POLICY BRIEF

Covid-19 Fiscal Policies Around the World

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MARCH 2022

Executive Summary

Over the past two years, many countries around the world have spent unprecedented sums fighting Covid-19. Some other countries have spent very little. This wide diversity in the size of fiscal policies offers the opportunity to compare government spending patterns during the pandemic and to consider the effectiveness of those expenditures. Using a variety of data sets for developed countries in the OECD and G-20, this policy brief makes the following observations:

The biggest-spending countries are predominately wealthy, English-speaking countries. This holds for both the early response to the pandemic and the latest available data from the IMF and OECD. Canada consistently ranks in the top five biggest spenders.

According to economist Christina Romer's research on Covid-19 spending up to July 2020, there is no clear relationship between national mortality rates and the size of a country's pandemic-related fiscal policies.

The only significant factor in explaining early Covid-19 fiscal policies, according to Romer, is the credit-worthiness of each country. In other words, *most countries spent as much as they could.*

More recent data further suggests no link between government spending and improvements in Covid-19 outcomes. The United States has outspent all other countries as a percentage of GDP, but has recorded one of the highest rates of Covid-19 mortality. Mexico spent very little but has a fatality rate slightly lower than in the U.S.

There is also no apparent link between the size of Covid-19 fiscal policies and economic recovery. Among above-average-spending countries, only Australia recorded above-average GDP growth in 2020. Within this group in 2021, only the United Kingdom and Italy are expected to post above-average GDP growth.

Among democratic G-20 countries, South Korea stands out for its below-average Covid-19 spending while maintaining low Covid-19 mortality rates and a high GDP growth rate.

Many Covid-19 fiscal policies enacted in Canada and the U.S. appear to have been inefficient and ineffective. In particular, the Paycheck Protection Program (PPP) job subsidy in the U.S. and the Canada Employment Wage Subsidy (CEWS) both had an extremely high cost per job saved.

The enormous size of Covid-19 fiscal policies in many wealthy countries has significantly increased the size of the public debt. The need to pay back all this new debt will severely burden taxpayers and impede the ability of future generations to respond to future crises.

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Introduction

Covid-19 has had a dramatic impact on every country in the world, even those that haven't experienced the disease. As of the end of 2021, the tiny Pacific nation of Nauru remained one of the few places with zero reported cases of the coronavirus. Yet according to the International Monetary Fund (IMF), it has spent a surprising eight percent of its GDP on Covid-19 support programs meant to keep its island economy afloat.[1 2]

While many other countries have suffered greatly from the health effects of the coronavirus, Nauru's response to Covid-19 is actually bigger than most. As a percentage of GDP, this island with a population of less than 11,000 spent nearly as much as major nations such as Spain, France and Brazil.

The case of big-spending, Covid-19-free Nauru points to the huge variations in pandemic spending around the globe. Some countries have pushed their budgets to historic highs and taken on massive amounts of new debt while others have adopted a far more restrained approach. With ample data now available on how these different approaches have played out, it's worth taking a closer look at what lessons can be learned from the international fiscal response to this global health crisis.

Assessing the fiscal cost of Covid-19

In addition to the devastating toll in human lives lost and disrupted, the financial cost of Covid-19 has similarly been enormous and unprecedented. Many countries around the world have spent huge amounts of taxpayer money on a wide variety of programs and schemes meant to tackle Covid-19 and the problems unleashed by their reactions to it. According to consulting firm McKinsey & Co., total government stimulus delivered during just the first few months of the Covid-19 crisis totaled $10 trillion (US), or three times what was spent during the entire financial meltdown of 2009.[3] Other estimates put the global fiscal response to Covid-19 at six times larger than during the Great Recession.[4] The Institute of International Finance calculates that the world added $24 trillion (US) in debt during the first full year of the pandemic.[5]

A 2021 World Bank survey identified 47 different types of fiscal measures adopted by various countries in response to Covid-19.[6] This includes public health efforts meant to protect the sick and vulnerable, as well as support programs for workers and businesses devastated by government-imposed lockdowns, trade blockages and the overall collapse in economic activity around the world. These programs were implemented and paid for through a variety of methods, including tax deferrals and exemptions, cash transfers and direct government spending.

