

Fiscal Compensation and Income Resilience under an External Shock: Evidence from Hubei, China

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Abstract

The outbreak of COVID-19 in 2020 not only worsened the global economy but also altered the consumption behavior of individuals and households. While lockdown policies effectively curbed the spread of the virus, their economic costs were partly offset by government fiscal transfers. This study examines this compensation mechanism in Hubei Province, China, during 2020. Using macro-level data from the China Statistical Yearbook, it applies the Synthetic Control Method (SCM) and several of its extensions to evaluate the economic consequences of the pandemic. Specifically, it investigates the effects of the COVID-19 shock on per-capita individual income, household expenditure, and government medical spending. The results show that, in 2020, average individual income and private medical expenditure in Hubei declined by 4.7 percent and 15.2 percent, respectively, whereas per-capita government medical expenditure increased by 47.2 percent. These findings suggest that the negative income shock was largely absorbed through fiscal compensation and household adjustment mechanisms.

Key words: Cov-19; Lockdown Policy; Income and Expenditure; Synthetic Control

Method