

The Impact of Fiscal Policy on Households' Expectation: Evidence from China's Total Retail Sales of Consumer Goods

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Abstract. This study is based on the growing economic pressure to the downside that China experienced since COVID-19. This epidemic has weakened the country's financial capacity and lowered households' consumption expectations. The paper explores the health spending, general government spending, VAT revenue, and total retail sales of consumer products. The core task of this study is to examine how fiscal policy affects consumption. The National Bureau of Statistics and the Ministry of Finance's data for the years 2020 to 2023 are chosen using the quantitative study methodology. According to the research results, it is concluded that increasing some special types of fiscal expenditure will play an important role in encouraging people to consume during the pandemic. Based on the aforementioned findings, it is helpful to suggest the following solutions and countermeasures. Governments should increase social security spending to ensure the basic needs of low-income groups are met, while also increasing medical spending to improve people's health and increase their willingness to consume.

Keywords: Fiscal policy, households' expectation, economic recovery.

1. Introduction

China has faced numerous economic pressures in recent years, both at home and abroad. On a worldwide scale, the international trade environment is getting worse as the volatility in the world financial market keeps rising. The domestic economy is under more pressure to contract, and the epidemic's spread has slowed down both output and consumption, significantly lowering the rate of economic expansion.

Generally, health expenditure, national general public budget expenditure, and value added tax (VAT) revenue are most closely related to total retail sales of consumer goods. To investigate the connection between fiscal policy and consumer expectations for consumption, the paper will mainly analyze from these above three aspects. This study's goal is to examine the connection between fiscal policy and consumption through the examination of a few economic indicators and economic data in order to make sound recommendations to the appropriate departments to aid in economic recovery and growth. Studying how fiscal policy affects people's consumption and the direction of future fiscal spending policy execution is crucial for boosting people's total consumption, enhancing their standard of living, and accelerating the domestic business cycle.

2. Literature Review

As a vital pillar of national governance, fiscal policy is related to the country's stability and development. According to Wang et al.'s research, they used time-varying parameter model to prove the evident continuity between expenditure-based and revenue-based fiscal policies [1]. The negative impact of the epidemic on consumption can be effectively alleviated by single fiscal policy, but there are certain short-term crowding-out effects on consumption and investment [2]. In short term, the

fiscal policy paying more attention to the capital income tax, consumption fiscal expenditure and productive fiscal expenditure have better effect [3].

Moreover, a number of related literature and China's fiscal experiences unveil that positive effect can be made by fiscal policy [4]. Montes and Natalia's research showed that inflation risk premium can be increased when discretionary fiscal policies are adopted [5]. According to Bischi et al.'s research, positive fiscal policy had a stabilising effect on both real interest rates and debt ratios [6].

Fiscal policy has a more effective impact on boosting private consumption when the economy is in recessions than in expansions in terms of the binding liquidity constraints on households. When Athanasios Tagkalakis (2008) looked at the effects of fiscal policy changes on private consumption during recessions and expansions in 19 OECD nations between 1970 and 2002, it discovered that some people with tight cash flow during recessions would spend the extra money brought in by unexpected tax reductions or increases in government spending [7]. The research by Prescott and Paulson looks at American policies and circumstances that affected the length and severity of the Great Recession at the state level. The findings also imply that states can meaningfully influence the duration and depth of recessions by engaging in specific forms of long-term structural planning [8].

It is claimed that government spending on health care is able to stimulate the consumption since it provides the related goods and services. However, these spending do not necessarily translate into improvement in access to the quality of health care and health outcomes such as life expectancy. As a result, government spending on this field may not lead to a desired result which may refer to the better health outcome or an increase in consumption in an economy [9]. In addition, the government spending multiplier during the recessions and economic growth period can be found through the historical experience of the US economy. The government spending is able to play a crucial role in helping economic growth when the economy is experiencing recession. Assuming that the initial inequality is not too serious, the distribution of income and wealth will be less disperse [8].

3. Different Impacts of Fiscal Policy on Households

3.1. The Impact of Fiscal Policy on Commodity Price

Consumer price index (CPI) is an indicator reflecting the changes in the price level of goods in each period, which allows analyzing the impact of macroeconomic policies on the national economy. In China, the government conducts macroeconomic control by adjusting fiscal spending. In order to promote economic growth and increase employment, the government started to implement expansionary fiscal policy to increase market liquidity and boost economic growth. With the increase in government spending, the rapid growth in credit allocation and the rapid climb in the supply of RMB, inflation is under greater upward pressure and the commodity price index in China is on a continuous trend of growth.