In Canada, Covid-19 policies caused the federal government to add $327 billion to its debt in 2020/21, with another $144 billion expected during the current budget year.[7] The bulk of this extra spending went to workers and businesses through programs including the Canada Economic Recovery Benefit (CERB), that handed out $74 billion to unemployed workers, the Canada Employment Wage Subsidy (CEWS), that covered up to 75 percent of

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1. World Health Organization, "Nauru, Western Pacific Region Covid-19 Dashboard". 2021.
2. International Monetary Fund, "Nauru, Policy Responses to Covid-19". 2021.
3. Zayid Cassim et al, "The $10 Trillion Rescue: How governments can deliver impact". McKinsey & Company, 2021
4. Neil Shearing, "Fiscal policy and the post Covid-19 recovery". Chatham House, 2021
5. Marc Jones, "COVID response drives $24 trillion surge in global debt: IIF" Reuters, February 17, 2021.
6. Eric Lacey et al, "A Review of Fiscal Policy Responses to Covid-19". World Bank, 2021

workers' salaries and disbursed $94 billion to businesses – many of them entirely healthy – and a wide variety of successor and supplementary programs including the Canada Recovery Benefit, Canada Recovery Hiring Program, Canada Recovery Sickness Benefit, Tourism and Hospitality Recovery Program, Hardest-Hit Business Recovery Program and on and on.[8]

Given all this spending, it is worth looking at where Canada stands amongst its international peers. Are Canadian taxpayers getting good value for the money spent by their governments?

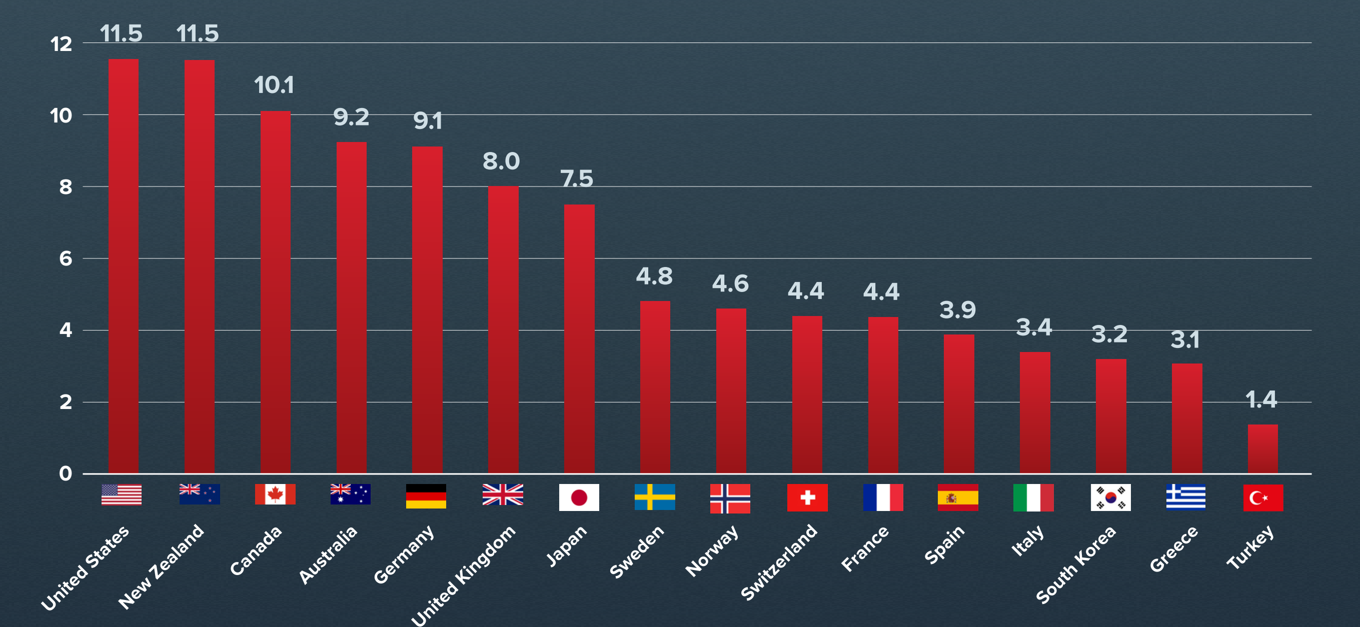
Creating an international ranking system

