



Department of Economics

Economics 348
(12084 - 348)
Economic Policy

Fiscal Policy
2022

Contents

1. Introduction	3
2. Lecturer.....	3
3. Objective and outcomes	3
4. Lectures	3
5. Assessment	4
6. Topics, learning objectives and prescribed readings	4

1. INTRODUCTION

Welcome to the Fiscal Policy sub-module of Economics 348! Fiscal policy issues have been in the news regularly of late, and will remain important and challenging over the next few years. I trust that you will find this part of the module interesting and useful. Please read this document with the general module framework for Economics 348.

2. LECTURER

Name	Office	E-mail address	Telephone number	Consultation hours
Dr FK Siebrits	Schumann 509A	krigesiebrits@sun.ac.za	021 808 2234	By appointment

3. OBJECTIVE AND OUTCOMES

The main objective of this part of the module is to familiarise you with the sustainability, stabilisation and certain institutional aspects of fiscal policy in South Africa. It focuses on historical events and 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 sub-module would 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
- Discuss 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
- Summarise key features of the 2022/2023 Budget
- Discuss the fiscal consolidation challenge in South Africa.

4. LECTURES

I would like to encourage you to attend the lectures in Room 1011 in the Van der Sterr Building. We will cover a lot of work in the twelve sessions and your grasp of the contents of the sub-module will benefit significantly from regular engagement with the work. Moreover, the lectures will be the primary channel for discussions that in previous years were useful and interesting.

5. ASSESSMENT

Please consult the overarching 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 (note, however, 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 present day.
- "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 fiscal authorities' successes and failures in this period.
- Explain why appropriate fiscal policymaking frameworks are important for achieving good fiscal outcomes.
- "The adoption of numerical fiscal rules would definitely 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 options for improving South Africa's fiscal policymaking framework.

6. TOPICS, LEARNING OBJECTIVES AND PRESCRIBED READINGS

The table overleaf contains the topics of, learning objectives and prescribed readings for the lecture sessions. The prescribed readings consist of academic articles, chapters from the 2022 Budget Review, and chapters of a "textbook" I am writing for this sub-module. I will create links to all the prescribed readings on SUNLearn.

Session 1 (12 September 2022)	
Introduction	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • 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".
Prescribed	<ul style="list-style-type: none"> • Siebrits, F.K. 2022. <i>Fiscal Policy in South Africa</i>. Chapter 1.
Session 2 (13 September 2022)	
The Financing of Budget Deficits	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • 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.
Prescribed	<ul style="list-style-type: none"> • Siebrits, F.K. 2022. <i>Fiscal Policy in South Africa</i>. Chapter 2.

Session 3 (14 September 2022)	
When is Fiscal Policy Sustainable?	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • 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 nature, role and limitations of sovereign credit ratings. • Discuss empirical research into the relationship between public debt burdens and economic growth.
Prescribed	<ul style="list-style-type: none"> • Siebrits, F.K. 2022. <i>Fiscal Policy in South Africa</i>. Chapter 3.
Session 4 (16 September 2022)	
The Sustainability of Fiscal Policy in South Africa	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • 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 important sustainability-related developments in fiscal policy in South Africa since 2009.
Prescribed	<ul style="list-style-type: none"> • Siebrits, F.K. 2022. <i>Fiscal Policy in South Africa</i>. Chapter 4.

Session 5 (16 September 2022)	
Views on Fiscal Stabilisation Policy	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • Explain what fiscal stabilisation policy is. • Explain the link between fiscal sustainability and fiscal stabilisation policy. • Explain the fiscal norm of balanced budgets. • Outline the Keynesian approach to fiscal policy. • Explain the term "fiscal multiplier". • Distinguish between active and passive fiscal policy. • Explain why the Keynesian approach to fiscal policymaking lost support in the 1970s. • Outline the structural approach to fiscal policy. • Explain the usefulness of the structural budget balance. • Discuss the effects on fiscal stabilisation policy of the International Financial Crisis and the Covid-19 pandemic.
Prescribed	<ul style="list-style-type: none"> • Siebrits, F.K. 2022. <i>Fiscal Policy in South Africa</i>. Chapter 5.
Session 6 (19 September 2022)	
Pre-1994 Fiscal Stabilisation Policy in South Africa	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • Summarise 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 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 fiscal stabilisation policy in South Africa from 1960 to 1994. • Compare South Africa's experience with Keynesian fiscal policy to those of other countries.
Prescribed	<ul style="list-style-type: none"> • Siebrits, F.K. 2022 <i>Fiscal Policy in South Africa</i>. Chapter 6.

