



## Department of Economics

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**Economics 348  
(12084 - 348)  
Economic Policy**

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**Fiscal Policy  
2020**

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## 1. INTRODUCTION

Welcome to the Fiscal Policy component of Economics 348! Fiscal policy issues have been in the news regularly in the recent past, and will remain very important and challenging over the next few years. I trust that you will find this part of the module interesting and useful.

## 2. LECTURER

Name	Office	E-mail address	Telephone number	Consultation hours
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## 3. OBJECTIVE AND OUTCOMES

The objective of this part of the module is to familiarise you with the sustainability and stabilisation aspects of fiscal policy in South Africa. It focuses on historical trends as well as current policy challenges. These issues will be discussed against the backdrop of relevant theoretical principles and developments in other countries.

Mastering the contents of this part of the module should enable you to:

- Explain the meaning and importance of fiscal sustainability and the difficulty of measuring it
- Discuss the sustainability of fiscal policy in South Africa
- Outline the evolution of views about the stabilisation role of fiscal policy
- Discuss fiscal stabilisation policy in South Africa in terms of the objectives of policymakers and the effects of such policy on the economy
- Explain the link between fiscal policymaking institutions and outcomes
- Outline the institutional framework for fiscal policymaking in South Africa and discuss various options for strengthening it
- Discuss the relevance for South Africa of findings in other countries about the most appropriate ways to reduce budget deficits.

## 4. ONLINE MS TEAMS SESSIONS

Online MS Teams sessions will take place on a weekly basis. The times of these sessions will be announced on SUNLearn. All sessions will be recorded and made available on SUNLearn. It will not be compulsory to attend.

## 5. ASSESSMENT

Please consult the general Economics 348 module framework for general information about assessment in this module.

The following are examples of possible test and examination questions about fiscal policy (please note that questions will not necessarily be drawn from this list):

- Explain the four main instruments for the financing of budget deficits and the macro-economic risks associated with each.

- Discuss the meaning of the concept "fiscal sustainability" and explain how it is measured. Also explain the importance of the primary budget balance for the assessment of fiscal sustainability.
- "Fiscal policy has been sustainable in South Africa since 1970." Do you agree with this statement? Explain your answer.
- Discuss the evolution of approaches to the macroeconomic role of fiscal policy from the Great Depression to the Great Recession.
- "The timespan and effectiveness of South African Governments' attempts to implement systematic countercyclical fiscal policymaking were very similar to those of most other countries." Do you agree with this statement? Explain your answer.
- Summarise the most important stabilisation-related developments in fiscal policy in South Africa since 1994, and comment on the successes and failures of the fiscal authorities in this period.
- Explain why appropriate fiscal policymaking frameworks are important for achieving good fiscal outcomes.
- "The adoption of numerical fiscal rules would undoubtedly improve fiscal outcomes in South Africa." Do you agree with this statement? Explain your answer.
- Give a critical appraisal of South Africa's fiscal policymaking framework from an institutional perspective.
- Summarise the most important findings of research into the determinants of the success of attempted fiscal consolidations. What lessons can South Africa learn from these episodes about strategies to reduce large budget deficits?
- Discuss the challenges the South African fiscal authorities have to deal with in the next three years.

## 6. TOPICS, READINGS AND LEARNING OBJECTIVES

### Part I: Introduction

#### **Session 1: Introduction (30 September)**

##### ***Reading:***

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 1.

##### ***Learning objectives:***

Once you have studied the prescribed material, you should be able to:

- Define the term "fiscal policy".
- List and discuss the roles of the major participants in fiscal policymaking processes in South Africa.
- Distinguish between the institutional components of the public sector in South Africa.
- List and explain the links between the components of the national budget in South Africa.
- Explain the meaning of the term "fiscal sustainability".
- Explain the meaning of the term "fiscal stabilisation policy".
- Explain the meaning of the term "fiscal policymaking institution".

## **Part II: Fiscal sustainability**

### **Session 2: The financing of budget deficits (2 October)**

#### **Reading:**

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 2.

#### **Learning objectives:**

Once you have studied the prescribed material, you should be able to:

- Define the term "budget deficit".
- Provide valid economic justifications for running budget deficits.
- Explain the term "seigniorage" and the risks of using seigniorage to finance budgets deficits.
- Explain the risks of using foreign exchange reserves to finance budget deficits.
- Explain the risks of using domestic borrowing to finance budget deficits.
- Explain the risks of using foreign borrowing to finance budget deficits.

### **Session 3: When is fiscal policy sustainable? (2 October)**

#### **Reading:**

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 3.

#### **Learning objectives:**

Once you have studied the prescribed material, you should be able to:

- Briefly explain why and how economists assess the sustainability of fiscal policy in the past.
- Define the terms "fiscal solvency" and "fiscal sustainability".
- Explain the dynamics of the public debt.
- Explain the role of the primary balance in fiscal sustainability assessment.
- Discuss the role and limitations of sovereign credit ratings.
- Discuss empirical research into the relationship between public debt burdens and economic growth.

### **Session 4: The sustainability of fiscal policy in South Africa (5 October)**

#### **Reading:**

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 4.

#### **Learning objectives:**

Once you have studied the prescribed material, you should be able to:

- Briefly discuss budget balances and the public debt burden in South Africa since 1960.
- Briefly summarise the findings of econometric analyses of the sustainability of fiscal policy in South Africa.
- Outline the reasons for the deterioration in the fiscal situation in South Africa from 1989 to 1995.
- Discuss the sustainability of fiscal policy in South Africa from 1996 to 2008.
- Discuss the fiscal aspects of the GEAR strategy.

- Discuss the most important sustainability-related developments in fiscal policy in South Africa since 2009.