Like all global comparisons, ranking Covid-19 fiscal policies across countries requires making decisions about what countries and metrics to include. To ensure we are comparing like with like, we will limit our study to large, significant economies that are members of either the G-20 or the Organisation for Economic Co-operation and Development (OECD). As to the question of what types of fiscal policies should be included, the widely-used IMF database on Covid-19 spending distinguishes between "on-budget spending" which refers to direct spending on people, organizations and businesses, and "off-budget spending", which refers to financial arrangements such as loan guarantees, equity injections and other indirect forms of assistance. This is an important distinction to make.

FIGURE 1

Covid-19 fiscal policies in select OECD countries

Budgeted spending, as percentage of GDP, announced as of July 2020



Source: Romer, Christina D. "The Fiscal Policy Response to the Pandemic" Brookings Papers on Economic Activity, March 25, 2021.
Available at https://www.brookings.edu/bpea-articles/the-fiscal-policy-response-to-the-pandemic/
Online appendix available at https://eml.berkeley.edu/~cromer/Reprints/Pandemic%20Fiscal%20Policy/Romer%20and%20Romer%20Data%20Appendix.pdf

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7. Department of Finance, "Economic and Fiscal Update 2021". Government of Canada, 2021

8. Office of the Parliamentary Budget Officer, "Pre-Budget Outlook". March 31, 2021.

Some international rankings claim Japan's Covid-19 spending amounts to nearly 50 percent of its GDP, making it the biggest pandemic spender in the world.[9] Yet the bulk of this sum involves loans and backstops offered to businesses that may not be fully used, or are eventually paid back in full. Similarly, much of Italy's initial coronavirus response involves liquidity support and equity investments, including for the state airline.[10] As Neil Shearing, chief economist with Capital Economics, wrote in a recent report for the British think tank Chatham House, "The nature of government-backed loans means that it is impossible to say at the time of their disbursement how much they will ultimately cost… If the loans are repaid in full, then the ultimate fiscal cost will be negligible."[11]

In ranking Covid-19 fiscal policies, we will restrict ourselves to "on-budget" items, as defined by the IMF. This isn't to say that government loan guarantees or equity investments are costless or should be ignored – they can often be disastrous for taxpayers – but given the uncertainty and time lags involved, it makes the most sense to focus on direct government support to individuals and businesses. According to the World Bank, "on-budget spending" across high-income, advanced economies averaged 9 percent of GDP, while loans, guarantees and other "off-budget" items totaled 11 percent of GDP.[12]

The early evidence

In a very useful 2021 paper for the Brookings Institution, University of California at Berkeley economist Christina Romer compares the Covid-19 fiscal policies of 30 OECD countries during the early phase of the pandemic. Romer focuses on "conventional fiscal stimulus", or what the IMF calls "on-budget spending." Her data set covers fiscal policies announced or enacted as of July 2020, which covers the bulk of the first year's response to the pandemic.[13]

Using Romer's approach, a clearer picture emerges of who spent what around the world, and why. As shown in Figure 1, the early leaders in Covid-19 spending were the United States and New Zealand, each at 11.5 percent of GDP, followed closely by Canada at 10.1 percent. Intriguingly, four of the top five spots are occupied by wealthy, English-speaking countries. These big Covid-19 spenders are all substantially above the OECD average of 5.2 percent of GDP. The U.S. and New Zealand spent nearly three times that of other developed countries, such as France, Spain and Italy. Canada's outlay was more than double these countries. What explains the large differences between these similarly-situated countries?

In search of an answer, Romer performed several econometric tests on her data. Surprisingly, she found it wasn't the size of the national crisis that determined the size of the response. There was no evidence that countries with high rates of Covid-19 mortality spent more on the pandemic than countries with lower rates of mortality, or vice versa. Neither was there any link with pre-existing government debt levels. From her report:

> "There is no clear relationship between the Covid relief packages and the prior debt-to-GDP ratio. Some countries with low debt, like New Zealand and Australia, took very aggressive action, but other low-debt countries, like Luxembourg and Korea, did relatively little. At the other end of the spectrum, some high-debt countries, like Japan and the United States, did a great deal of fiscal expansion, while other high-debt countries, like Greece and Italy, did relatively little."