Theoretically, fiscal policy has a direct or indirect impact on commodity prices. On the one hand, fiscal policy can directly affect the level of commodity prices. An expansionary fiscal policy will increase government purchases and boost government and social investment. The strong investment demand will directly change the supply and demand relationship in the commodity market, which in turn will affect commodity prices. On the other hand, the government's fiscal policy will indirectly affect commodity prices. When the government implements an active fiscal policy, it will lead to an increase in bank loans and an increase in the ability of the financial markets to create money, which in turn will significantly increase the liquidity of the market, and the abundant liquidity in the market will raise the prices of commodities.

In the long run, equilibrium relationship emerges between national fiscal policy and commodity price changes (as shown in Figure 1). This suggests that fiscal policy can influence the prices of commodity futures contracts, and that rising commodity price levels are not only a monetary phenomenon but also a fiscal one. Fiscal policy has been scaled up after each large-scale financial crisis. To get out of the recession, the government adopted a macroeconomic policy based on fiscal policy to stimulate aggregate demand and push the economy out of the recession.

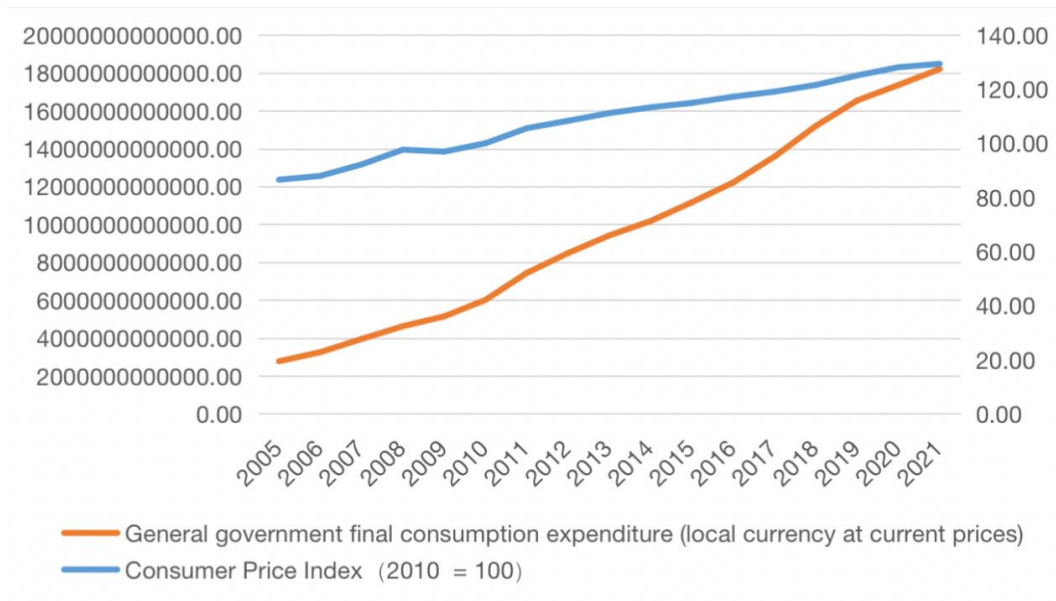


Fig. 1 General government final consumption expenditure and CPI

3.2. The Impact of Fiscal Policy on Household Income

In 2022, the supply and demand of the consumer market (as well as the sharp increase in residents' travel) indicates that household consumption is recovering. At the same time, household savings are still rising rapidly. Central bank released the data which showed that household deposits increased by 6.2 trillion yuan in January, 2022, 790 billion yuan more than the same period in 2021 (see Figure 2). With the deposits increasing, there exists less money for consumption, which indicating that Chinese residents' current willingness to consume still needs to be improved.

