

# CHAPTER 1:

## INTRODUCTION

The recent global and financial turmoil prompted many governments worldwide to introduce stimulus packages, as a temporary measure to rebuild, boost up or prevent the economy from further recessions. The term “stimulus package” or “economic stimulus” is referring to a situation where the government in a country changes its fiscal policies of spending and taxation to revive the economy.

Many economists believed that the 2008 financial crisis resemble the deep Depression of the 1930s, while some were confident that the problem can be resolved without much difficulty. Some were rather optimistic that the mistakes from past history would not be repeated and would instead be valuable in helping statesmen make clear policy choices. Over the years, the Great Depression and some major economic crisis such as the Japan deflation in the 1990s, the Swedish Banking Crisis in the early 1990s, the Asian Financial Crisis in 1997, Dot-com in 2000 or the Argentinian economic crisis in 2001 had been thoroughly studied to facilitate policy makers in constructing changes in policies.

The effectiveness of the stimulus package had been debated hotly amongst economists from various school of thoughts - including the Chicago School of Economics, Keynesian and conventional views. Most debates were centered

over the question of what makes an effective stimulus package and how it can stimulate the economy by countering the rising unemployment rate. Most of the packages were aimed at increasing government and consumer spending to spur economic activities. The stimulus package can be considered a kick-start to economic recovery or at least to prevent the Gross Domestic Product (GDP) from declining further. Ideally, it works to increase demand in the short run and then, promote economic growth in the long run. The governments have always remained focused on improving their people's welfare and relieving their burden even during these critical times. As such, a stimulus plan is never complete without additional allocations made to improve the infrastructure and to support community projects since it is always the government's primary responsibility to take care of their citizens.

In this research paper, I will look into the effectiveness of the stimulus package in stimulating the economic activities during a financial crisis. I will start with the Great Depression Era of 1930s; follow with the US Oil crisis of the 1970s, the banking crisis of Japan in 1990s, the Mexico Peso crisis of 1994, the Asian financial crisis of 1997/98, the economy hedge fund crisis of Hong Kong in 1998 and finally, the current global economic crisis that first began in 2008.

This research paper addresses how the stimulus package became most countries' choice of recovery aid when faced with an economic crisis. This paper will proceed in three parts. The first section will draw heavily on the previous literature study. It includes studies from economic viewpoints such as Keynesian,

Non-Keynesian and followed by the studies on the factors affecting the effectiveness of the recovery plan.

The second section will review the effectiveness of stimulus initiatives from 1930s to the new century. Governments had introduced numerous stimulus packages in response to the crisis, which were continued over the course of the decade. Despite all the large and repeated fiscal stimulus packages, the effectiveness of these packages was still questionable. The increase in government expenditure had not and will never guarantee a positive growth. Thus, overcoming the deficit would never be an easy task when the stimulus package did not work as expected.

The final section will analyze whether such additional spending by government in their attempt to bring their countries out of recessions really works or merely a waste of taxpayer's money. I will present a discussion and conclusion of lessons learnt –both from literature studies and actual events.

The intention of this research is to gather all the facts and figures behind each stimulus packages. At the end of the research, I hope to provide a detailed compilation of factors and achievements behind each stimulus package and thus enable a more realistic review of the efficacy of stimulus packages during economic downturns.