, such as technology, capital, and human labor. Besides, the economy has been unstable, thus acting as a barrier to new manufacturing-based firms across the globe. Ideally, investments play a significant role in economic development as they enhance the foreign income of a nation. Furthermore, many firms have shut down operations due to their inability to transition to remote working. In other cases, the demand for non-basic products has declined since consumers are uncertain of the events, and the length the pandemic is likely to take [3]. The manufacturing firms which hire 50% of the working population globally have reported losses and thus resolved to downsize operations in an elusive quest to minimize production costs. This implies that public health emergencies are associated with the uncertainties in investment plans, high unemployment rates, inflation, the decline in aggregate demand due to shaken purchasing power, and stunted growth in the tourism and hospitality sector.

On other occasions, the real estate sector has reported a decline in growth since many investors are not certain of the housing demand in the future. Besides, the pandemic has been associated with an increased preference for remote working, which translates to decreased demand for office space. This implies that the future of the real estate sector is uncertain as companies may resolve to adopt remote working in an elusive attempt to cut off production costs. The most affected sector is the hospitality arena, as many nations had commanded the closure of many hotels and restaurants to contain the pandemic. As a result, the sector has incurred huge rent costs and the loss of value of the invested funds. Therefore, pandemics cannot be overlooked as a negative impact on the economy. In many nations, much attention has been driven to the healthcare sector to ensure that the existing facilities and equipment can treat critical patients [4]. This implies that other sectors, such as the infrastructural avenue, have been isolated during the global pandemic. Also, the education sector has suffered since the majority of the schools have been forced to close down since they are regarded as agents of transmission.

3. Fiscal Policies Implemented During Public Health Emergencies

Generally, the economic downturns associated with public health emergencies are fostered by the idea that governments prioritize the well-being of the individuals, thus isolating economic performance during the period. As a result, governments end up accumulating huge debts since people cannot fund their budgets while in lockdown mode. Although the mitigation measures are aimed at limiting the pressure on healthcare systems and lower the transmission rates, their economic downturns are felt in the short and long run. According to Organization for Economic Co-operation and Development (OECD) estimates, the mitigation measures could foster a sign in the output of all nations fostered by a plummet in the consuming power of many consumers [5]. However, the economy can only function fully when the disease is eradicated. As a result, governments end up overspending in the health care sector to fund the research and development institutions to ensure that a viable cure is established.

In many cases, the government channels its resources in helping the vulnerable group in the society, thus posing a need to rely on foreign aid to finance the poor and the most affected in the community. Therefore, a coordinated action to protect the most vulnerable and the interests of the people has been required in many of the public health emergencies [6]. For instance, multilateral coordination and collaboration are elementary to enhance the effectiveness of all nations in responding to pandemics.

Explicit help will be fundamental for non-industrial nations, which are confronting the pandemic with more fragile medical services frameworks, less good conditions to support control, bigger casual economies, and more modest extension for financial and money related strategy. These elements confine their capacity to react to the well-being and monetary difficulties [7]. The economic state determines if the government will incept expansionary or contractionary fiscal policies. For instance, on the one hand, expansionary fiscal policies are incepted during economic recessions to boost quick recovery through fostering regional and global growth. On the other hand, contractionary fiscal policies are applied in cases where the economy is growing immensely, thus has to be regulated to ensure that all resources are not fully exploited. Generally, expansionary fiscal policies involve cases where the government increases spending on infrastructural development and other related sectors. Expansionary fiscal policies also involve the reduction of tax rates to control inflation rates. This is because tax reduction results in increased consumption and investments in society.

Many governments resolve to implement expansionary fiscal policies during public health emergencies, involving the reduction of taxes to increase the purchasing power of a consumer since the disposable income will increase. This is the best strategy since expenditure in other sectors is always on hold to ensure that the government contains the pandemic. In many cases, fiscal policies have been associated with increased investment levels since foreign businesses are attracted by minimized tax rates. Also, the overall economic output increases since the consumption, investment, and exports are enhanced. This implies that the economic impacts of a public health emergency can only be felt in the short run since many firms will adjust and normalize production in the long run.

