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An Analysis of COVID-19 Fiscal Policies in the US and Japan

Avinash Gogineni[1] and Mr. Martin[#]

[1]College Impact, USA
[#]Advisor

ABSTRACT

In 2020, the COVID-19 disease created an unprecedented impact on the world. It created a health crisis in many countries, causing a pandemic. Along with the health crisis, most countries fell into an immediate economic recession including the US and Japan. This paper focuses on the fiscal policies used in the US and Japan due to the COVID-19 pandemic-related economic recession in both countries. First, a detailed analysis of the US and Japanese fiscal policies is presented, analyzing their effectiveness. Subsequently, these policies were compared and contrasted to obtain a better understanding of fiscal responses around the world. Overall, this paper aims to provide a new global perspective on the implementation of fiscal policies while also aiding policy-makers in making more educated decisions for future recessions caused by COVID-19 or other pandemics.

Introduction

In 2020, the COVID-19 pandemic sent shockwaves of crisis to almost throughout the world. Apart from the health impacts, several countries fell into economic recessions due to the pandemic. This paper focuses on the US and Japan who have the 1st and 3rd largest economies (in terms of GDP) in the world, respectively. Both countries' governments immediately rushed to create and implement several fiscal policies like the Stimulus Packages, in the US or the Emergency Response Packages, in Japan, thereby impacting their economies.

Researchers, such as Ando et al. and Romer identified many of these fiscal policies and their economic effects. Ando et al. (2020) qualitatively reviewed several fiscal policy measures taken by the Japanese government from January to July during the recession due to the COVID-19 pandemic.While Romer (2021) outlined and qualitatively analyzed the various economic fiscal policies and corresponding responses taken by the US government in 2020 and 2021. Although there have been studies about the US and Japan's fiscal policies individually, there is little to no research comparatively reviewing and analyzing the US and Japanese economic fiscal policies in response to the recession caused by the COVID-19 pandemic. Each country had both similar and unique fiscal policy responses to their respective economies, thus requiring further research for an improved understanding of the policies' economic impact.

Research Question

What fiscal policies were implemented in the US and Japan and how effective were they?

Context

Understanding the context of economic fiscal policies during a pandemic is vitally important. This section aims to review the economic impact in the US and Japan. In Q1 of 2020, the real GDP of the US was $21,481 billion, but drastically fell to $19,477 billion by Q2 of 2020 ("Gross Domestic Product," 2022). This change in GDP can also be seen in Japan, as the real GDP in Q1 of 2020 was $3.9 trillion (543,803 billion JPY) and fell to $3.59 trillion (500,293 billion JPY) by Q2 of 2020 ("Real Gross Domestic Product for Japan," 2022). So the question must be asked: what caused this change and what economic measures were implemented as a result? Part of the answer to this question is that the COVID-19 pandemic immediately forced economic activity across almost all industries in both countries to slow down.

Identifying and Analyzing US Fiscal Policies

The five US fiscal stimulus packages totaled $5.2 trillion and went to several different causes, thereby stimulating economic growth. Some of these causes include unemployment benefits ($748 billion), direct assistance to state and local governments ($597 billion), health care spending ($629 billion), direct payments to households ($870 billion), Paycheck Protection Program ($808 billion), loan and grant provisions ($890 billion), Spending provisions ($890 billion), and finally Tax reductions ($426 billion) (Romer, 2021, p. 98).

The pandemic immediately forced businesses, of any size, to shut down or lay off their employees. As a result, the unemployment rate (UNRATE) in the US was at its highest in April at 14.7%, the highest UNRATE since the Great Depression. Consequently, the government expanded the unemployment insurance (UI), which pushed the recipency rate of UI to 100% from 2020-2021. The CARES Act immensely benefited UI as it provided an extra $600 to low-wage unemployed workers. Further, those who received UI increased their spending by $0.73 for every $1 of extra benefits. The 100% recipiency rate and stimulated spending highlights the effectiveness of a part of the CARES Act towards helping unemployed workers on a wider scale (Romer, 2021, p. 99).

Apart from UI and its effects, there was also a great deal of fiscal stimulus provided to states and local governments by the federal government. The Families First Coronavirus Response Act, the second US stimulus package, increased the Medicaid matching percentage to help states. Next, the CARES Act allocated over $150 billion in direct payments to state and local governments. In March 2021, the fifth stimulus package known as the American Rescue Plan Act was passed. This act provided $363 billion in direct cash payments to states again. Overall, these large payments from 2020-2021 allowed states to deal with the pandemic and its effects on their independent economies (Romer, 2021, pp. 100-101).