Session 7 (20 September 2022)	
Post-1994 Fiscal Stabilisation Policy in South Africa	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • 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. • Summarise research about fiscal multipliers in South Africa since 1994. • Explain the influence of the sustainability imperative on the scope for and the effectiveness of fiscal stabilisation policy in South Africa since 1994. • Outline factors that have undermined the effectiveness of fiscal stabilisation policy in South Africa since 1994.
Prescribed	<ul style="list-style-type: none"> • Siebrits, F.K. 2022. <i>Fiscal Policy in South Africa</i>. Chapter 7.
Session 8 (21 September 2022)	
General Perspectives on Fiscal Institutions	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • Discuss the causes and possible effects of incentive problems in fiscal policymaking in democracies. • Explain what "common-pool problems" in the public finances are. • Distinguish between numerical and procedural fiscal rules. • Discuss the nature, roles and effectiveness of the main elements of fiscal policymaking frameworks. • Briefly explain the nature and limits of market discipline on fiscal policymakers. • Briefly discuss the pros and cons of discretion in fiscal policymaking. • Use ideas from New Institutional Economics to comment on the potential and limitations of fiscal policymaking institutions.
Prescribed	<ul style="list-style-type: none"> • Siebrits, F.K. 2022. <i>Fiscal Policy in South Africa</i>. Chapter 8.

Session 9 (23 September 2022)	
The Evolution of Fiscal Institutions in South Africa	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • 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 policy-making framework. • Explain the role of informal institutions in South Africa's fiscal policymaking framework. • Provide an overall assessment of South Africa's fiscal policy-making framework.
Prescribed	<ul style="list-style-type: none"> • Siebrits, F.K. 2017. <i>Policymaking institutions to restrain Leviathan</i>. Unpublished document. Stellenbosch: Stellenbosch University (Department of Economics): 12-18.
Session 10 (23 September 2022)	
The 2022/2023 Budget	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • Put the 2022/2023 Budget in context. • Outline the main objectives of the 2022/2023 Budget. • Outline the most important elements of the 2022/2023 Budget. • Comment on the realism of the 2022/2023 Budget.
Prescribed	<ul style="list-style-type: none"> • National Treasury. 2022. Supporting the recovery and building for the future. In <i>Budget Review 2022</i>. Pretoria: National Treasury: 1-8. • National Treasury. 2022. Fiscal policy. In <i>Budget Review 2022</i>. Pretoria: National Treasury: 23-35.

Session 11 (26 September 2022) The Fiscal Consolidation Challenge	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • 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.
Prescribed	<ul style="list-style-type: none"> • Alesina, A. 2012. Fiscal policy after the Great Recession. <i>Atlantic Economic Journal</i>, 40: 429-435. • National Treasury. 2022. Fiscal policy. In Budget Review 2022. Pretoria: National Treasury: 23-35.
Session 12 (27 September 2022) Can Institutional Reforms Improve Fiscal Outcomes in South Africa?	
Learning objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • 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.
Prescribed	<ul style="list-style-type: none"> • Calitz, E., F.K. Siebrits and I. Stuart. 2016. Enhancing the accuracy of fiscal projections in South Africa. <i>South African Journal for Economic and Management Sciences</i>, 19(3): 1-13. • Siebrits, F.K. 2017. <i>Policymaking institutions to restrain Leviathan</i>. Unpublished document. Stellenbosch: Stellenbosch University (Department of Economics): 12-18.