During public health emergencies, fiscal policies are implemented with the intent of supporting business cash-flow by increasing more employment opportunities and household income. Governments have mastered the art of implementing extensive and rapid economic policies to maintain business activities afloat. The small-scale enterprises are the most hit during public health emergencies since they have no funds to operate remotely compared to developed firms. Therefore, fiscal policies aid such firms in enhancing business operations to ensure that activities flow seamlessly once things resume to normality. For instance, the current global pandemic has been contained by integrating fiscal and monetary policies to ensure that economic recovery is expedited. The implemented measures include deferring tax payments, extending tax filing deadlines, faster provision of tax refunds, and tax exemptions.

The government has also implemented other fiscal policies in an attempt to aid businesses in retaining their workers via short-time wage subsidies and work schemes. This includes subsidizing

production costs to ensure that companies can still accommodate a significant number of workers. As a result, the government has enhanced the sick-leave benefits to ensure that affected workers can still quarantine and resume duties once declared healed. Therefore, hardships during a global pandemic can be minimized through the implementation of strategic fiscal policies. However, such policies are associated with increased debt levels, especially if the containment measures are prolonged. As a result, fiscal policies are only efficient if the containment measures are gradually relaxed. The expansionary policies are sustained for a longer period to expedite broader investment rates and household consumption. In other cases, there is no point in locking some economic parts when the public health emergency transmission rates have declined.

4. The Effectiveness of Fiscal Policies and Their Impacts on the Budget Deficit Amid Public Health Emergencies

The current pandemic has challenged the effectiveness of fiscal policies in resolving an economic crisis in relation to the accrued debts across governments globally. This section explores the relationship between increased fiscal policies and debt levels in a nation. It considers various economic recessions, the fiscal policies implemented, and their impact on the budget deficit amid public health emergencies. Therefore, research from various authors will be considered and data from previous economic recessions to help make competent recommendations.

4.1 Fiscal Policies Vs. Budget Deficit

Ideally, different theories offer diverse answers with regards to macroeconomic impacts of fiscal policies and philosophies about the real effects and suitability of government spending on economic development and growth. Many researchers still debate whether fiscal policies result in crowding in and or crowding-out impacts in a nation. As a result, mixed reactions exist on the subject of whether fiscal policies foster budget deficit. Notably, fiscal policy impacts on economic development are fostered by several aspects like the decline in unemployment rates, government transparency, the composition of federal spending, and the leadership size [8]. And the effectiveness of the fiscal policies can be perfectly understood in consideration of other institutional frameworks, such as democracy, economic freedom, and corruption situations. However, the sustainability of a fiscal policy can be reckoned through the consideration of external debt. Tronzano and Amato examined the prove that share of foreign-dominated debts and debt maturity is the elementary determinant of the rate of exchange stability in developed economies [9].

The economic growth of developing economies is influenced by short-term debt-services, central government debt, and the growth of production factors. In many cases, fiscal policies have been associated with external borrowing which negatively impacts growth. However, the community debt has an advanced inverse impact on development and growth. As a result, Dogan and Bilgili concluded a negative relationship between growth and borrowing variables stimulated by the implementation of fiscal policies [10]. Few types of research have been conducted on the efficiency of fiscal policies considering external debts and institutions in comprehensively [11].

In this study, the fiscal policy field considers institutional frameworks, such as corruption, politics, democracy, and economic freedom. For instance, a democratic dogmatic system develops a rivalry environment to foster economic growth. Growth in developing economies is at a low rate due to ineffective democratic regimes. According to Lockwood et al., dogmatic pressures determine government expenditure paths, borrowing, and taxations. This implies that fiscal policies are not effective in the long run as they enhance the budget deficit thus fostering the increase in debt levels [12]. Notably, corruption elimination is not necessarily an economic aspect for economic growth, but a move adopted by a society that reckons the significance of good governance to optimum utilization of resources. Dimakou established that corruption increases inflationary reliance and constrains fiscal capabilities in taxation [13]. The uniqueness of the study is that it considers the efficiency of economic policies in light of the institutional context. Previous studies have also designated emerging economies that can develop significant data to defend the hypothesis. Adi et al. contend that dishonesty has a significant inverse influence on the growth of an economy in advanced

institutional eminence [2]. The study concluded that corruption has no effect on nations with low-quality institutional frameworks.