One of the most important fiscal policies was the dispersing of stimulus checks to the US population as it helped stimulate demand for goods and services because people had more money to spend. From the total money that the US spent through fiscal policies, $870 billion was spent towards stimulus checks. There were some drawbacks though, since the stimulus checks were not well targeted.Although the first round of checks ($1,200) followed by the second and third rounds ($600 and $1,400) were substantial for some people, this was not enough for those with lower incomes and struggling through the pandemic (Romer, 2021, p. 102).

A potentially more effective approach would have been for the government to have provided the amount of the stimulus check relative to the person's income. Gorodnichenko and Weber's (2020) survey supports this approach by demonstrating that only 15% of people surveyed spent their check whereas 85% of them saved the money (Romer, 2021, p. 103). This shows, again, that the government slightly failed to stimulate aggregate demand.

Many businesses were forced to stop or slow down operations almost overnight because this recession was caused by a pandemic. As a result, many employees (47% of workers in the US worked in small businesses as of 2019) were at the risk of being laid off as small businesses were closing. So, the government introduced the Paycheck Protection Program: a program that gave "uncollateralized, low- interest loans of up to $10 million to firms with fewer than 500 employees" (Autor et al., 2022, p. 55). These loans were forgivable too, given certain conditions. **So how**

effective was it? Well, it helped stop the unemployment rate from going higher than 14.7% as it preserved between 1.98-3.0 million jobs as of 2022. Further, it "reduced the rate of temporary closures among small firms" as 94% of business employers with less than 500 employees took a PPP loan, proving the success of it (Autor et al., 2022, p. 56).

Identifying and Analyzing Japanese Fiscal Policies

Emergency Response Packages

From January to June 2020, Japan's fiscal package totaled to $545 billion which is around 10% of its 2019 GDP. The first fiscal stimulus that the Japanese government implemented was in February 2020, the Novel Coronavirus Disease Emergency Response Package. This package was around $0.14 billion and targeted many areas: Infection control, R&D for vaccines and more, Support for firms and workers, education etc. Unfortunately, this first package failed to provide support to individual households and educational institutions which reflect its shortcomings. Luckily though, the government addressed these shortcomings in the second Emergency Response Package which was implemented from March 10th onwards. In this package, the government spent $2 billion towards supporting firms and workers and $488 million towards supporting educational institutions (Ando et al., 2020, pp. 913-914).

First Supplementary Budget

After the two Emergency Response Packages, the Japanese government began implementing more comprehensive fiscal packages through Supplementary Budgets (SB). The first SB was over $234 billion and was enacted in April 2020. This SB supported households immensely as it spent $93 billion, almost half of the SB, towards the Special Cash Payments Program. This program provided around $909 to every registered resident living in Japan (Ando et al., 2020, p. 914). Unfortunately though, people were not satisfied with this policy. A study done by Yuktadatta et al. (2022) showed that only 20% of people who received the one-time payment were satisfied with the amount provided, reflecting the program's ineffectiveness (p. 5).

Apart from the spending towards the Special Cash Payments Program, the first SB pushed $64 billion towards helping firms and workers. Some of the money, around $44 billion, primarily went towards helping small businesses in Japan that were struggling due to the COVID-19 pandemic with loans and subsidies. Further, the government spent over $7 billion towards Special Allocation for Revitalization to Cope with COVID-19, which essentially sent grants and direct money payments to local governments (Ando et al., 2020, pp. 914-915).

Lastly, in order to help struggling industries like tourism, restaurants, entertainment, etc the government introduced the "Go To" campaign. Through this campaign, the government planned to provide coupons and cash discounts to consumers in this industry to use after the COVID-19 crisis was taken care of. Overall, the government planned to spend $12 billion on the program but it was never executed due to an increase in COVID-19 cases and political conflicts (Abe, 2021, p. 65).

