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FISCAL STIMULUS POLICY IN TIMES OF MODERN ECONOMIC CRISIS:
Evidence from the United States and Japan

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POWER OF FINANCIAL NUMBERS

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Summary

This paper aims to compare the stimulus plans implemented by the United States and Japan during the 2008 financial crisis and 2020 coronavirus recession by classifying and analyzing the two main elements of each plan during both financial crises: (1) timing, and (2) content. Timing is intended to measure how quickly the policies were enacted in relation to the acknowledgement of the inevitability of a recession. Content outlines the measures and programs introduced that directly support individuals and businesses, such as tax cuts and cash handouts. It includes defining the scale and accessibility of individuals and businesses to receive benefits and the intended duration of the stimulus packages.

The United States and Japan have been observed to share numerous similarities in their responses to the 2008 financial crisis and 2020 coronavirus recession, showing that their successes and failures from the past have influenced their policy decision making. The similarities in the two economies also led to virtually identical cash handout allocations and supports for small businesses through loans and rent subsidies. From analyzing these two economies, we can argue that Japan and the United States possess weak automatic stabilizers to assist in correcting their domestic economies. If the government were able to implement more timely and targeted measures, the effects on the economy could be further reduced.

The timing and content of fiscal stimulus policies can be concluded as being critical in making substantial and positive effects on economies. They also are indicative of the level of economic power and standing a country has, as seen by the similarities between the United States and Japan.

By comparing two of the largest economies in the world in the context of responding to global financial crises, relevant parties such as politicians and analysts can be better enabled to understand the justification behind fiscal stimulus policy decisions and provide commentary on their ultimate efficacy or lack thereof in stimulating major economies. Understanding the similarities and differences of the fiscal stimulus policies of the United States and Japan also allows for a critical look into how two of the largest developed economies in the world respond to global financial crises, and if their responses are in line with their economic size and status.

Analyzing the political side of government responses to financial crises further allows us to learn the reasoning and considerations behind the decisions made by governments in such unusual circumstances. Global recessions are incredibly rare events that are difficult to predict and correct. As the world becomes increasingly interconnected, the need for updated interpretations of the workings of all sectors of life, both social and political, become apparent. The ability to recognize the elements of an effective stimulus plan is important when preparing for inevitable future economic collapses and deciding how to minimize losses while reinvigorating the economy.

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DEDICATION

I dedicate this thesis to my friends and family who have supported me throughout all my endeavors, as well as my advising professor at Waseda Business School, Dr. David Lau, for his clear guidance and insights that have been invaluable in helping me to define and confidently pursue my academic and professional goals.

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I would like to thank my friends and family who have guided and supported me up until this point and I am thankful for their unwavering confidence in me and all I hope to achieve in the future.

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In closing, I would like to acknowledge Professor David Lau for supervising and guiding me through each stage of the process, from defining my research topic to the submission of this paper. His feedback and pointed questions were crucial in helping me shape my research while encouraging me to think critically and efficiently.

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CHAPTER 1. INTRODUCTION

Section 1. Background

The 2008 Financial Crisis sent massive shockwaves to the global economy, with bailouts and numerous stimulus packages implemented to minimize long-term damage to the economy and support individuals and businesses during a time of great uncertainty. One set of economic tools that are utilized by both the United States and Japan is monetary and fiscal policy. Monetary policy is used to lower interest rates and reduce unemployment while fiscal policy is used to increase government spending and enact tax cuts during a recession. (Jahan, 2014) These policy tools were integral in boosting the economy while reducing the long-term effects of the recession.

The efficacy of fiscal policy, in particular, has been brought into question by leading economists, with the majority falling somewhere in the middle of these two schools of thought: Keynesian theory pioneered by John Maynard Keynes and Monetarist theory associated with Milton Friedman. Keynesian thought suggests that the economy is driven by demand and requires government intervention to end a recession by increasing the consumption of goods and services. Monetarists, on the other hand, believe supply-side forces control the economy and thus the negative effects of recessions can be alleviated by controlling the amount of money in circulation while leaving the rest of the economy the reset itself. (Zandi, 2008) In practice, a combination of elements from both theories is applied by politicians during times of economic downturn. The actions taken by lawmakers differ from country to country, with no explicit right or wrong approach to correcting the economy.

My fundamental interest lies in finding out how the United States and Japan compare to one another in terms of economic stimulus policies in times of modern financial crisis. In order to fully grasp the historical context of economic stimulus response in times of financial crisis, I have included a brief summary of two of the most recent recessions preceding the 2008 financial crisis: the dot com bubble in the United States in the late 1990s to early 2000s and burst of the Japanese bubble economy, which reached its peak in the 1980s and crashed in the late 1980s and early 1990s. The recovery of the United

States and Japanese economies following their bubble crises played a major role in defining the political and economic landscape of the time and set the stage for the unprecedented continued economic growth leading up to the 2008 financial crisis.

As of June 2020, the world is in the midst of an ongoing pandemic affecting virtually all economies globally. The long-lasting effects of Covid-19 on the economy will not be known for many years, but lawmakers in both the US and Japan have already rolled out their own uniquely designed stimulus packages aimed at supporting citizens and residents, domestic businesses, and the economy as a whole. The real effects of such stimulus programs on the economy are difficult to measure but they share common overarching goals to stabilize their domestic economies and minimize long-term damage. As both countries possess major influence and primary roles in the global economy, the economic health of neighboring nations and trade partners will also be heavily affected by the recovery speed of both economies. The challenges and responsibilities associated with designing effective fiscal stimulus policies are immense, with numerous conditions to be considered within a decidedly limited time frame. Through this paper, I will explore and categorize those conditions in the context of the two most recent global recessions.

SECTION 2. PURPOSE

This paper aims to compare what components were deemed essential for each stimulus plan by classifying and analyzing the main elements of the stimulus plans enacted in each recession into two categories: (1) timing, and (2) content. Timing is intended to measure how quickly the policies were enacted in relation to the acknowledgement of the inevitability of a recession. Content outlines the measures and programs introduced that directly support individuals and businesses, such as tax cuts and cash handouts. It includes defining the scale and accessibility of individuals and businesses to receive benefits and the intended duration of the stimulus packages.

By understanding the political side of government responses to financial crises, we can learn the reasoning and considerations behind the decisions made by governments in such unusual circumstances. Global recessions are incredibly rare events that are difficult to predict and correct. As the world becomes increasingly interconnected, the need for updated interpretations of the workings of all sectors of life, both social and political, become apparent. The ability to recognize the elements of an effective stimulus plan would be valuable in preparing for an inevitable future collapse and deciding how to minimize losses while reinvigorating the economy.

