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DEPARTMENT OF ECONOMICS

ECONOMICS 348

FISCAL POLICY

(2018)

LECTURER:

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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. Historical trends as well as current policy challenges will be discussed. The discussion of these issues will take place 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.

ASSESSMENT

Please consult the Economics 348 information brochure 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 achievements 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.

PRESCRIBED MATERIAL

- Blanchard, O. & D. Johnson. 2014. *Macroeconomics: Global and South African Perspectives*. Cape Town: Pearson: 591-613.
- Calitz, E. & F.K. Siebrits. 2015. Fiscal policy. In *Public Economics* (edited by P.A. Black, E. Calitz & T.J. Steenekamp). 6th edition. Cape Town: Oxford University Press: 343-388.
- Calitz, E., S.A. du Plessis & F.K. Siebrits. 2014. Fiscal sustainability in South Africa: Can history repeat itself? *Journal for Studies in Economics and Econometrics*, 38(3): 55-78.
- Calitz, E., F.K. Siebrits & I. Stuart. 2016. Enhancing the accuracy of fiscal projections in South Africa. *South African Journal for Economics and Management Sciences*, 19(3): 1-13.

- Debrun, X., D. Hauner & M.S. Kumar. 2007. Discretion, institutions, and fiscal discipline. In *Promoting Fiscal Discipline* (edited by M.S. Kumar & T. Ter-Minassian). Washington, D.C.: The International Monetary Fund: 9-18.
- Fischer, S. & W. Easterly. 1990. The economics of the government budget constraint. *World Bank Research Observer*, 5(2): 127-142.
- National Treasury. 2017. Fiscal policy. In *Medium-Term Budget Policy Statement 2017*. Pretoria: National Treasury: 19-30.
- National Treasury. 2018. Fiscal policy. In *Budget Review 2018*. Pretoria: National Treasury: 27-36.
- Saxegaard, M. & J. Torres. 2014. A discussion of fiscal consolidation options in South Africa. In *South Africa – Selected Issues Paper* (IMF Country Report No. 14/339). Washington, D.C.: The International Monetary Fund: 34-44.
- Siebrits, F.K. 2017. *Policymaking institutions to restrain Leviathan*. Unpublished paper. Stellenbosch: Stellenbosch University (Department of Economics).

Besides partial summaries of the prescribed readings, the class presentations contain examples and important background and supplementary material. Please study the presentations with the prescribed readings.

LECTURES

The Economics 348 information brochure contains the lecture times and venues. The topics and prescribed material are listed below.

Session 1 (25 September) **Introduction**

- Calitz, E. & F.K. Siebrits. 2015. Fiscal policy. In *Public Economics* (edited by P.A. Black, E. Calitz & T.J. Steenekamp). 6th edition. Cape Town: Oxford University Press: 343-348; 371-373.

Session 2 (25 September) **The Financing of Budget Deficits**

- Blanchard, O. & D. Johnson. 2014. *Macroeconomics: Global and South African Perspectives*. Cape Town: Pearson: 604-612.
- Fischer, S. & W. Easterly. 1990. The economics of the government budget constraint. *World Bank Research Observer*, 5(2): 127-135.

Session 3 (26 September)
Fiscal Sustainability

- Blanchard, O. & D. Johnson. 2014. *Macroeconomics: Global and South African Perspectives*. Cape Town: Pearson: 591-599.
- Calitz, E. & F.K. Siebrits. 2015. Fiscal policy. In *Public Economics* (edited by P.A. Black, E. Calitz & T.J. Steenekamp). 6th edition. Cape Town: Oxford University Press: 363-364.
- Calitz, E., S.A. du Plessis & F.K. Siebrits. 2014. Fiscal sustainability in South Africa: Can history repeat itself? *Journal for Studies in Economics and Econometrics*, 38(3): 57-60.
- Fischer, S. & W. Easterly. 1990. The economics of the government budget constraint. *World Bank Research Observer*, 5(2): 135-139.

Session 4 (28 September)
The Sustainability of Fiscal Policy in South Africa

- Calitz, E., S.A. du Plessis & F.K. Siebrits. 2014. Fiscal sustainability in South Africa: Can history repeat itself? *Journal for Studies in Economics and Econometrics*, 38(3): 58-67.