9. Magdelena Szmeigiera "Value of Covid-19 fiscal stimulus packages in G20 countries as of May 2021, as share of GDP". Statista Global, 2021

10. IMF, 2021

11. Shearing, 2021

12. Lacey, 2021

13. Christine Romer, "The Fiscal Policy Response to the Pandemic". Brookings Papers on Economic Activity. March 25, 2021.

The fact tiny New Zealand spent as much as the U.S., on a percentage basis, further suggests the total amount spent had nothing to do with some large countries shouldering a greater burden of fighting the disease through vaccine development or other scientific endeavours.

The only factor found to be significant in Romer's study was the credit worthiness of each country. "Countries in 2020 appear to have been constrained in their fiscal choices not by ideas related to debt and deficits, but by their *ability to borrow*," she observes. [Emphasis added.] OECD countries with poor bond-rating scores, such as Mexico, Italy and Greece, spent substantially less than countries with higher credit ratings. In other words, countries with good bond-rating scores could borrow a lot, and so they did. Countries with poorer credit scores, couldn't – and as a result, spent less. Canada, which began the pandemic with a top-ranked AAA credit rating, was one of those countries that could and did borrow vast amounts. (Canada's credit rating eventually dropped as the spending spree grew.) As for why this might be the case, Romer suggests it may be the result of "the unique terror engendered by the pandemic."

But if terror-stricken countries simply borrowed and spent as much as they could once Covid-19 appeared, does this mean more spending was the best possible strategy? Recent statistics suggest not.

FIGURE 2

Covid-19 spending, health outcomes and economic growth for G-20 countries

Country	Budgeted Covid-19 spending as percentage of GDP, as of October 2021[1]	Covid-19 deaths per 100,000 population[2]	Real GDP growth rate for 2020[3]	Projected real GDP growth rate for 2021[4]
G-20 average	*9.8*	*135*	*-3.1*	*5.9*
United States	25.5	251	-3.4	5.6
United Kingdom	19.3	223	-9.8	6.9
Australia	18.4	9	-2.5	3.8
Japan	16.7	15	-4.6	1.8
Canada	15.9	81	-5.3	4.8
Germany	15.3	135	-4.9	2.9
Italy	10.9	228	-8.9	6.3
France	9.6	186	-8.0	6.8
Indonesia	9.3	53	-2.1	3.3
Brazil	9.2	293	-4.4	5.0
Spain	8.4	190	-10.8	4.5
South Korea	6.4	11	-0.9	4.0
Argentina	5.3	260	-9.9	8.0
South Africa	5.3	155	-7.0	5.2
Russia	5.0	210	-2.5	4.3
China	4.8	0.4	2.3	8.1
India	4.1	35	-7.3	9.4
Turkey	3.5	99	1.8	9.0
Saudi Arabia	2.6	26	-4.1	2.9
Mexico	0.7	234	-8.3	5.9

Better than average performance **Worse than average performance**

1. International Monetary Fund. "Fiscal Monitor: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, 2021" Available at: https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19 Accessed January 3, 2022.

2. Johns Hopkins Coronavirus Resources Center. "Mortality Analyses", 2021. Available at: https://coronavirus.jhu.edu/data/mortality Accessed January 3, 2022.

3. Organisation for Economic Co-operation and Development. "OECD Economic Outlook, December 2021." Available at: https://www.oecd.org/newsroom/oecd-economic-outlook-sees-recovery-continuing-but-warns-of-growing-imbalances-and-risks.htm Accessed January 3, 2022.