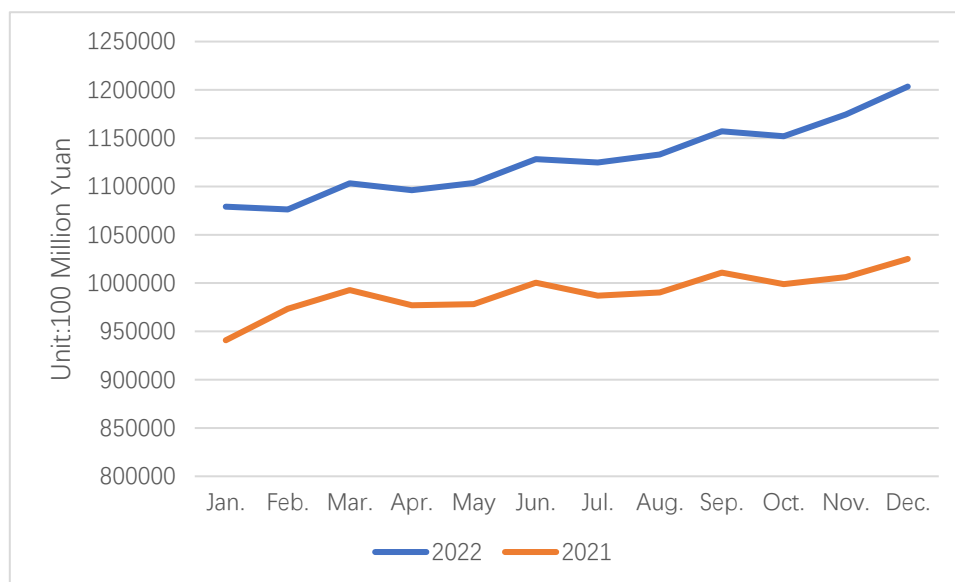


Fig. 2 Deposits of households

Besides the surge in RMB deposits, the increase in loans is also evidence. The People's Bank of China released the data which showed that household loans increased by 3.83 trillion yuan in 2022, down about 4 trillion yuan from the annual increase in 2021 (see Figure 3). Among them, the new short-term loans represented by personal consumption loans increased by 0.76 trillion-yuan year on year, and the new medium and long-term loans represented by mortgage loans increased by 3.33 trillion-yuan year on year (see Figure 4 and Figure 5). Affected by the epidemic, residents' income and income expectations are weak, the willingness to spend is also weak, and the demand for consumer credit has decreased.