On the contrary, Ho et al. established that the enhancement in nation government improves banks' effectiveness and thus expedite economic development in emerging economies, whereas it minimizes the impacts in developed economies as a result of limited improvement spaces [14]. On the other hand, Wang et al. contend that the enhancements in the quality of an institution have robust impacts on boosting commercial growth in scenarios where institutional quality fits a given range [15]. Thus, fiscal policy effectiveness in emerging economies is highly affected by institutional frameworks. In many cases, fiscal policies are not regulated during public health emergencies periods thus could result in debt accumulation, which is a major facilitator of budget deficits in developing economies. For instance, the current global pandemic has resulted to an increase in the loan size of developing economies by 30% [16].

4.2 The Effects of Fiscal Policies on Public Health Emergencies

Fiscal policies may seem to offer a short-term remedy to the economy during pandemic periods, the long-term impacts of fiscal policies cannot be overlooked since they are associated with high levels of debts. Emerging economies mainly resolve to external borrowings as the major fiscal policies. As a result, small businesses are developed at the expense of debt accumulation which will impact the future generation. Therefore, fiscal policies have resulted in the exhibition of a vicious cycle of poverty in developing economies. Also, borrowed funds are mostly squandered by the elites thus hard to benefit the vulnerable groups during a public health emergency. This promotes crowding in impacts since more debt is accumulated. Therefore, the results conclude that major economies suffer from debt accumulation under the implementation of any fiscal policies, according to which, corresponding recommendations on fiscal policies amid the public health emergencies are given in the following section.

5. Suggested Policies

In essence, public health emergencies are associated with various containment measures that discourage investments and growth in the production sector. For instance, the world has experienced a global lockdown during the current pandemic crisis since SARS-Virus is contagious. Global flights have been shut, which implies that the tourism sector has experienced a decline in visitors. Besides, distribution and supply chains have been disrupted since many folks would not ship any products from impacted areas. This implies that overall production has declined over the past months due to the immobility of production factors. As a result, there is a need for governments to implemented relevant measures to boost the growth of all affected sectors. For instance, the current pandemic has led to a significant decline in global production due to the immobility of production factors such as technology, capital, and human labor. Besides, the economy has been unstable, thus acting as a barrier to new manufacturing-based firms across the globe. Ideally, investments play a significant role in economic development as they enhance the foreign income of a nation. Furthermore, many firms have shut down operations due to their inability to transition to remote working. In other cases, the demand for non-basic products has declined since consumers are uncertain of the events, and the length the pandemic is likely to take. The manufacturing firms which hire 50% of the working population globally have reported losses, and thus resolved to downsize operations in an elusive quest to minimize production costs. The aforementioned impacts can be alleviated by implementing monetary policies as they have limited economic impacts in the long-term compared to fiscal policies. In this case, governments should consider partnering with their central banks to upsurge the money supply and minimize rates of interest. On the other hand, tax rates and government spending should be maintained constant to ensure that the country does not accumulate more debts. As a result, the economy will counter the long-term effects associated with fiscal policies. In other cases, a nation may resolve to enhance its governance structure in an elusive attempt to ensure that borrowed funds are well utilized to help the vulnerable groups in society.

6. Conclusion

Few types of research have been conducted on the efficacy of financial policy considering external debts and institutions incomprehensibly. The effectiveness of the fiscal policies can be perfectly understood in consideration of other institutional frameworks, such as democracy, economic freedom, and corruption situations. However, the sustainability of a fiscal policy can be reckoned through the consideration of external debt. Ideally, fiscal policy effectiveness in emerging economies is highly affected by institutional frameworks. In many cases, fiscal policies are not regulated during public health emergencies periods, thus could result in debt accumulation, which is a major facilitator of budget deficits in developing economies. Although fiscal policies may seem to offer a short-term remedy to the economy during pandemic periods, the long-term impacts of fiscal policies cannot be overlooked since they are associated with high levels of debts. Emerging economies mainly resolve to external borrowings as the major fiscal policies. As a result, small businesses are developed at the expense of debt accumulation, which will impact the future generation. Therefore, fiscal policies have resulted in the exhibition of a vicious cycle of poverty in developing economies. Also, borrowed funds are mostly squandered by the elites, thus hard to benefit the vulnerable groups during a public health emergency. This promotes crowding-in impacts since more debt is accumulated. Therefore, the results of this study conclude that major economies suffer from debt accumulation under the implementation of any fiscal policies.

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