### **Part III: Fiscal stabilisation policy**

#### **Session 5: Views on fiscal stabilisation policy (6 October)**

##### ***Reading:***

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 5.

##### ***Learning objectives:***

Once you have studied the prescribed material, you should be able to:

- Explain what fiscal stabilisation policy is.
- Briefly explain the classical norm of balanced budgets.
- Outline the Keynesian approach to fiscal policy.
- Explain the distinction between active and passive fiscal policy.
- Explain why Keynesian fiscal policy became unpopular.
- Outline the structural approach to fiscal policy.
- Discuss the influence of the International Financial Crisis and the Great recession on views about the stabilisation role of fiscal policy.
- Explain the distinction between the cyclically-adjusted budget balance and the structural budget balance.
- Explain how the structural budget balance can be used to prevent fiscal policy errors.

#### **Session 6: Pre-1994 fiscal stabilisation policy in South Africa (6 October)**

##### ***Reading:***

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 6.

##### ***Learning objectives:***

Once you have studied the prescribed material, you should be able to:

- Outline shifts in official views about the stabilisation role of fiscal policy in South Africa from the 1930s to 1994.
- Discuss the effectiveness of fiscal stabilisation policy in South Africa from 1960 to 1994.
- Outline the most important factors that undermined the effectiveness of fiscal stabilisation policy in South Africa from 1960 to 1994.
- Briefly discuss the controllability of fiscal policy instruments in South Africa from 1960 to 1994.
- Explain the influence of sustainability considerations on the scope for and effectiveness of fiscal stabilisation policy in South Africa from 1960 to 1994.
- Compare South Africa's experience with Keynesian fiscal policy to those of other countries.

#### **Session 7: Post-1994 fiscal stabilisation policy in South Africa (7 October)**

##### ***Reading:***

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 7.

**Learning objectives:**

Once you have studied the prescribed material, you should be able to:

- Outline shifts in official views about the stabilisation role of fiscal policy in South Africa since 1994.
- Discuss the effectiveness of fiscal stabilisation policy in South Africa since 1994.
- Outline the most important factors that have undermined the effectiveness of fiscal stabilisation policy in South Africa since 1994.
- Explain the influence of sustainability considerations on the scope for and effectiveness of fiscal stabilisation policy in South Africa since 1994.
- Compare the nature and effectiveness of South Africa's fiscal policy response to the International Financial Crisis and the Great Recession to those of other countries.

**Part IV: Fiscal policymaking institutions**

**Session 8: Theoretical perspectives on fiscal institutions (9 October)**

**Reading:**

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 8.

**Learning objectives:**

Once you have studied the prescribed material, you should be able to:

- Discuss the causes and possible effects of incentive problems in fiscal policy-making in democracies.
- Explain what "common-pool problems" in the public finances are.
- Briefly explain the nature and limits of market discipline on fiscal policymakers.
- Briefly discuss the pros and cons of discretion in fiscal policymaking.
- Distinguish between numerical and procedural fiscal rules.
- Discuss the nature and roles of the most important elements of fiscal policy-making frameworks.
- Use ideas from New Institutional Economics to comment on the potential and limits of fiscal policymaking institutions.

**Session 9: The evolution of fiscal institutions in South Africa (9 October)**

**Reading:**

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 9.

**Learning objectives:**

Once you have studied the prescribed material, you should be able to:

- Discuss the effectiveness of the numerical fiscal rules that have been in force in South Africa.
- Discuss the nature and effectiveness of South Africa's procedural fiscal rules.
- Discuss the effectiveness of South Africa's Medium-Term Expenditure Framework.
- Outline the role of transparency in South Africa's fiscal policymaking framework.

- Explain the role of informal institutions in South Africa's fiscal policymaking framework.
- Provide an overall assessment of South Africa's fiscal policymaking framework.

### **Part V: Fiscal policy challenges in South Africa**

#### **Session 10: The 2020/2021 Budgets (12 October)**

##### ***Reading:***

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 10.

##### ***Learning objectives:***

Once you have studied the prescribed material, you should be able to:

- Put the 2020/2021 Budgets in context.
- Outline the main objectives of the 2020/2021 Budgets.
- Outline the most important elements of the 2020/2021 Budgets.
- Discuss reactions to the 2020/2021 Budgets.
- Comment on the realism of the 2020/2021 Budgets.

#### **Session 11: Medium- and longer-term fiscal challenges (13 October)**

##### ***Reading:***

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 11.

##### ***Learning objectives:***

Once you have studied the prescribed material, you should be able to:

- Explain the nature of fiscal consolidation programmes.
- Discuss the debate about the effectiveness and economic effects of fiscal consolidation programmes.
- Comment on the need for and likely economic effects of fiscal consolidation in South Africa.
- Discuss the role of fiscal policy in the promotion of economic growth in South Africa.
- Discuss the challenge of improving the effectiveness of government spending programmes in South Africa.

#### **Session 12: Can institutional reforms improve fiscal outcomes? (13 October)**

##### ***Reading:***

Siebrits, F.K. 2020. *Fiscal Policy in South Africa*. Chapter 12.

##### ***Learning objectives:***

Once you have studied the prescribed material, you should be able to:

- Comment on the role that numerical fiscal rules can play in improving fiscal outcomes in South Africa.
- Comment on the scope for improving fiscal outcomes in South Africa by means of reforms to procedural fiscal rules.
- Discuss the potential and limits of a fiscal council in the South African context.

- Discuss the potential role of informal institutions as mechanisms to improve fiscal outcomes in South Africa.
- Provide an overall assessment of the scope for using fiscal policymaking institutions to improve fiscal outcomes in South Africa.