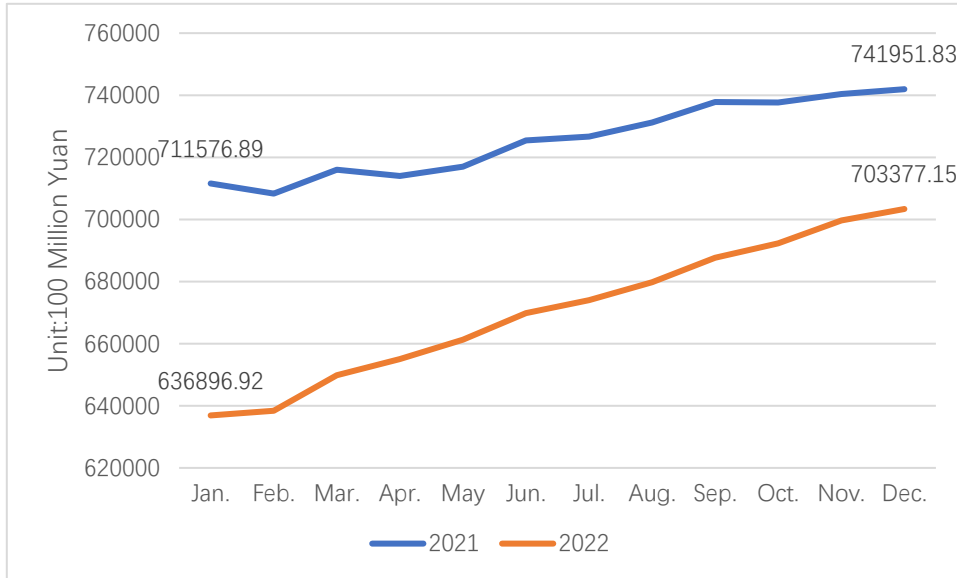


Fig. 3 Loans to households

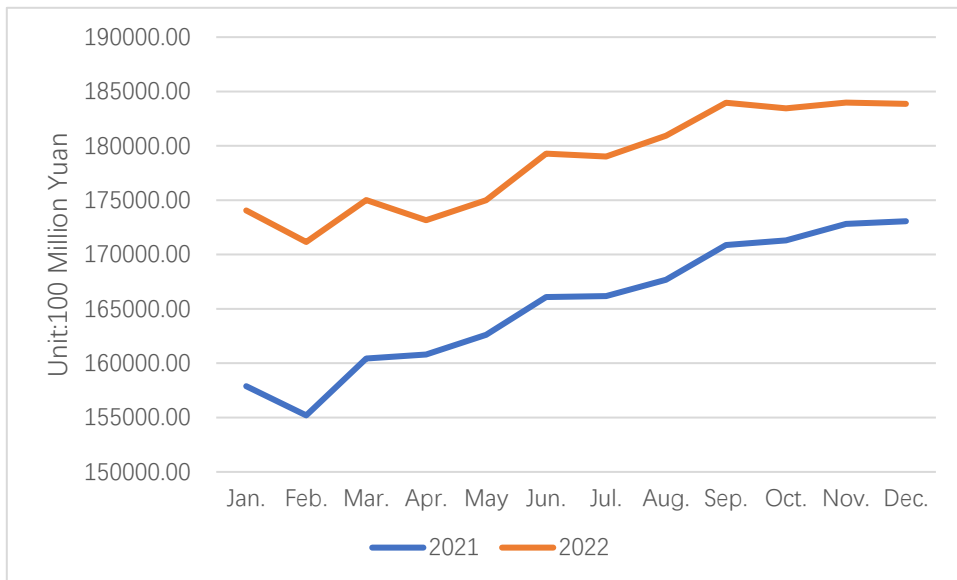


Fig. 4 Short-term loans

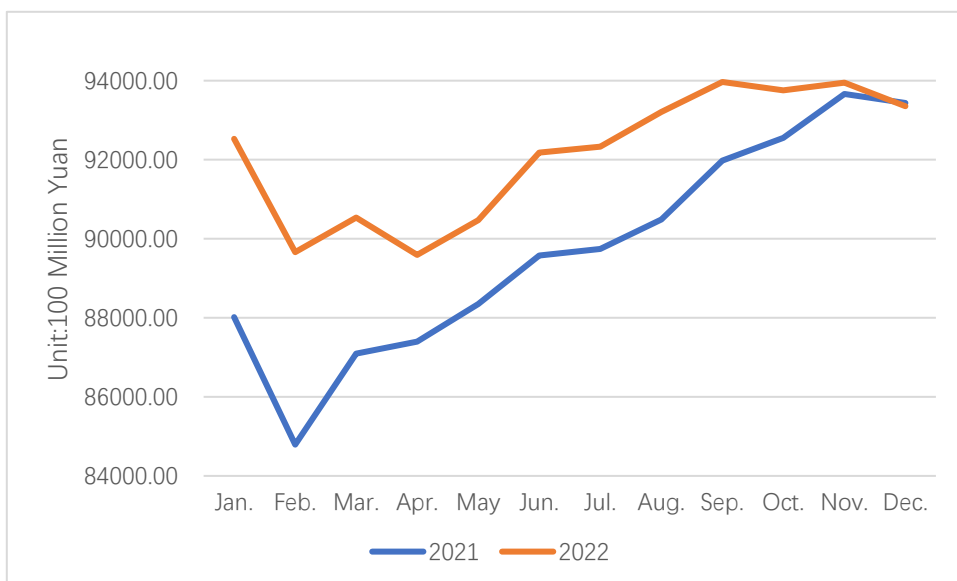


Fig. 5 Consumption loans

Breunig et al. (2021) found that individual characteristics, including age and the level of education matter in housing market [10]. Due to the distinct difference in household income, status, education and etc., residents' consumption ability and consumption willingness are different. Therefore, in order to further expand consumption and truly put people's willingness to consume into practice, more efforts should be made to increase people's income and enhance the basic security conducive to people's livelihood, and the proactive fiscal policy is one of the key elements to play this role.

