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A Comparative Analysis of Australia and the United States' Fiscal and Monetary Policy Responses to Post-COVID-19 Pandemic

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Abstract. In the aftermath of the COVID-19 pandemic, global economies faced unprecedented disruptions, including sharp declines in GDP, rising unemployment, and widespread financial instability. This paper conducts a comparative analysis of the fiscal and monetary responses implemented by Australia and the United States, focusing on post-2020. This study identifies key policy innovations using a mixed-method approach—combining policy document analysis, economic data comparison, and econometric modeling. It evaluates their short-term and long-term macroeconomic impacts. The findings reveal that Australia emphasized direct wage subsidies such as the JobKeeper program and implemented yield curve control to stabilize interest rates. In contrast, the United States prioritized large-scale stimulus packages, including direct household payments, and adopted aggressive monetary easing through quantitative easing. These divergent strategies influenced each country's recovery trajectory, labor market resilience, inflationary pressures, and structural economic transformation. The study concludes by offering recommendations for optimizing future policy design to improve economic resilience and crisis preparedness.

Keywords: Economic crisis, Fiscal policy, Monetary policy, Policy innovation, Post-pandemic era

1. Introduction

While both the US and Australia boast advanced economies and strong institutions, their policy implementations vary in scale, design, and execution. However, comparative analyses remain scarce, especially those integrating fiscal and monetary dimensions within a single framework. The present paper employs a mixed research method, encompassing policy document analysis, macroeconomic data comparison, and econometric assessment. A systematic study of the fiscal and monetary policy instruments adopted by the two countries during the pandemic is undertaken to assess their macroeconomic outcomes and explore the impact of these policies on long-term resilience. The objective is to provide sustainable and timely policy intervention recommendations for future crises.

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2. Fiscal policy responses and evaluations

2.1. Fiscal policy framework and implementation

Australia's COVID-19 fiscal policy featured wage subsidies and business aid, notably the JobKeeper Payment, which supported employers, sustained employment, and stabilized incomes. This program was implemented rapidly by leveraging existing payroll and tax infrastructure, allowing the Australian Taxation Office to reimburse employers bi-weekly and thus deliver support within weeks of the March 2020 lockdown. Furthermore, the government implemented provisional tax abatements and substantive capital expenditure programs to catalyze aggregate demand [1]. In addition to federal initiatives, Australian states and territories implemented assistance programs for businesses and households, allocating roughly A$233 billion in additional stimulus, which equates to about 8% of the country's GDP [2]. This coordinated national–subnational effort enabled a swift and relatively uniform rollout of fiscal aid across the country.

In contrast, the United States implemented a series of broad-based stimulus packages, notably the Coronavirus Aid, Relief, and Economic Security (CARES) Act in 2020 and the American Rescue Plan Act (ARPA) in 2021. These interventions encompassed direct financial assistance to individuals, prolonged unemployment compensation, and aid for subnational governmental entities [3]. The U.S. faced the logistical challenge of delivering relief in a federal system, which was addressed through multiple channels. In a rapid response, the Treasury, in conjunction with the Internal Revenue Service (IRS), disbursed economic impact payments—commonly known as stimulus checks—to nearly 90 million U.S. citizens by mid-April 2020. This distribution occurred in under three weeks following the enactment of the CARES Act [4]. Enhanced unemployment benefits were administered through state labor departments, leading to delays in states with older administrative systems. Additionally, the Paycheck Protection Program (PPP) provided forgivable loans to small businesses via private banks backed by federal guarantees, launching just days after the CARES Act's enactment. The federal relief measures in the U.S. also featured significant allocations to subnational entities—roughly $150 billion via the CARES Act and $350 billion via the ARPA—intended to bolster local public health initiatives and critical infrastructure [5].

2.2. Policy implementation effect analysis

The fiscal stimulus in both countries was intended to boost aggregate demand and stabilize economic output. In Australia, the JobKeeper program demonstrably mitigated the maximum unemployment rate, thereby expediting the labor market's recuperation beyond preliminary projections [6]. GDP growth rebounded sharply in the latter half of 2020, supported by government spending and resilient consumer confidence. In the United States, the direct cash transfers and enhanced unemployment benefits significantly increased disposable income, resulting in short-term consumption boosts. Nevertheless, the heterogeneous impact of these interventions across demographic strata was constrained by income inequality and structural asymmetries within the labor market [7]. For example, lower-income and minority households in the U.S. had less access to employment that could be maintained via remote work or wage subsidies, dampening the relative benefits they received. Moreover, the large fiscal deficits raised concerns regarding long-term debt sustainability, especially in the U.S. case. Sectoral analysis suggests that hospitality, retail, and small businesses were the most sensitive to fiscal support, underlining the importance of targeted rather than universal measures. Both countries' experiences underscore that the design of fiscal interventions (e.g. broad-based stimulus checks versus targeted wage subsidies) and the

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implementation mechanisms (federal versus state delivery) have significant implications for who benefits and how quickly the stimulus filters through the economy.