Second Supplementary Budget

On June 12th, 2020, the Japanese Government passed the second Supplementary Budget (SB) which was $290 billion. Compared to the first SB, this one had more support to healthcare and firms and workers while having less support towards households. Focusing on the support towards firms and workers, the government provided $116 billion which is a large jump from the $64 billion provided by the first SB. Due to the increase in COVID-19 cases after the first SB, it makes sense that the government increased its support to firms and workers by introducing a "rent support grant for small and medium enterprises." Further, the increased stimulus built upon the first SB by expanding the grants to small and medium sized businesses (Ando et al., 2020, p. 915). Unfortunately though, the government failed to support its residents as much as the first SB as there was no continuation or increase in the money given through the Special Cash Payments policy.

Discussion

A comparative analysis between US and Japan's fiscal policy during the COVID-19 recession provides a detailed understanding of similar and divergent paths taken in each country. The following discussion focuses on comparing fiscal responses to unemployment, state and local governments, residents, and businesses.

Fiscal Response to Unemployment

The US UNRATE went from 3.5% in January 2020 to its highest, during the pandemic, of 14.7% in April 2020 ("Unemployment Rate," 2022). As a result, the US had to expand its unemployment insurance and provide several benefits to unemployed individuals as discussed in detail above. Fortunately though, Japan did not face the same problem. In Japan, the UNRATE went from 2.4% in January to 2.6% in April and then 2.8% in May ("Japan Unemployment Rate," 2022). The fiscal stimulus towards unemployed individuals was very minimal and the country's unemployment benefits programs stayed almost the same because of this slight jump in UNRATE compared to USA's staggering 14.7% UNRATE in April. Instead, Japan provided financial stimulus to self-employed workers, which was not seen as much in the US (Ando et al., 2022, p. 922).

Fiscal Response to State and Local Governments

Both countries' federal governments successfully provided support to their state and local governments. The US implemented this support through a few of its stimulus packages, like The Families First Coronavirus Response Act (March, 2020) and the American Rescue Plan Act (March, 2021) (Romer, 2021, p. 100). Similarly, Japan's federal government provided support and grants to help their state and local governments fund individual health and economic initiatives. However, Japan did not provide much support in the first two Emergency Response Packages and only began providing substantial support through the two supplementary budgets (March and June 2020, respectively) when the crisis escalated, reflecting the country's slow policy execution compared to the US (Ando et al., 2020, p. 915).

Fiscal Response to Residents

The US and Japan both implemented their own version of offering direct money to their citizens. The US dispersed three stimulus checks ($1,200, $600, and $1,400 respectively) during three different stimulus packages that were passed (Romer, 2021, p. 102). Although it was not sufficient enough for some, the majority of US residents were satisfied with the checks. Yet, Japanese residents were only given a one time cash payment (similar to US stimulus checks) of $909 in April, 2020 and no additional checks were given to residents (Ando et al., 2020, p. 914). As previously mentioned, only 20% of the residents who received the check were satisfied with the amount, reflecting its ineffectiveness in Japan (Yuktadatta et al., 2022, p. 5). In terms of stimulus checks for residents, the US had a better implementation process accompanied by higher amounts for their residents when compared to Japan.

Fiscal Response to Businesses

During the pandemic, several industries shut down immediately and while most big firms were able to survive on their own, many small and medium firms suffered. In both countries, the governments provided some sort of fiscal support to these businesses. The US government implemented the Paycheck Protection Program as its main solution for helping these businesses. The Japanese government did not have one main program but provided support to firms in its first Emergency Response Package slightly and began to provide loans, grants, and subsidies to businesses during this first and second SB. One main idea about the PPP was that it forgave some loans for small businesses under certain conditions while Japan did not. Also, the US targeted only small businesses while Japan helped medium sized businesses through their policies (Ando et al., 2020, pp. 914-915) (Romer, 2021, pp. 103-104).

Conclusion

Over the past few years, both countries have implemented fiscal policies in order to survive and recover from the COVID-19-influenced recession. This paper solely focused on several fiscal responses that Japan and the US implemented. First, a detailed analysis of each country's fiscal responses was presented along with an analysis of several of the policies' effectiveness. Second, a comparison and contrast was conducted of both the countries' responses, concluding with the corresponding effectiveness on their individual GDPs. This paper's analysis aims to help policymakers make better educated decisions when creating fiscal policies for the COVID-19 pandemic induced recession or future pandemic influenced recessions. Consequently, the use of Japan and the US, specifically, is to provide policymakers and readers with two varied perspectives of country fiscal policies to come up with more successful policies in the future.

Limitations

This paper analyzes the fiscal policies of Japan in only the first six months of 2020 as there are limited reliable studies for longer time periods.

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