

Fiscal Stance

There has been interesting discussion at the professional level on public finance in Hong Kong. I have been asked to elaborate on what “fiscal stance” is all about. I am happy to do so.

Let me quote again from The New Palgrave Dictionary of Economics:

Fiscal stance is commonly understood to denote the expansionary or contractionary implications for the economy of a government’s budgetary policy. More precisely, it represents an attempt to summarize, in a single measure, the combined effect on aggregate demand, and therefore potentially on real output and income, of all the various decisions taken by government in respect of public expenditure, taxation and other sources of revenue which go to make up a national budget... The most straightforward way of producing an indicator of budgetary policy is to sum the inflows of revenue and outflows of expenditure to which they give rise and to take the difference between the two, the budget balance, as a measure of fiscal stance...

The following personal viewpoints are perhaps relevant in examining the fiscal stance of Hong Kong in recent years.

1. Hong Kong has been running substantial annual budget surpluses in the last decade or so.
2. A budget surplus means that the government is taking away more money from society than it is spending to promote the wellbeing of society.
3. The fiscal stance of a budget surplus on the economy is contractionary, meaning that the growth rate of the economy would be higher without the budget surplus.
4. Even after the popular tax rebates, the size of the annual budget surplus in the last decade has averaged nearly 3% of GDP. On occasions, it exceeded 4% of GDP.

5. This is notwithstanding a rather rapid growth rate of government expenditure recorded during the period. The growth rate of government revenue has also been rapid, possibly even more rapid.
6. It is not easy to estimate how much the growth rate of GDP would have been higher in a particular year (and in subsequent years through the multiplier effect), had there not been a budget surplus of nearly 3% of GDP.
7. This depends on how the money, had it been left in the hands of (or returned to) the community instead of being taken by government and held in foreign financial assets, would have been mobilized by the community.
8. The contractionary fiscal stance of the past decade, while inappropriate, is not the only factor that explains why the growth rate of the economy has been slow.
9. When “leaving wealth with the community”, if a government is in a position to do so, priority should be given to initiatives with higher multiplier and productivity-enhancing effects on the economy. In this, I am quite sure that the HKSARG will act in the best public interest.

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