

# Perpetual knowledge bank series: fiscal stimulus

9 November 2021



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.

This analysis has been prepared by [Perpetual Investment Management Limited \(PIML\)](#) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The product disclosure statement(PDS) for the Perpetual Diversified Income Fund issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website <http://www.perpetual.com.au> .

No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.