Through this paper, I intend to extensively study the existing literature pertaining to the 2008 financial crisis, as well as analyze what is currently known of the ongoing Coronavirus recession. While the information I gather from the literature referencing recession like the 1991 bubble and 2008 financial crisis will not necessarily be new information, the comparisons and analysis I perform after compiling and synthesizing the data I collect, supplemented by the study on the Coronavirus recession, will contribute to the existing pool of knowledge by offering a new perspective on the comparison of two of the most impactful financial crises in modern history through the lens of two of the largest economies in the world.

My paper will primarily be a literature review and historical perspective that takes points from existing literature and produces a work that aims to help explain the context of and fiscal response to each crisis, culminating in an analysis comparing the fiscal policies taken in each instance in terms of timing, content, and scale. Timing is intended to measure how quickly the policies were enacted in relation to the acknowledgement of the inevitability of a recession. Content outlines the measures and programs introduced that directly support individuals and businesses, such as tax cuts and cash handouts. It includes defining the scale and accessibility of individuals and businesses to receive benefits and the intended duration of the stimulus packages.

SECTION 3. SIGNIFICANCE

The significance of studying the Japanese and US economic collapses in 2008 and 2020 is that they are the most recent global recessions in recent history, with the Coronavirus recession still ongoing as of June 2020. The research I conducted for this study will be useful for future analysts to identify commonalities and differences between the fiscal policies enacted by two of the largest economies in the world, as well as see the change in policy and approach from the 2008 financial crisis and the coronavirus recession. With such information, we are better equipped to understand government motivations behind certain fiscal policies, as well as their intended goals. Although a future financial crisis may be unavoidable in the long-term, we can at least be better prepared to react to the situation and look to history for reference to implement effective methods and policies accordingly.

Additionally, the 2008 financial crisis, in particular, was an incredible example of how the global economy was able to crash due to a myriad of economic conditions and financial scandals, most notably the Madoff scandals. By understanding the implications of the 2008 financial crisis, we are able to bring to light and study how such scandals occur and how we can prevent them in the future.

Given that the United States and Japanese economies are mega-players on the world economic stage, it is important to understand the consequences of their fiscal decisions not only domestically but on a global scale as well. Policies that are meant to stimulate domestic growth may affect international trade or relations as a result, whether intentionally or not. Looking at Japan and the United States from both the perspective of each respective country and from an outside, global perspective is necessary to more deeply understand the motivations and social conditions that led to the decisions taken by each government and the resulting impact on their local people and businesses.

The reason I chose to study Japan and the United States was primarily because of my relationship to both countries. As a United States citizen, I am familiar with the socio-economic landscape, having experienced the 2008 financial crisis in the United States as well. With Japan being my country of study, residence and employment, I was curious to learn more about its economic policies and businesses. My other main reason for choosing these two countries was their shared status as developed nations and global economic powerhouses. From an economic standpoint, Japan and the United States share many similarities. The percentage of the population below the poverty line, as one example, amounts to 16% for Japan and 15.1% for the United States. Despite the United States GDP totaling almost three times that of Japan, the GDP per capita shows a much more even picture when population is accounted for, putting Japan at $46,720 and the United States at $49,965. The Human Development Index further shows that both countries are virtually equivalent in terms of socio-economic status.

By comparing two of the largest economies in the world in the context of responding to global financial crises, relevant parties such as politicians and analysts can be better enabled to understand the justification behind fiscal stimulus policy decisions and provide commentary on their ultimate efficacy or lack thereof in stimulating major economies.

SECTION 4. DEFINITION OF TERMS

Term	Definition
Content	Content as used in this paper outlines the measures and programs introduced that directly support individuals and businesses, such as tax cuts and cash handouts.
Expansionary Fiscal Policy	Expansionary fiscal policy is used in times of recession through which the government injects money into the economy to provide individuals and businesses with money to increase demand. This is achieved primarily through tax cuts and other forms increased of government spending.
The Fiscal Multiplier	A fiscal multiplier measures the impact of fiscal policy on economic outputs. Generally, it is the ratio of a change in output to the change in government expenditure or tax as a result of fiscal policy. It tells policymakers how much $1 of government spending will translate to in terms of economic output or increase in consumer-driven economic activity.
Fiscal Policy	Fiscal policy is a macroeconomic tool used by the government in a recession to stimulate the economy and promote growth through tax and government spending. Fiscal policy generally has a more direct impact on consumers than

	monetary policy because is intended to increase jobs and income during a recession. (Federal Reserve, 2017)
Keynesian Theory	Keynesian thought suggests that the economy is driven by demand and requires intervention to end a recession by increasing the consumption of goods and services. Fiscal policy is said to be most effective when it is timely, targeted, and temporary. (Zandi, 2008)
Loss Carryback	Tax loss carrybacks are the application of a business's net operating loss to a previous tax return to reduce the amount of taxable income. They are the opposite of tax loss carryforwards which allow the application of a tax loss to a future year's tax return.
Monetarist Theory	Monetarists believe supply-side forces control the economy and thus the negative effects of recessions can be alleviated by controlling the amount of money in circulation while leaving the rest of the economy the reset itself. (Zandi, 2008)
Monetary Policy	During a recession, monetary policy is a macroeconomic tool used by the central bank of a country to manage interest rates and control the total money supply in circulation with the goal to prevent deflation and economic collapse. (Federal Reserve, 2017)
Recession	A recession is characterized by a drop in economic activity that causes the GDP to fall for two consecutive quarters. In general, it is observed as decrease in output and a rise in unemployment.
Scale	Scale in this paper refers to the accessibility of individuals and businesses to receive benefits and intended duration of the stimulus packages.
Timing	Timing is in the context of this paper is intended to measure how quickly the policies were enacted in relation to the acknowledgement of the inevitability of a recession.

V Shaped Recovery	A V-shaped recovery refers to a sharp decline in economic activity that quickly recovers due to factors ranging from increased consumer demand to

I intend to utilize these terms and other data I have collected to dissect the research I have conducted on the financial crises in the United States and Japan. This paper aims to combine a qualitative approach with a quantitative subject, macroeconomics. I will incorporate and present the terminology referenced from the journals and articles I researched in as easy to understand and logical manner as possible.