First, revenue support policies are further implemented. It is known that expanding consumption depends on people's income. Therefore, fiscal expenditure is optimized. The central government take increasing residents' income and expanding consumption ability as the foothold. Some of the spending will be directly implemented by grass-roots governments, while the other will be directed to those in need of rescue (see Figure 6). Stabilizing employment is also the goal for fiscal policy. The central government appropriately increase employment subsidies and support the implementation of policies to support employment and entrepreneurship. Not only employment is ensured, but also more and better job opportunities are created and more wage income is provided. Relevant tax and fee policies are also optimized. Property income will be increased through multiple channels and consumer demand will be steadily expanded. Second, with the focus on promoting equal access to basic public services, public consumption spending is appropriately increased. There is still a certain income gap between Chinese residents at present, which suppresses the expansion of internal demand. The government increases public consumption expenditure with the aim of promoting the equalization of basic public services, which can effectively improve the income of the low-income class, which is conducive to the expansion of consumption demand of the low-income class and the upgrading of consumption structure. Therefore, the proactive fiscal policy should continue to increase, increase the scale of fiscal expenditure and effort should be made to narrow the gap in basic public services. This can not only directly stimulate consumer demand through public consumption, but also related public consumption can replace personal consumption, so as to increase disposable income by saving residents 'necessary expenses, completely relieve residents' "worries at home", so that they dare to consume and are willing to consume.

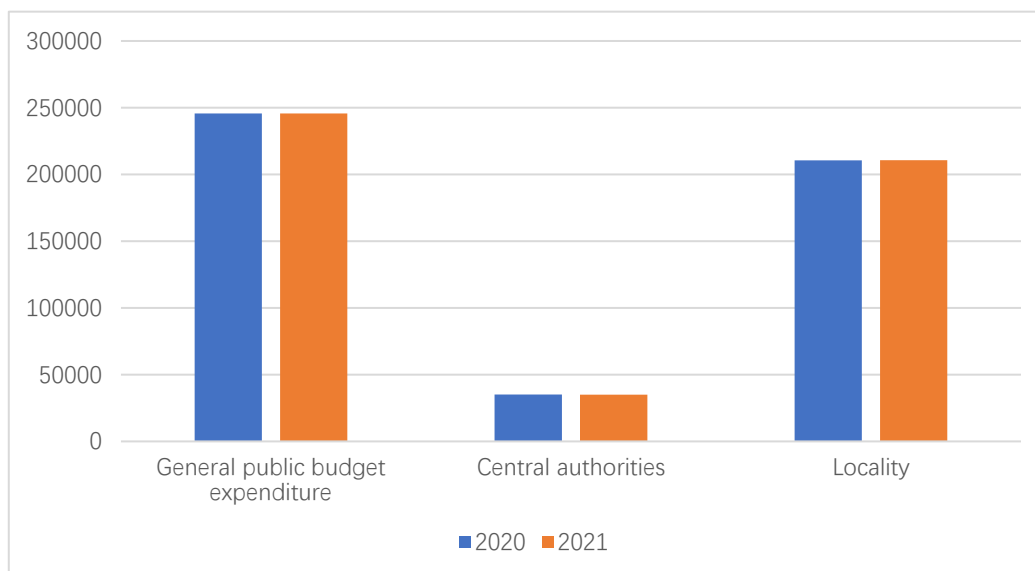


Fig. 6 Fiscal expenditure

4. Limitation and Future Outlook

Due to the lack of data and length, some factors are not mentioned therefore, the results are not very accurate and there is a bias of the conclusion. There are three factors that influence the consumption discussed in this paper: health expenditure, national general public budget expenditure, and VAT revenue. However, there are some other factors which will influence the consumption.

Moreover, these statistics are adopted from a relative short time interval. Too little data and too narrow a range of data can both cause some patterns of detail to fail to show. Meanwhile, the references that this paper choose were written during recent years. In order to solve these problems, some solutions can be used. It is irrevocable that increasing the number of independent variables is an efficient method to better demonstrate the impact of fiscal policy on households' expectations. In addition, discussing more factors that influence the consumption will provide a more complete conclusion based on the overall economic pattern.

5. Conclusion

By compiling and analyzing the literature in the field, this article investigates the consequences of fiscal policy on households' expectations for China's total retail sales of consumer goods through three aspects: national spending on public health, national general public budget and value-added tax revenue. It can be concluded that total retail consumption is negatively correlated with health spending, which indicates that the more the government spends on public health, the less people are inclined to spend on retail goods. The spending on health care is able to accelerate the investment in health industry and on the consumption of those related products and services, affecting consumption latter.

When business and households have more spending on investment, there will be less capital goods used on consumption, and therefore, reducing the consumption of consumer goods. According to the results, here are some recommendations for the future economic development. If the government seeks for increasing consumption, increasing national general public budget and VAT is effective. However, the increase in national spending on public health will conflict with the objective which is increasing consumption.

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