4. OECD, 2021.

The bigger picture

Figure 2 assembles data for all G-20 countries, ranking them according to the IMF's "on-budget spending" for Covid-19 as of October 2021. A few differences from Romer's data on early spending patterns are evident. In particular, Canada, falls to fifth place in overall spending, with a cumulative 15.9 percent of GDP allocated to coronavirus policies. The leader once more is the U.S. at a stunning 25.4 percent. Second place now goes to the United Kingdom. New Zealand is not a member of the G-20, but its Pacific Ocean neighbour Australia ranks third at 18.4 percent. As a result, four of the top five spots are again occupied by wealthy English-speaking countries. At the bottom is Mexico, with a paltry 0.7 percent of GDP spent on Covid-19 programs.

Based on these results, there does not seem to be any reliable relationship between spending historically large amounts of borrowed money and better economic or health performance during the pandemic. Judging by its high Covid-19 mortality rate, for example, the U.S. appears to have gotten a very poor return on all that spending. Its death toll of 251 per 100,000 population compares unfavourably with that of Mexico (234 per 100,000), a country that spent almost nothing on Covid-19 policies. Canada's 81 Covid-19 deaths per 100,000 is slightly better than average, but with spending that is also very high. Setting aside China, the apparent leader among democratic nations is South Korea. It has a death rate of just 11 per 100,000 – a fraction of what Canada experienced – but spent a mere 6.4 percent of its GDP on coronavirus policies.

This disconnect between spending and Covid-19 mortality is echoed in a recent study in the *Journal of Comparative Policy Analysis* that found "no significant differences in fiscal policy responses between countries with high and low levels of Covid-19 death rates."[14]

Some caution is obviously necessary in attempting to link government spending with Covid-19 deaths. Public health policies, culture and geography are also major determinants of mortality. It is no coincidence that island nations such as Australia and Japan performed much better than Italy or Brazil, in terms of mortality rates. Still, increased spending does not appear to guarantee better outcomes.

Beyond health concerns, protecting the economy was another common reason given by governments for their historically large expenditures. So, did bigger-spending countries insulate their economies from collapse? Again, the evidence is not convincing, as the third and fourth columns of Figure 2 reveal. Among the above-average spenders, only Australia exhibited above-average (if negative) GDP growth in 2020, and only the United Kingdom and Italy are expected to outperform the average in 2021. By and large, the best economic performances are in countries that spent less than average on Covid-19 policies. South Korea once more stands out for its combination of below-average spending and above-average economic results. Romer also made note of South Korea's favourable position in her study. China and Turkey are the only countries to post positive growth rates in 2020. And Mexico is expected to see above-average growth in 2021 despite its extremely modest Covid-19 budget.

14. Can Chen et al, "A Cross-Country Comparison of Fiscal Policy Responses to the Covid-19 Global Pandemic". Journal of Comparative Policy Analysis, Vol. 23, Issue 2, 2021

Dire implications for the future

Part of the reason for these murky economic results is that much of what the biggest-spending countries spent their money on made little or no sense. Romer, who served as chair of the Council of Economic Advisors during the Obama administration, provides ample evidence of this for the U.S. "Overall, the fiscal response to the pandemic in the United States runs the gamut from highly useful and appropriate to largely ineffective and wasteful," she observes. Romer is particularly critical of direct cash subsidies lacking any criteria or sound rationale. Throughout the pandemic, for example, nearly every American adult received a cumulative $3,200 (US) in stimulus payments, with additional amounts paid to children. "Most of the money went to people who had not been economically harmed by the pandemic," she notes.

The Paycheck Protection Program (PPP), which offered job subsidies to businesses was similarly suspect, at an estimated cost of between $225,000 (US) to $350,000 (US) per job saved. Romer further notes that only a small portion of the massive $5.2 trillion (US) American Rescue Plan Act, introduced in early 2021, was actually allocated to protecting legitimately unemployed workers or improving public health.

Meanwhile, she notes, the U.S. federal debt is on track to grow from 79 percent of GDP in 2019 to 110 percent in 2023, a situation that will inevitably constrain future governments and burden future taxpayers. As a result of "the enormous size and significant flaws" of the U.S. government's Covid-19 response, says Romer, the country may have lost its ability "to deal with other pressing needs."

