CHAPTER 5:

CONCLUSION

Since 1930s, many countries have opted for an implementation of a stimulus package to dig their economies out of recession. Studies on the stimulus efforts during the Great Depression have concluded that although they did not really generated full economic recovery, they did play a pivotal role in stimulating demands. When the US economy was drive into recession in the 1970s and 1980s (due to the oil commodity price shock), the stimulus response by the government in times of adverse supply shock is not effective to insulate the economy recovery. Similarly, the Japan's stimulus effort turned out unsuccessful and the fiscal deficit kept increasing. Japan economy continues to face large deficit since 1975 and the government is pressured to increase its spending especially after the banking crisis in 1991. In fact, when the global financial crisis struck in 2008, many policymakers used the 1930s case studies as their yardstick in initiating their respective recovery packages and to learn from the past failures.

In the case of Mexico, the money injected into the Mexican economy from the external financial aid during the 1994 crisis helped the economy to recover and eventually brought Mexico out of the recession. However, the aid had also delayed the recovery reformation in the country due to debt payout plan. Some views that external financial aid from United States and IMF may encourage Mexico like crisis likely to happen in the future because the high risk investor is expecting financial assistance for any economic downfall. Thailand managed to immediately cope with the Asian financial crisis in 1997 but was forced to embark on the IMF-mandated program to strengthen the Thai financial sector and the banking system. The measures created a large increase in public debt. The deficit reached 3.3% in 1999 and improved to 2.8 % of GDP in 1999 and 2.2 % in 2000. Subsequently, it reached 1.7% in 2007; followed by 4.4% and 2.2% in 2009 and 2010 respectively. This is what affect most countries as the previous stimulus package had not focused towards any forms of reformation in the financial sector. The actual economic issues tend to rebound during the economic downfall and it requires substantial external bail out. Hence, a concern arises whether the introduction of the fiscal stimulus package would further lead to recovery or deterioration.

The recovery in Malaysia appears to be slower in comparison with other countries in the region. Malaysia has not sought a financial bail-out from IMF, but instead preferred to rely on internal financial aid. The delayed recovery may be due to the way the crisis spread and slow response by the Malaysia government towards the crisis in its initial stages. The government adopted a policy of increased expenditure and encouraged spending via the stimulus package and annual budget. It was focused on rolling out short term measures to sustain the economy of demand and supply, rather than recovery. Hence, the fiscal deficit – which has stayed in the negative since 1957 – widened further during the 2008 crisis. The Malaysian case study underlines the very question behind the efficacy of a stimulus package – will debt accumulation through fiscal changes eventually cause much more problem in terms of fiscal sustainability? If yes, then does this mean the actual causes of economic downturn will remain and never to be solved or uprooted.

Similarly, the People's Republic of China's economic recovery plan is rather "limited and incomplete" as it served merely as short term prevention to stop the economy from worsening. The RMB 4 trillion stimulus packages were a huge action plan in restoring market confidence and boost the economy but it is still questionable whether such implementation will lead to long term recoveries. It remains to be seen to what extent the fiscal stimulus packages will able to produce an impact beyond short-term support to demand, and subsequently create a positive impact on long term growth.

In the case of Korea, the government provided little fiscal stimulus to support the aggregate demand due to the cost incurred by fiscal deficits. Instead, the economy recovery plan focused mainly on improving the financial sector. The aid resources received from IMF or any external resources were spent on stabilizing the financial sector and helping the corporate sectors from deterioration. The expansionary fiscal stimulus after the crisis had successfully supported the recovery of the financial market but it also created side impacts with increasing liabilities.

The Hong Kong government, meanwhile, had long held the view that providing additional public funding assistance would distort the market and delay the economic recovery. Added spending commitment may lead to deficit budgets which would exert a destabilizing effect on the linked exchange rate, and may even breach the budgetary principles of the Basic Law (i.e. Article 107). Due to historical reason, the impact of the stimulus by the Hong Kong government was “not clear” and not well supported.

The specific cases of Mexico, Korea and Thailand showed that the economy was too weak to recover on its own and require external injections of financial aid. Such scenarios lead to additional government borrowing to fund the spending on stimulus packages. Hence, the fiscal deficit would never decrease and the burden of the century’s long borrowing activities would fall onto the next generation. Japan and Malaysia had lingered too long in the fiscal deficit due to gradual increases in the government stimulus spending compared to its income and tax revenue.

As a conclusion, historical evidences suggest that stimulus packages had not been effective in responding to economics downturns for both the developed countries (US, Japan and HK) and the developing countries (Korea, Thailand, Malaysia and China). In actual fact, one wonders if this kind of “new money” injection really increase spending and demand within an economy – or it merely redistribute money from one group of people to another, without creating any new spending. Worse still, as the “new money” needs to be first sourced or borrowed from outside the country.

In times of crisis, the stimulus package can only be treated as an immediate short term recovery plan and needs to be tailored specifically to the situation within the country. Any measured interventions to tackle the crisis need to be timely and focused on the real economic issues. Otherwise, it would create a “faulty” impression to the public and investors that the economy is improving, when it is merely surviving. Finally, it is also important to learn from past crisis experience and not to allow history to repeat itself.