SECTION 5. RESEARCH QUESTION

My hypothesis states that given the similar economic climates of Japan and the United States and recent histories dealing with major financial crises as developed nations, their respective responses to financial crises are also expected to share similarities in terms of: (1) timing, and (2) content. Timing is intended to measure how quickly the policies were enacted in relation to the acknowledgement of the inevitability of a recession. Content outlines the measures and programs introduced that directly support individuals and businesses, such as tax cuts and cash handouts. It includes defining the scale and accessibility of individuals and businesses to receive benefits and the intended duration of the stimulus packages. Through this paper, I will explore not only the fiscal policies enacted to revitalize each economy and minimize the subsequent damage incurred, but also the general causes of each bubble, how they affected the economic landscapes of their respective countries, and what tangible and intangible effects the policies had on their respective populations and economies. I am particularly interested in learning what kinds of stimulus programs were chosen to support individuals and small businesses in each country. By studying these economic crises, analysts and politicians can develop strategies useful in reacting to future collapses and understand what effect fiscal policies can have on the countries they impact. This research question encompasses the academic growth I would like to obtain through this research and the contributions I would like to make to the existing pool of knowledge and literature.

SECTION 6. RESEARCH DESIGN

This paper is structured as a combination of literature review and historical perspective. From searching for and gathering articles in the initial planning stages of this thesis, I found a number of relevant journal articles that I have referenced in this paper. I began by first compiling a list of articles that I found interesting and necessary for answering my research question, then took the information collected from those articles and synthesized them into a paper that provides an analysis and comparison of facts and theories that study the characteristics of and explain the two bubbles I have chosen to focus on.

The final portion of my paper consists of a two-layered comparison between the United States and Japan and the 2008 financial crisis and the 2020 coronavirus recession. The analysis section provides a discussion on the main elements of the stimulus plans enacted in each recession categorized into two categories: (1) timing, and (2) content. Timing is intended to measure how quickly the policies were enacted in relation to the acknowledgement of the inevitability of a recession. Content outlines the measures and programs introduced that directly support individuals and businesses, such as tax cuts and cash handouts. It includes defining the scale and accessibility of individuals and businesses to receive benefits and the intended duration of the stimulus packages.

SECTION 7. ASSUMPTIONS AND LIMITATIONS

In terms of the method I have chosen to use to conduct my research, there are several limitations that I must address. First, although I can identify policies that have emerged from these two events, it is difficult to confidently determine the degree of importance of one factor in relation to another. I also have to acknowledge that the sources I use are ultimately an analysis of the available data made by their respective authors and may be biased toward preferred approaches or methods of interpretation.

For the scope of my intended research on the coronavirus, the available data is still quite limited and incomplete as it is an ongoing situation. Since I am studying the Japan and the United States in the context of two of the most devastating recessions in recent history, there are essentially only two data points for each recession that I can dissect. This opens up the question of whether I should compare the two financial crises with other recessions that have occurred in modern history around the world, though it would run the risk of overcomplicating and diluting the main focus of the paper, which is the analysis of the fiscal stimulus policy measures taken by Japan and the United States during the 2008 financial crisis and the 2020 coronavirus recession.

Although the United States and Japan possess two of the largest economies in the developed world, it must be acknowledged that it is not possible for them to be identical in any aspect, and therefore a completely unbiased, fair comparison of the two is limited. Overall, while generally similar in socio-economic landscapes, the countries analyzed in this paper, Japan and the United States, have notable differences in areas like unemployment rates, population, and tax rates. The two economies are heavily interdependent in terms of trade and cash flow, but their levels of national debt, for example, also differ tremendously, with Japan owing more than triple the amount of the United States.

When analyzing fiscal stimulus policy and stimulus packages, one way I found of making sense of the seemingly arbitrary and large dollar amount is to think of it as the difference between how much the economy was predicted to grow before the recession and actual potential growth. A general assumption for some analysts regarding household spending expectations claim that households are likely to be short-sighted in terms of financial planning and are likely to spend their tax benefits relatively quickly. (Zandi, 2008) Basing a policy on this assumption would mean putting more money in the hands of the lower or middle class who are more likely to spend the money than higher income households that have a higher predisposition for saving. (Zandi, 2008) This is, however, a blanket generalization and cannot be held to be a 100% truth.

While the 2008 financial crisis has been extensively reported and critiqued over the last twelve years, the coronavirus recession is an ongoing phenomenon that lacks the same level of reflection and perspective. There is a level of bias in any article that studies the 2008 financial crisis retroactively. The possibility exists that new policies will be added to current 2020 stimulus plans to combat the recession that could spark a new set of changes to the economic support mechanisms already in place.

My study is also limited by the presence of self-selection bias. By only studying two countries, the United States and Japan, they have been "self-selected" into my research and consequently omit other major players in the global economy, e.g. China. As a result, my study can only be applicable in the context of the United States and Japan, thus limiting the generalizability of my research and ability to conduct substantial or comprehensive comparisons with other countries not mentioned in this paper.

The final point that I would like to address is the difference in the nature of the two recessions. The 2020 coronavirus recession is unique compared with recessions from the past several decades in that rather than an economic trigger, the economic downturn was caused by a global health crisis. Covid-19 has severely limited business activity and has introduced social distancing measures that keep populations quarantined away from others. This has caused unprecedented changes to virtually all aspects of life, reducing or outright halting previously common activities like shopping at malls or commuting to work. Due to the cause of the recession being behavioral and health driven in nature rather than economic, once the pandemic is maintained, there is little reason to believe business activity will not return to pre-recession levels.

CHAPTER 2. HISTORICAL BACKGROUND

SECTION 1. 1990S BURST OF THE JAPANESE BUBBLE ECONOMY

The Japanese economy of the 1980s to early 1990s was characterized as an ever-growing "bubble" economy until it burst in the 1990s. In Japan, the banking crisis was caused by structural flaws and dysfunction in economy. (Katz, 2009) At the time, small Japanese firms in Japan were protected by heavy regulations and collusion rather than of social safety nets. As a result, there was limited growth and productivity. The government used low interest rates to boost business investment to compensate for lack of consumer demand. The systematic problems were exacerbated by the prevailing thought that the government and banks would bail the small businesses out.

Once the economy collapsed, the debt of Japanese companies was several times their net worth. The biggest financial losses for Japan were in loans, finding roots in the shadow banking system that became prevalent throughout the 1980s. Shadow banking refers to either the provision of loans and other banking services provided by unregulated financial intermediaries that operated similarly to legitimate financial institutions or activities performed by regulated institutions that are unregulated and unchecked by the government or other overseeing body. This system of producing unlisted financial derivatives in the context of Japan in the 1980s was designed so small increase in real estate prices created a much larger gain in asset backed securities.