The situation is similar in Canada. As another big spender, Canada is also guilty of haphazard extravagance, albeit swiftly delivered. While CERB was loosely tied to unemployment status, it was also open to widespread abuse and overpayments. CEWS, Canada's version of the U.S.'s PPP, suffered from nearly identical problems. Despite being this country's most-expensive Covid-19 fiscal policy, it was also hugely inefficient, with a cost per job saved estimated at $25,000 per month, or $300,000 per year.[15] And, as previously mentioned, a large share of what it paid out appears to have gone to healthy businesses largely unaffected by the pandemic.[16] As for the growth in public debt as a result of this spending, according to RBC Economics, the federal debt-to-GDP ratio is predicted to grow from 31.2 percent at the end of the pre-pandemic era to 51.2 percent by the end of the current fiscal year – an increase of nearly two-thirds.[17]

Concern that Covid-19 spending in the U.S. and Canada has lacked appropriate oversight and rigour is also backed by a World Bank survey of fiscal policies across 189 countries.[18] While Canada is ranked highly for the speed with which it rolled out its Covid-19 programs, as well as its overall health measures, it does poorly in other categories, including Abuse Resistance (ranking: 102nd), Predictability and Cost Control (167th) and Cost Recoverability (134th).

15. Michael Smart, "Boos for CEWS" Finances of the Nation, 2021.

16. Jonathan Montpetit et al, "Why millions of dollars in pandemic aid is going to corporations making healthy profits". CBC News, December 10, 2020.

17. RBC Economics, "Canadian Federal and Provincial Fiscal Tables". November 16, 2021.

18. Lacey, 2021.

Money For Nothing

One of the most popular early responses to the pandemic was to give away free money.[19] In Spring 2020, every U.S. adult was given a $1,200 (US) stimulus cheque, no questions asked. This was followed by payments of $600 (US) and $1,400 (US) — all without restrictions. Other countries did likewise. Hong Kong offered the equivalent of $1,300 (US) to all seven million of its permanent residents over 18 years old. Singapore gave all adult residents a cash transfer worth $450 (US). Japan chose not to limit its handout to adults, and offered a "special cash payment" to all residents, from newborn to senior, at a total cost of $112 billion (US).

In Canada, the federal government did not provide a universal cash transfer, but programs such as CERB were sufficiently generous that most Canadians were left financially better off by the pandemic. According to the Bank of Canada, in 2020 the average adult suffered a $1,600 reduction in working income, but enjoyed $3,400 in additional government transfers, leading to an overall net gain of $1,800. The result was an observed $150 billion increase in the savings of Canadians.[20]

Conclusions

The Covid-19 pandemic has proven to be the most consequential global event in recent memory. Despite the world-wide spread of the disease, however, the fiscal response across countries as been neither uniform nor universal. Some countries have spent unprecedented sums fighting the disease and the economic effects arising from government lockdowns and related measures. Others have spent relatively little. Yet analysis of policies enacted early in the pandemic, as well as over the longer term, show no clear link between spending and outcomes.

According to Romer's early returns, the amount spent by a country fighting Covid-19 was not tied to the severity of the outbreak, debt levels or any other conventional government-spending mechanism. Rather most countries simply spent as much as they could, possibly as a result of policies arising from abject "terror". This led to the creation of many policies that simply had as their goal the distribution of as much money as possible as quickly as possible without regard for effectiveness or efficiency. Using more recent data does not appear to change Romer's conclusions in any substantial way.

According to 2021 figures, "on-budget spending" in connection to Covid-19 across all G-20 countries ranged from a low of 0.7 percent in Mexico to a stunning 25.4 percent in the U.S. Yet there is no obvious correlation between higher spending and better outcomes; Mexico and the U.S. experienced remarkably similar death rates due to the pandemic. Further, higher-spending countries do not appear to have guaranteed themselves a more robust economic recovery from the Covid-19 recession, as compared to lower-spending countries. The only certainty is that all this new spending will inevitably lead to higher debt loads in the coming years.

For Canadian taxpayers, this means the impact of the fiscal response to the pandemic is likely to last even longer than the disease itself.

19. Organisation for Economic Co-operation and Development, "Supporting livelihoods during the Covid-10 crisis: closing the gaps in safety nets". 2020

20. Lawrence Schembri, "Covid-19, Savings and Household Spending". Bank of Canada, 2021