Session 5 (28 September)
Views about Fiscal Stabilisation Policy

- Calitz, E. & F.K. Siebrits. 2015. Fiscal policy. In *Public Economics* (edited by P.A. Black, E. Calitz & T.J. Steenekamp). 6th edition. Cape Town: Oxford University Press: 348-367.

Session 6 (1 October)
Fiscal Stabilisation Policy in South Africa (1)

- Calitz, E. & F.K. Siebrits. 2015. Fiscal policy. In *Public Economics* (edited by P.A. Black, E. Calitz & T.J. Steenekamp). 6th edition. Cape Town: Oxford University Press: 375-379.

Session 7 (2 October)
Fiscal Stabilisation Policy in South Africa (2)

- Calitz, E. & F.K. Siebrits. 2015. Fiscal policy. In *Public Economics* (edited by P.A. Black, E. Calitz & T.J. Steenekamp). 6th edition. Cape Town: Oxford University Press: 375-379.

Session 8 (2 October)
Fiscal Institutions and Fiscal Discipline

- Debrun, X., D. Hauner & M.S. Kumar. 2007. Discretion, institutions, and fiscal discipline. In *Promoting Fiscal Discipline* (edited by M.S. Kumar & T. Ter-Minassian). Washington, D.C.: The International Monetary Fund: 9-18.

- Siebrits, F.K. 2017. Policymaking institutions to restrain Leviathan. Draft paper. Stellenbosch: Stellenbosch University (Department of Economics): 1-12, 18-23.

Session 9 (3 October)

Options for Improving the Fiscal Policymaking Framework in South Africa (1)

- Calitz, E. & F.K. Siebrits. 2015. Fiscal policy. In *Public Economics* (edited by P.A. Black, E. Calitz & T.J. Steenekamp). 6th edition. Cape Town: Oxford University Press: 367-371; 373-375; 379-381.
- Calitz, E., F.K. Siebrits & I. Stuart. 2016. Enhancing the accuracy of fiscal projections in South Africa. *South African Journal for Economics and Management Sciences*, NS 19(3): 1-13.
- Siebrits, F.K. 2017. Policymaking institutions to restrain Leviathan. Draft paper. Stellenbosch: Stellenbosch University (Department of Economics): 12-18.

Session 10 (5 October)

Options for Improving the Fiscal Policymaking Framework in South Africa (2)

- Calitz, E. & F.K. Siebrits. 2015. Fiscal policy. In *Public Economics* (edited by P.A. Black, E. Calitz & T.J. Steenekamp). 6th edition. Cape Town: Oxford University Press: 367-371; 373-375; 379-381.
- Calitz, E., F.K. Siebrits & I. Stuart. 2016. Enhancing the accuracy of fiscal projections in South Africa. *South African Journal for Economics and Management Sciences*, NS 19(3): 1-13.
- Siebrits, F.K. 2017. Policymaking institutions to restrain Leviathan. Draft paper. Stellenbosch: Stellenbosch University (Department of Economics): 23-24.

Session 11 (5 October)

The 2016 Budget and Beyond: Fiscal Policy in the Medium Term (1)

- Calitz, E., S.A. du Plessis & F.K. Siebrits. 2014. Fiscal sustainability in South Africa: Can history repeat itself? *Journal for Studies in Economics and Econometrics*, 38(3): 67-72.
- National Treasury. 2017. Fiscal policy. In *Medium-Term Budget Policy Statement 2016*. Pretoria: National Treasury: 19-30.
- National Treasury. 2018. Fiscal policy. In *Budget Review 2017*. Pretoria: National Treasury: 27-36.
- Saxegaard, M. & J. Torres (2014): A discussion of fiscal consolidation options in South Africa. In *South Africa - Selected Issues Paper* (IMF Country Report No. 14/339). Washington, D.C.: The International Monetary Fund: 34-44.

Session 12 (8 October)
The 2016 Budget and Beyond: Fiscal Policy in the Medium Term (2)

- National Treasury. 2017. Fiscal policy. In *Medium-Term Budget Policy Statement 2016*. Pretoria: National Treasury: 19-30.
- National Treasury. 2018. Fiscal policy. In *Budget Review 2017*. Pretoria: National Treasury: 27-36.
- Saxegaard, M. & J. Torres (2014): A discussion of fiscal consolidation options in South Africa. In *South Africa - Selected Issues Paper* (IMF Country Report No. 14/339). Washington, D.C.: The International Monetary Fund: 34-44.