It took the Bank of Japan nine years to bring overnight interest rate down from 8% to 0% and the Japanese government eight years to use public funds to recapitalize banks. Tokyo used government money to help banks continue to lend to insolvent borrowers, dragging out the problem instead of terminating the destructive practice. Money and business opportunities were driven away from bank loans in favor of more volatile and less regulated securities, corporate bonds, money market mutual funds, commercial papers, and CDs. Big business reliance on bank loans decreased from 30.2% in 1973-77 to 17.5% in 1978-82. (Koo, 2008)

Banks felt pressured to drive up profits with high risk high return investments, especially in the real estate, resort development, and junk bonds areas. The government at the time determined that weakened banks should be recapitalized through public money. Loans to small and medium sized companies cut first when banks were threatened by insolvency, or when liabilities exceed assets and capital. 685 billion JPY was put into saving public institutions, but there was also public criticism of Ministry of Finance to restructure the financial system. Working together with the Ministry of Agriculture, the Liberal Democratic Party in charge of government policy at the time allowed banks to continue unrestricted investments in real estate for agricultural cooperatives despite rising land prices. Reliable estimates of the exact amount of non-performing loans were unavailable to the public, leading those outside the financial sphere to be unaware of the severity of the situation faced by financial institutions.

Major financial institutions Sanyo Securities, Hokkaido Takushoku Bank, Yamaichi Securities, and Tokuyo City Bank collapsed in 1997. The "Law Concerning Emergency Measures for the Stabilization of the Functions of the Financial System" was passed on February 16, 1998 to establish a government-backed safety net for creditors and injected 30 trillion JPY of public funds into financial market to stabilize and save insolvent banks. (Koo, 2008) Following big bank collapses, bills were proposed to liquidize failed banks and temporarily nationalize insolvent banks.

As outlined above, a combination of monetary and fiscal policy was used to fight the recession, but analysts have criticized the fiscal policies in particular for being especially ineffective at stimulating the economy. (Yoshino, 2015) While the government attempted to implement Keynesian theory in its fiscal stimulus plans, the packages were unevenly distributed and criticized for their concentration of public investment in the countryside rather than urban areas, thus limiting the economic effects of the stimulus. (Yoshino, 2015) Unsustainable high-risk banking practices, misallocation of fiscal stimulus funds, and core structural problems in the Japanese economy led to an unnecessarily long and drawn out recovery. There was arguably too heavy a focus on monetary policy with a misguided and short-sighted attempt at fiscal policy that did not do enough or work fast enough to stimulate the economy effectively.

SECTION 2. 2001 UNITED STATES DOT COM CRASH

The tax rebate program implemented in 2001 following the dot com crash had a similar yet debated result to that of Japanese taxpayers in 2008. According to a survey-based study, an estimated three quarters of rebates were used toward savings or to pay back existing debt. (Slemrod, 2003) Data based studies, however, suggested that two thirds of rebates were used within six months of receiving them. (Johnson, 2006)

SECTION 3. 2008 GLOBAL FINANCIAL CRISIS

The US crisis was caused by dysfunction and policy mistakes in the financial sector that sparked the global recession as a result. This is in contrast with the dysfunction and structural flaws in the economy in Japan in the 1990s. The fundamental problems and differences with the Japanese and US economies were structural, with the main cause for US economic dysfunction being lack of regulation to make sure mortgage lenders adhere to proper standards. Traditionally, banks were unable to lend to debtors who made no down payment or proof they could repay their loans. Additionally, CEOs who were in charge of handling company stocks and faced no consequences if they lost big in the markets but gained large bonuses if they won. Investors bought shares of stocks that retained their value even if the company went bankrupt in the derivatives market. Those stocks were traded not on exchange but with bilateral deals since investor took a loss if their trading partners failed. As a result, when the economy began to head south, stable companies were unable to issue commercial paper and homeowners with good credit couldn't take out loans. Once the economy crashed, companies in the United States carried debt estimated at half of their net worth. By the 3rd quarter of 2008, 22% of subprime, adjustable rate mortgages were in foreclosure. Prime, fixed rate mortgages (60% of all mortgages) were under 1%. (Davies, 2016)

There were several consequences of these regulatory and stock mismanagements. Leading up to the financial crash, there was an unsustainable rise in real estate prices and stock valuation. (Ueda, 2012) US housing prices nearly doubled over the five-year period between 2002 and 2007. This is comparable with the figures from Japan in the 1980s, in which housing prices similarly doubled throughout the period. (Koo, 2008) Surprisingly, deflation played a minimal role in the overall lack of economic growth. (Ueda, 2012)

The United States brought the overnight interest rate down to 0% in 16 months and recapitalized banks through public funds in under a year while also writing off bad debt accumulated by struggling financial institutions. The market conditions in the United States as compared with the financial sector of Japan leading up to the burst of the bubble economy arguably allowed for easier recognition of the need for government intervention in the case of the 2008 financial crisis. (Ueda, 178)

The 2008 financial crisis showed that a rapid response was more effective than a long recovery as seen in Japan in the 1990s because when interest rates are already low, the effectiveness and power of the central bank to stimulate the economy is severely limited.

Section 4. 2020 Coronavirus Recession

The 2020 coronavirus recession is an ongoing economic event as of June 2020. The debt to GDP ratio for Japan reached 237.4% in 2019, compared with 109% in the United States. (Jiji, 2020) Japanese government bonds are expected to reach 964 trillion JPY by the end of the 2020 fiscal year. An unusual and incredibly rare condition of the covid-19 recession is the added complexity of being caused by a global pandemic. Stay home and social distancing measures, as well as government requests to temporarily stop businesses deemed non-essential from operating. This has naturally heavily dampened business activity as a result. There is fear that Japan may experience mild deflation as a result of the strict social distancing and stay home measures following the state of emergency that brought the revenue of many businesses, especially in the food, hospitality, and tourism sectors, down dramatically.

Despite government directed efforts to revitalize economies worldwide, there is a fear looming of the second wave of infection that has the potential to negate economic stimulus attempts by keeping consumers wary of returning to their pre-covid-19 consumption habits. The United States in particular has seen an uptick in confirmed cases of covid-19 infection, with new cases exceeding the number of reported cases from the previous day.