3. Monetary policy innovations and effectiveness

3.1. Policy tools and innovations

The Reserve Bank of Australia (RBA) and the U.S. Federal Reserve (Fed) responded rapidly to the financial turmoil triggered by the pandemic. Still, they adopted distinct strategies reflecting national priorities and institutional contexts.

The Reserve Bank of Australia (RBA) has implemented an unprecedented reduction in the official cash rate, setting a new nadir of 0.1%. Concurrently, the RBA initiated an unorthodox monetary strategy, Yield Curve Control (YCC), designed to stabilize interest rates for three-year government bonds, with the intent of propagating influence across the yield spectrum [8]. It also launched a Term Funding Facility to provide low-cost, long-term funding to banks. These measures aimed to ensure liquidity, reduce borrowing costs, and support lending. The RBA expanded its policy toolkit in November 2020 by initiating longer-term government bond purchases, resembling Quantitative Easing (QE). Consequently, its balance sheet experienced substantial expansion, escalating from approximately A$170 billion pre-pandemic to a zenith of roughly A$650 billion by March 2022, correlating to about 29% of GDP [1]. These acquisitions of assets compressed yields along the yield curve, decreased the cost of debt, and incentivized investors to pursue higher-risk investments. Explicit forward guidance further solidified the anticipation that interest rates would remain suppressed for a prolonged duration [6].

In the U.S.A., the Federal Reserve System reduced the federal funds rate to its lower bound and implemented several iterations of quantitative easing, injecting trillions of USD into the financial infrastructure to stabilize market liquidity and sustain credit intermediation [9]. Beyond conventional QE, the Fed introduced emergency lending facilities to support corporate bond markets, money market mutual funds, and municipal debt. The Federal Reserve's balance sheet burgeoned, expanding from approximately $4 trillion in early 2020 to a zenith of nearly $9 trillion by late 2021, constituting roughly 41% of the U.S. gross domestic product at that juncture [3]. Unlike the RBA’s emphasis on interest rate targeting through YCC, the Fed relied on large-scale asset purchases and broader market interventions. Forward guidance also played a key role in shaping expectations, anchoring short-term rate forecasts and enhancing the stimulative effect of asset purchases.

While both central banks pursued innovative monetary policy by extending beyond conventional tools, their approaches diverged: the RBA focused on yield curve targeting and selective asset purchases. At the same time, the Fed employed broader, aggressive balance sheet expansion and market-wide interventions. Both strategies, however, transmitted stimulus through balance sheet channels and forward guidance, contributing to improved financial conditions and economic stabilization.

3.2. Empirical assessment

The effectiveness of monetary interventions can be evaluated through their impact on interest rates, inflation outcomes, market expectations, and asset price stability. In Australia, the YCC policy initially succeeded in lowering long-term yields, contributing to reduced borrowing costs and supporting interest-sensitive sectors such as housing. The RBA’s targeting of the 3-year yield (at

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0.25% and later 0.10%) firmly signaled low-rate conditions and was largely effective until late 2021. However, the RBA discontinued YCC in November 2021 and initiated aggressive monetary tightening due to the global inflation surge in 2021–2022 [10]. In the United States, the Fed's QE measures helped prevent a financial meltdown at the pandemic's onset and buoyed equity markets.Critics, however, contend that sustained asset acquisitions may have fostered asset price inflation and exacerbated wealth disparity [11]. Market-based indicators such as breakeven inflation rates and credit spreads reflected the impact of these policies. During the most accommodative phase, risk premiums declined and measures of financial stress abated, indicating restored investor confidence. Yet, the delayed policy normalisation raised concerns about inflation anchoring and central bank credibility. By early 2022, both countries saw inflation reach multi-decade highs (consumer price inflation peaking around 7% in Australia and over 8% in the U.S.), prompting their central banks to tighten policy more abruptly than anticipated. The Fed commenced rate hikes in March 2022 and the RBA in May 2022, ending an era of ultra-low rates. Analyses of financial markets and surveys in 2023 suggest that despite response delays, long-term inflation expectations in both economies remained near the 2% target [7, 8]. This suggests that credible communication and the strong anti-inflation commitment of both central banks helped prevent a de-anchoring of expectations even as actual inflation spiked. Empirical research employing VAR models and counterfactual simulations has demonstrated that, without the prompt actions of 2020, the recessions in both nations would have been considerably more profound and the financial disruptions markedly more severe [12]. At the same time, the 2022 experience underscored the challenge of calibrating exit strategies: withdrawing monetary stimulus too slowly risked letting inflation get entrenched, whereas withdrawing too quickly could unsettle the recovery. Striking this balance was a key test of the innovative tools deployed during the pandemic.