The Japanese economy was already in a weakened economic position before the recession due to the sales tax increase from 8% to 10% that went into effect in October 2019. The fall in consumption stemmed from a combination of the sales tax hike, decreased global demand as a result of the United States-China trade war. (Dooley, 2020) The Covid-19 pandemic worsened the economic situation in Japan with the tentative postponement of the 2020 Tokyo Olympic games and voluntary lockdown orders following the first state of emergency announcement by Prime Minister Abe on April 7, 2020. The orders that followed the state of emergency included the indefinite shut down of schools and temporarily stopping the issuance of new visas. These decisions impacted the economy in numerous ways and in a multitude of sectors. Dairy and agriculture farms which substantially rely on contracts to provide ingredients for school lunches were heavily impacted by the closure of schools. The closure of the border and halted issuance of visas have cut the labor supply and brought the tourism industry to a halt.

Analysts studying the ongoing coronavirus recession and pandemic have observed that consumer confidence and economic growth can be influenced by external factors such as behavior. Unless the population feels comfortable enough to return to pre-Covid-19 spending activities, recovery may be more difficult, according to president of the Federal Reserve bank of Dallas, Robert Kaplan. (Saraiva, 2020) In the context of the socio-economic climate in the wake of Covid-19, the lack of confidence and consumer spending can be at least partially attributed to insufficient virus testing and general uncertainty about the future of the economy. Changes to consumer behavior can be supported by fiscal policy through targeted packages that are well timed and appropriately designed for the needs of the economy and the individuals and businesses of that country.

CHAPTER 3. LITERATURE REVIEW

SECTION 1. METHODS OF SEARCHING

When I first began designing my research a year and a half ago, my original plan only entailed comparing the 2008 financial crisis and the 1991 burst of the bubble economy in Japan. The criteria I based my initial search was as follows: (1) 2008 financial crisis, (2) Japan, (3) United States, and (4) 1991 bubble. However, with the emergence of the Covid-19 pandemic and its subsequent impacts on the global economy, I felt it was necessary to change the focus of my research to include the effect the global pandemic has had on the economy as well. Being an ongoing crisis, there is no published literature on the Coronavirus recession as of yet. Therefore, I must rely on news articles and official government statements as my primary and secondary sources of information.

Section 2. Theoretical Orientation of the Study

The theoretical orientation of my study assumes that the financial crises of 2008 and 2020 share common elements that can be compared objectively. This paper also differs from traditional studies of macroeconomics and fiscal policy in that it is mainly qualitative in nature rather than quantitative. The reason I chose a qualitative approach to this study is that I am primarily interested in the policies enacted and their qualities that encompass a combination of observable and measurable elements, such as the size and contents of the various stimulus plans that I researched. The most effective method that I decided was in line with my research goal was to analyze this mix of historical and current information in hybrid essay and case format.

Section 3. Review of the Literature

3.3.1. 2008 Financial Crisis

Japan

The stimulus package compiled in 2008 was comparatively modest, totaling to 57 trillion JPY, compared with the 130 trillion JPY spent to counteract the 1990s recession in Japan following the burst of bubble economy. (KPMG Japan Government, 2020) However, it still totaled a substantial 14% of the GDP, focusing on distributing money to lower income households and the business sector in particular. (OECD, 2009)

On December 19, 2008, the Bank of Japan announced that the Japanese economy would not grow in 2009. Shortly after, it was revealed that company bankruptcies rose 24.7% in December compared to levels in December one year prior. Cash handouts were announced on March 4, 2009, followed by major stimulus additions in April 2009 and December 2009 to support businesses and protect employment. (Guillén, 2015)

Key protections and policies included in the fiscal stimulus aimed at correcting the Japanese economy in 2008 and 2009 included support for household consumption in the form of cash handouts, tax cuts on mortgages and eco-friendly cars, cuts to healthcare costs, and various measures to support environmental sustainability. Cash handouts following the 2008 Financial Crisis had little effect on stimulating the economy as recipients directed the money into savings rather than increasing spending. According to economist Yuki Masujima, up to 80% of the 12,000 to 20,000 JPY handouts were saved or used to repay debt, though more conservative estimates put that number at approximately 60%. (Fujioka, 2020) In normal economic conditions, private consumption accounts for more than half of the Japanese economy. (Yamaguchi, 2020) Rather than stimulating the economy directly, it has been speculated by some economists that the checks were more intended to boost morale and lift overall sentiment.

United States

The Bush administration was saddled with being the first to address the 2008 recession. Before the Bush administration released its stimulus plan, there was speculation over whether the tax rebate would be non-refundable or refundable. A non-refundable rebate would mean that low income households would receive zero or only a partial rebate while households who made over the threshold would receive the full amount. A refundable rebate, on the other hand, would be a flat amount distributed to all eligible households regardless of income. This would allow lower income individuals to increase their spending power and contribute at a larger scale to the economy. It would also lower the amount higher income households, which are more inclined to save rather than spend, would receive, thus increasing the spending jolt to the economy by redirecting the surplus to lower income households.

The Economic Stimulus Act designed by the Bush administration and enacted on February 13, 2008 consisted of a one-time check payment that was primarily intended to provide relief to only a small demographic of the population which included veterans, social security recipients, and others. In total, $14.2 billion dollars were delivered to Americans in the form of $250 checks to more than 52 million eligible beneficiaries.

The Economic Stimulus Act was succeeded by the much larger and overarching American Recovery and Reinvestment Act which was passed with the direct goal of ending the recession caused by the 2008 Financial Crisis. Individuals who were ineligible for those physical checks received a tax rebate under the Making Work Pay program. (U.S. House of Representatives, 2009) The rebate was applied in the form of tax cuts, with a reduction in the amount due rather than typical tax rebates that were dispersed retroactively after filing taxes. The Obama administration's argument for this approach was that it was a quicker way for individuals to receive the benefits of the rebate. On average, it is estimated that 6% less was held in taxes per employee. (Hitt, 2009) The government implemented this plan with the hope that recipients would spend their checks immediately, effectively jumpstarting the economy swiftly and efficiently.

An additional $247 billion was injected into programs that provided a series of tax cuts, credits, and extended unemployment benefits. Two of the most heavily hit industries, housing and automotive, were supported by an $8,000 tax credit available to first-time home buyers and sales tax deductions which were available on purchases of new eco-friendly cars to promote environmental sustainability and renewable energy. The American Recovery and Reinvestment Act further supported other areas of society and the economy as well. $83 billion was dedicated to the modernization of federal infrastructure while $138 billion was directed to improve health care. (U.S. House of Representatives, 2009)

3.3.2. 2020 Coronavirus Recession

Japan

The first stimulus package crafted by the Japanese government in early February 2020 consisted of several measures regarding travel and border control, as well as $4.6 billion worth of loans for small businesses. To support the housing industry and encourage a return to pre-pandemic consumer spending levels, requirements for the application for special deductions on housing loans were laxed to aid aspiring home owners. (KPMG Japan Tax, 2020)

The second emergency response package totaling $15 billion was announced on March 10, 2020. It is aimed at increasing the amount of funding for business loans and strengthening measures for employment support and protection for nursing home residents who are at a higher risk of infection than other demographics.

Japan declared a state of emergency on April 7, 2020 following weeks of speculation. Japan's third and largest emergency stimulus package was subsequently passed by the National Diet on April 30, 2020. It included tax relief measures to support individuals and corporations. For taxpayers who experienced a 20% decrease in revenue between February 1, 2020 and January 31, 2021 compared with the same period one year prior, a grace period of one year was granted for the payment of tax liabilities. (MOFA, 2020) Furthermore, the cap on stated capital for eligibility for tax loss carrybacks, or the application of a business's net operating loss to a previous tax return to reduce the amount of taxable income, was raised from 100 million JPY to 1 billion JPY or less. The main source of funding for these stimulus measures are projected to come from an increase in government bond issuance, raising the national debt burden to more than $10 trillion. (KPMG Japan, 2020)

As the coronavirus recession was sparked by a global health crisis, there has been a unified call by governments and global health organizations to protect lives through social distancing, recommendation of the use of masks, and other societal and behavioral changes. Due to extensive efforts by the Japanese government to contain the spread of the virus, companies were encouraged to adopt work from home work styles. Support for the transition to teleworking was provided through tax reductions for relevant capital investments involved.

For firms that experienced a one month drop of 50% or more in sales, they have been allowed to change or cancel their taxable company status to offset consumption tax. (MOFA, 2020)

Of the 117 trillion JPY stimulus package, which amounts to approximately 22 percent of Japan’s GDP, three quarters has been directed toward corporate and employment support while the remainder was allocated for health care and public investment programs. (Kihara, 2020)

The bulk of the stimulus measures were divided into two stages, with the first being aimed at protecting businesses and jobs and the second focusing on increasing demand in hard hit industries like tourism and events. The most notable feature of the stimulus package was the 100,000 JPY cash handout allotted to all eligible residents of Japan. Eligibility was determined by length of residency in Japan, requiring applicants to have lived in Japan for a minimum of three months as of April 2020.

Contractions starting in the final quarter of 2019 and continuing through the first half of 2020 were expected to outweigh any rebound occurring in the last two quarters of 2020. Despite a modest decline of 4.5% in the first quarter of 2020, the economy was expected to fall as much as 22% in the second quarter. (Dooley, 2020) Japan fell into a recession for the first time in over four years after pressures from the United States-China Trade War and sales tax increase wreaked havoc on the economy.

In terms of monetary policy, the Bank of Japan eased interest rates for two consecutive months, supplementing the government’s combined 240 trillion JPY stimulus packages. The combination of reduced output and private spending due to the pandemic and ultimate state of emergency led economists to believe that the economy as a whole could shrink as much as 6.5% in 2020. (KPMG Japan, 2020)

Rent subsidies cover two thirds of payments for up to six months with a cap of six million JPY. 100,000 JPY will be allocated to medical staff who have secured beds and are prepared to take Covid-19 patients should the need arise. Support for companies that implemented teleworking was increased from 8,330 JPY to 15,000 JPY a day. The 100,000 JPY cash handouts were allocated for all of the approximately 126 million residents of Japan. The program was entirely funded by national bonds, 23.36 trillion JPY of which were issued to cover the deficit. (Mainichi, 2020)

On May 27, 2020, Prime Minister Abe's cabinet announced it would double the amount committed to the covid-19 relief package, bringing the total to 234 trillion JPY. This amounts to almost 40% of the national GDP. Measures were added to provide rent subsidies to struggling individuals and small and medium sized businesses impacted by Covid-19, as well as a 200,000 JPY cash handout to front line workers. The International Monetary Fund projected that the economy will shrink 5% by the end of 2020. 10 trillion JPY has been set aside in the case of a need for emergency spending, with an additional 3 trillion JPY directed toward vaccine research. (Pham, 2020)

United States

Ahead of the economic response to covid-19, a task force was formed in January 2020 to monitor the disease and coordinate and oversee the response to the outbreak. (DOJ, 2020) The first economic stimulus package addressing the covid-19 pandemic was then introduced as an $8.3 billion plan called the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 and enacted on March 6, 2020. It provided emergency funding for covid-19 vaccination research and support for telehealth systems. (Congress, 2020) Families First Coronavirus Response Act was then passed on March 18, 2020 to support families with the funding of food stamps and the allowance of 14 days of paid leave for workers affected by covid-19. (DOL, 2020) The Coronavirus Aid, Relief and Economic Security Act passed on March 27, 2020 was crafted to support individuals and businesses impacted by Covid-19 through a $2 trillion plan that includes loans, direct payments, and other benefits. The American Workers Paid and Employed Act helped provide $349 billion in financial support for Small Business Administration programs aimed at easing the burden on lenders and borrowers. (KPMG US, 2020) Eligible adults who earned up to $75,000 in 2018 or 2019 received a check of $1,200 from the Act, with eligible families receiving $500 per child under 17 years of age. The amount received per individual depends on income, with $5 deducted for every $100 over the threshold, ultimately capping out at $99,000. For individuals who qualified with their 2020 income, they will receive the rebate as a credit on their 2020 tax return.

Economic Impact Payments were delivered to each individual or household starting from April 2020 via one of two methods: direct deposit or checks. Individuals who registered their bank account information on their recent tax returns received payment through direct deposit with the remaining payments made through physical checks mailed to the most recent address on file.