4. Policy innovation and long-term economic resilience

4.1. Financial stability and risk comparison

Ensuring long-term financial stability was a shared objective of both countries' post-crisis policies. Australia entered the pandemic with relatively low public debt and a well-capitalised banking sector, allowing greater flexibility in supporting liquidity. 2020–2022, Australia maintained low corporate default rates and stable housing prices, though household debt remained elevated [13]. To absorb the shock, Australian banks granted repayment deferrals on A$250 billion in loans, 11% of housing loans and 18% of small business loans, thanks to the RBA's liquidity injections and regulatory measures [9]. These actions and substantial fiscal support prevented a cascade of business failures. In contrast, the United States faced pre-existing vulnerabilities such as higher corporate leverage and a fragmented regulatory oversight landscape. While a catastrophic financial catastrophe was averted in 2020, risk exposure in the non-bank financial sector and corporate bond markets escalated markedly [14]. The Fed's emergency facilities tempered these risks by providing backstops for key markets (for instance, through corporate bond purchasing programs and swap lines to foreign central banks). Still, areas like money-market funds and parts of the shadow banking system remained fragile. Both countries witnessed asset price inflation and increased household indebtedness during the prolonged period of low interest rates, raising medium-term concerns. In the housing market, prices surged in 2020–21 in both Australia and the U.S., fueled by cheap credit and pandemic-related shifts in housing demand. While rising asset values shored up household wealth, they also amplified the risk of corrections. Prudential tools implemented before the pandemic, such as bank stress testing and capital buffers, proved crucial in absorbing shocks and preventing a broader

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financial crisis. For instance, U.S. banks commenced the pandemic with substantial capital and liquidity reserves, a result of post-2008 reforms, which allowed them to extend credit and mitigate losses. Australian banks were "undeniably robust" in capital levels [10]. Overall, each country's financial system showed resilience, but the composition of risks differed, reflecting structural differences in financial markets and regulatory regimes.

4.2. Structural transition and emerging sectors

Fiscal and monetary innovations also aimed to facilitate structural transformation toward more sustainable and digital economies. Australia's policies explicitly promoted digitalization and renewable energy investments through targeted subsidies, tax incentives, and infrastructure grants (for example, programs supporting residential construction such as HomeBuilder had spillover benefits for the construction supply chain and adoption of digital tools in that sector). After the 2021 administration shift, the U.S. government highlighted industrial policy measures in recovery packages. The American Jobs Plan and the 2022 Inflation Reduction Act (IRA) provided significant investment for domestic manufacturing, clean energy, and technology infrastructure [15]. These measures were complemented by earlier emergency relief that kept firms afloat, effectively giving the economy a bridge to transform once the immediate crisis abated. Empirical indicators suggest that both economies experienced growth in digital and green sectors as a share of GDP from 2019 to 2023, reflecting the impact of policy direction on sectoral reallocation [16-19]. For instance, the adoption of telemedicine, e-commerce, and remote work technologies accelerated in both countries due to the pandemic, and government incentives further entrenched some of these shifts. In energy, Australia's subsidies for renewable projects and the U.S.'s tax credits for clean energy and electric vehicles (under the IRA) spurred investments in these emerging industries. These structural changes will likely have long-term benefits by improving productivity and sustainability, but they also require effective reallocation of labor and capital. Thus, both countries paired short-term stimulus with longer-term strategic investments, attempting to use the crisis to drive future-oriented change.

5. Conclusion

This paper has compared Australia's and the United States' fiscal and monetary responses to the post-pandemic economic crisis. The findings reveal that Australia focused on wage subsidies and interest rate targeting mechanisms, such as Yield Curve Control, to preserve labor market integrity and control long-term yields. To stabilize demand and financial markets, the US used broad-based cash transfers and vigorous quantitative easing. Both techniques innovated but differed in distributional impact, recovery speed, and structural alteration. Australia's targeted approach (complemented by more centralized delivery) supported a more cohesive rebound in employment. At the same time, the U.S. saw a stronger consumption-driven recovery, albeit with increased inequality and some financial imbalances. Mid-term assessments indicate that both countries averted worst-case economic scarring. Australia must manage high consumer debt and normalize policy without derailing growth, while the U.S. must deal with rising underlying inflation pressures and a tighter fiscal outlook. The analysis suggests several policy recommendations: tailoring fiscal tools to demographic and sectoral needs, refining monetary frameworks to manage inflation expectations without inducing financial instability, and rebuilding fiscal buffers during good times to enhance readiness for future shocks. The study's data coverage and inability to isolate policy impacts from global macroeconomic issues are limitations. Future research should use multidisciplinary models to

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evaluate crisis-era policy innovations' long-term consequences on productivity and inequality to create a globally integrated resilience policy architecture.

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