Aside from the checks sent out to individuals, there were five additional points included to support local governments, hospitals, small businesses, and similar pillars of society. Hospitals were given $130 billion to purchase ventilators and other essential health equipment. Unemployment insurance was extended to provide safeguards for workers who may lose their job during the recession. State and local governments were aided to provide economic support more directly to individuals and businesses at local levels. Finally, lending for corporations was expanded, with small businesses allotted interest-free loans to protect them from potential collapse. (Amadeo, 2020)

The Paycheck Protection Program that provided small businesses with emergency loans has been controversial when large chain restaurants, public companies, and businesses like the NBA Lakers applied for the loans despite being franchises or large-scale corporations that did not face the same immediate impacts of the recession as small businesses operating independently. The loans granted to large corporations meant that small, private businesses that needed the emergency loans to stay afloat could be unable to receive them if funding ran out. (Kimball, 2020)

SECTION 4. CRITIQUE OF THE PREVIOUS RESEARCH METHODS

The previous research methods use a combination of qualitative and quantitative methods to synthesize the data. The 2008 financial crisis has been extensively covered from a multitude of angles and perspectives. The coronavirus recession, however, has not yet provided enough data to fully analyze or formulate conclusions about the long-term effects of the recession on the economy. Thus, the sources that are available consist primarily of data reports and news articles. These articles are comprehensive considering the amount of information available, but the full picture will not be known for at least several years after both the economy recovers and a vaccine is developed to eradicate the virus.

CHAPTER 4. FINDINGS AND DISCUSSIONS

SECTION 1. SUMMARY OF THE FINDINGS

4.1.1. Timing

2008 Financial Crisis

The fiscal policy response of Japan began in early 2009 with cash handouts and economic support for the small business sector. It was followed by a relatively small budgeted series of stimulus plans that adopted Keynesian fiscal policy elements. Despite the well targeted and extensive stimulus packages introduced by the Japanese government from 2008 to 2010, the GDP was hit hard by the recession and took several years to recover. The timing of fiscal policy was not as fast as it could have been due to factors ranging from a lack of automatic stabilizers in social welfare programs that are designed to aid in correcting the economy automatically by providing additional benefits deemed necessary in times of economic downturn to a lack of foresight to the degree of widespread damage the recession would have on individuals and corporations.

The United States began its attempt to prevent a recession at the end of 2007 when it sensed the looming damage the inflating housing market could cause to the economy if it were to burst. The housing market crashed by September 2008 and the United States government approved a $700 billion bailout to save the economy. The $787 billion stimulus package crafted by the Obama administration was passed by Congress on February 13, 2009 and was signed into law the following week. The recession was addressed by two presidents beginning with President Bush and ending with President

Obama. President Bush began efforts to combat the recession fairly quickly but the response could have been faster had there been automatic safeguards already in place across social programs.

2020 Coronavirus Recession

The Japanese government took a slow and measured approach to acknowledging the severity of the 2020 coronavirus recession, waiting until April 7, 2020 to announce a state of emergency. Its most notable economic stimulus package was approved on April 30, 2020 and amounted to a record-breaking 116 trillion JPY, though the first allocations for support for small business and border restrictions began as early as February 2020.

The first stimulus packages addressing the covid-19 pandemic were passed in early to mid-March 2020, but the largest package, the $2 trillion Coronavirus Aid, Relief and Economic Security Act was passed on March 27, 2020, following weeks of debate regarding the current spread of covid-19. The stimulus responses were relatively late compared to formation of a covid-19 task force in January 2020.

4.1.2. Content

2008 Financial Crisis

The Japanese government introduced numerous bailouts and fiscal stimulus policies to return the economy to positive territory. It provided cash handouts to its residents that amounted to approximately 20000 JPY. However, the cash handouts were not considered effective as many households saved the money or used it to pay down debt rather than spending it and stimulating the economy. Stimulus packages to support small business and protect employment were also used to offset the long-term negative effects of the recession.

The United States initially approached the 2008 financial crisis with monetary policy, dropping interest rates several times over the course of two years. The Bush administration released a non-refundable tax rebate, but this mainly applied to higher income households that were more likely to save than to spend the money. A one-time cash handout was also provided to a small demographic that amounted to $250 per individual. The American Recovery and Reinvestment Act headed by the Obama administration distributed relief to individuals who were ineligible for the cash handouts through a tax cut. Other stimulus benefits came in the form of small business loans, encouragement for environmental sustainability, and tax credits for home and car buyers.

2020 Coronavirus Recession

The fiscal stimulus packages implemented by the Japanese government provide support for individuals and businesses impacted by covid-19. They are manifested in the form of cash handouts to individuals amounting to 100,000 JPY, small business loans, rent subsidies, and additional cash handouts to front line workers and health professionals directly fighting the disease.

The $2 trillion Coronavirus Aid, Relief and Economic Security Act was passed on March 27, 2020 and included a one-time cash handout of $1,200 to individuals making less than $75,000 per year. It is the largest stimulus package in United States history and includes small business loans, tax deferrals, and increases to unemployment insurance.

SECTION 2. DISCUSSION OF THE FINDINGS

Changes and Growth from 2008 to 2020

One common factor between both responses has been the emphasis on tax payment deferrals. (OECD, 2020) The inability of residents to pay taxes due to a sudden loss of income was accounted for by both companies with the deadline for filing taxes extended by one year for both the United States and Japan.

The United States and Japan are observed to be weak in the area of automatic economic stabilizers that are triggered during an economic downturn and help to correct the economy automatically without the explicit need for fiscal policy to be applied to that sector. (OECD, 2009) This lack of sufficient automatic economic stabilizers may correlate to an increase in total fiscal stimulus packages.

The response to the 2008 financial crisis by Japan was observed to be slower than that of the United States yet faster in the case of the 2020 coronavirus recession, despite the United States having an advantage in receiving information regarding the credit crunch and housing crisis in 2008 and the impending health crisis in 2020.

The advantage of the coronavirus recession in estimating the long-term effects of the recession is that the economic recession was triggered by non-economic factors that, once corrected, should allow for the economy to return to previous levels of activity. The changes to consumer behavior, however, may have longer lasting effects that influence how future economic policy and business plans are determined.

The non-refundable tax rebate spearheaded by the Bush administration had core flaws in its design. A non-refundable rebate meant that low income households would receive zero or only a partial rebate while households who made over the threshold would receive the full amount. A refundable rebate, on the other hand, would be a flat amount distributed to all eligible households regardless of income. This would allow lower income individuals to increase their spending power and contribute at a larger scale to the economy. It would also lower the amount higher income households, which are more inclined to save rather than spend, would receive, thus increasing the spending jolt to the economy by redirecting the surplus to lower income households.

The content of the fiscal policies of both countries in both recessions were similar in that they contained allocations for support for small businesses and cash handouts for individuals to increase spending power. The major difference in the two recessions was the amount allocated in the cash handouts, though both the United States and Japan had handouts amounting to under $300 in 2008 and increasing to approximately $1,000 in 2020. In the United States, the cash handouts were observed to be more effective in the hands of lower income households than higher income households which were more likely to save the money than spend it. Similarly in Japan, it was estimated that 40% of cash handouts were saved or used to pay down debt during the same time period. The drastic increase in stimulus amount provided for individuals was unprecedented and unexpected, yet both countries determined that it was necessary to stimulate the economy and provide individuals with a boost in confidence in the economy and an increase in money to use to spend toward revitalizing the economy.

The size of the fiscal stimulus packages increased enormously for the United States and Japan from the 2008 financial crisis to the 2020 coronavirus recession, with each country applying record-breaking stimulus packages to their people and businesses to help the economy recover, There is even the potential for additional stimulus packages to be negotiated in the near future, with the possibility of more small business loans and cash handouts given to continue propping up the economy as the world faces the fear of a second wave of infection in the covid-19 pandemic.

SECTION 3. CONCLUSIONS BASED OF THE FINDINGS

The stimulus for businesses was arguably less effective at directly stimulating the economy. Its primary objective was argued to be political in nature with the smallest contribution to stimulating the economy in 2001. The low impact can be attributed to several factors, including limited tax liability for many small businesses and the challenges for those businesses to quickly adjust their financial business plans and budgets. (Zandi, 2008)

CHAPTER 5. LIMITATIONS, RECOMMENDATIONS, CONCLUSION

SECTION 1. LIMITATIONS

There are several limitations to this research that must be acknowledged. While generally similar in socio-economic landscapes, the countries analyzed in this paper, Japan and the United States, also have notable differences. The two economies are heavily interdependent in terms of trade and cash flow, but their levels of national debt, for example, differ tremendously, with Japan owing more than triple the amount of the United States.

My study is also limited by the presence of self-selection bias. By only studying two countries, the United States and Japan, they have been "self-selected" into my research and consequently omit other major players in the global economy, e.g. China. As a result, my study can only be applicable in the context of the United States and Japan, thus limiting the generalizability of my research and ability to conduct substantial or comprehensive comparisons with other countries not mentioned in this paper.

While the 2008 financial crisis has been extensively reported and critiqued over the last twelve years, the coronavirus recession is an ongoing phenomenon that lacks the same level of reflection and perspective. Once covid-19 has been contained and economies are able to return to pre-covid-19 levels of activity, it would be worthwhile to study the full fiscal stimulus responses taken by the United States and Japan to see how adaptive the policies became and if they had a measurable effect on the economy.

SECTION 2. IMPLICATIONS OF THE STUDY

By comparing two of the largest economies in the world in the context of responding to global financial crises, relevant parties such as politicians and analysts can be better enabled to understand the justification behind fiscal stimulus policy decisions and provide commentary on their ultimate efficacy or lack thereof in stimulating major economies. Understanding the similarities and differences of the fiscal stimulus policies of the United States and Japan also allows for a critical look into how two of the largest developed economies in the world respond to global financial crises, and if their responses are in line with their economic size and status.

Aside from politicians and analysts, relevant parties that may benefit from this study include policy makers and reserve banks. Policy makers can use the findings from this study to provide historical context and justification for future decisions in times of economic crisis. Reserve banks would also be able to gain a more rounded perspective on what decisions have been made in the past regarding global recessions. This could influence interest rates and official cash rates which are affected by financial crises.

The 2008 financial crisis, in particular, was an incredible example of how the global economy was able to crash due to a myriad of economic conditions and financial scandals, most notably the Madoff scandals. By understanding the implications of the 2008 financial crisis, we are able to bring to light and study how such scandals occur and how we can prevent them in the future.

SECTION 3. RECOMMENDATIONS FOR FURTHER RESEARCH

Considering the Coronavirus recession is an ongoing event, there must be continued monitoring and analysis done to fully understand the full scale of its impacts. Future research could include a comprehensive analysis of the policies included in the fiscal stimulus plans, as well as a timeline that details the major events that have occurred with each financial crisis, comparing their response times and estimated impact on the economy.

Another potential future research plan is to delve deeper into what elements go into an effective stimulus plan and how each affects the economy. As a general guideline, I have come to the conclusion that countries benefit from first identifying and targeting the most disadvantaged sectors to provide aid to and then decide how much to spend through a specially appointed task force. An effective fiscal stimulus plan must be quickly implemented and fine-tuned depending on what type of economic recession is present. In the case of the coronavirus, the tourism and travel industry have been hit especially dramatically, indicating a potential area of research that could be performed to see how fiscal stimulus policy has been used in that sector and what the long-term effects will be on regulations. It is possible that many sectors will begin adding provisions for pandemics in their business plans in the case of emergencies and natural disasters which could be an interest area of study as well.

Given the limitations of this study due to self-selection bias and generalizability mentioned previously, China could be an interesting avenue for future research as well. In recent years, China has grown at an incredible rate and has overtaken Japan as the second most powerful economy in the world. Therefore, it could provide more insights into how large economies operate and handle global-scale recessions.

Section 4. Conclusion

From analyzing two of the most impactful financial crises in modern history in the context of two of the largest developed economies in the world, we can make some conclusions about fiscal stimulus policy that applies to both economies. Both Japan and the United States have been observed to possess weak automatic stabilizers to assist in correcting the economy. An increase in the number of automatic safeguards triggered by economic downturn would speed up response time of governments to provide aid in a timely manner. If the government could implement more timely and targeted measures, the effects on the economy could be further reduced. As seen by the United States and Japanese responses to the 2008 financial crisis and 2020 coronavirus recession, the timing of fiscal policy was delayed in the case of Japan to a slightly higher degree than the United States, though both could benefit from an increase in economic safeguards in the form of automatic stabilizers.

The content of a fiscal stimulus plan is just as crucial as timing. As seen by the United States response to the 2008 financial crisis, tax cuts were not especially effective at curbing the effects of the recession because they were to be applied automatically and retroactively, so people did not realize they received benefits until much later, squalling hopes of individuals using the money saved on stimulating the economy. The United States and Japan both seem to have learned from this ineffective policy decision by choosing to distribute large cash handouts to residents in addition to other tax measures. This generated a sense of confidence in spending and gave individuals the means to stimulate the economy in a timely manner.

The United States and Japan shared numerous similarities in their responses to the 2008 financial crisis and 2020 coronavirus recession, showing that the successes and failures of the past have influenced their policy decision making. The similarities in the two economies also led to virtually identical cash handout allocations and supports for small businesses through loans and rent subsidies. The timing and content of fiscal stimulus policies are critical in making substantial and positive effects on economies. They also are indicative of the level of economic power and standing a country has, as seen by the similarities between the United States and Japan.

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