INTRODUCTORY SERIES

This Bulletin Series has been designed to introduce students to a number of key economic concepts. By now you will have had the opportunity to learn how our market-based economy allocates resources to satisfy our unlimited needs and wants. You may have covered other concepts such as aggregate demand, economic growth, inflation, unemployment, the distribution of income and become aware of the importance of trade to the Australian economy. Hopefully, with help from this series students will have realised that Economics is not just about theories. The Commentaries which have been built into each topic have been designed to help you put each of the theories into a practical context.

The Budget

Recently the Government released its May Budget which outlined its planned levels of outlays/spending and revenue/receipts for the coming year. You have probably read or heard the opinions of many commentators and politicians about what the Government is trying to do with the current budget and the effect that it will have on the economy and the lives of Australians.

In this bulletin you will be taking an in-depth look at the recently released budget. You will look at its component parts, the major announcements made in it and how it is expected to impact the level of economic activity over the coming years.

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The 2018-19 Commonwealth Budget.................................Page 94
The Budget (part of Fiscal Policy) is an annual statement by the government of its planned outlays (spending) and receipts (revenue) for the coming year. Depending upon the composition of each and the overall balance between them, the government can use its budget to significantly influence resource allocation, employment, inflation levels and the business cycle.

The Commonwealth Government budget can be broken into two broad areas:

- **outlays** (government spending) and
- **receipts** (government revenue).

Some of the major categories of outlays include: health, education, defence, social security and welfare and general government services.

Changes to the levels of outlays reflect changing priorities that the government may have and decisions concerning outlays can be used to affect the way resources are allocated and incomes are distributed. For example, changes to welfare, health and social security payments impacts directly on the more needy members of our society. This is an important method of redistributing incomes. However it is often politically difficult for the government to make significant changes to welfare, health and education spending.

Receipts mostly come to the government through taxation.

Taxation receipts can be broken into direct and indirect taxes.

- **Direct taxes** are those paid by either individuals (income tax) or companies (company tax) to the government.

- **Indirect taxes** are paid by the producer and passed onto to the consumer. The Goods and Services Tax (GST) is an example of an indirect tax.

By changing tax rates the government can impact people’s incomes and directly influence their levels of spending.

**SKILL BUILDER TIP — SHORT REPORTS**

When writing a short report you must be precise and avoid using unnecessary words.

Try to think of a few key points that you wish to make and fully explain each.

For example, if you have a 300 word limit, think of 3 or 4 key points that you wish to cover and are appropriate to the report content. Draw on current examples and refer to relevant statistics as applicable to support commentary.
Below is a breakdown of revenue and spending from the recently announced 2018-19 budget.

**Figure 22.1**

Total revenue for 2018-19 is expected to be $486.1 billion, an increase of 6.6 per cent on estimated revenue in 2017-18. Total expenses for 2018-19 are expected to be $488.6 billion, an increase of 4.2 per cent on estimated expenses in 2017-18.

**Where revenue comes from (2018-19)**

- Individuals income tax $222.0 billion
- Non-tax revenue $34.1 billion
- Customs duty $16.5 billion
- Fuels excise $10.5 billion
- Sales taxes $72.1 billion
- Other excise $3.8 billion
- Other taxes $10.1 billion
- Company and resource rent taxes $22.0 billion
- Superannuation taxes $10.4 billion
- Fringe benefits tax $4.3 billion

**Where taxpayers’ money is spent (2018-19)**

- General public services $231.1 billion
- Defence $31.2 billion
- Education $34.7 billion
- Health $78.0 billion
- Social security and welfare $175 billion
- Other purposes $68 billion
- All other functions $49.7 billion

*Source: 2018-19 Budget Overview: Appendix B – Revenue and Spending*
COMMENTARY

Some of the major initiatives announced in the 2018-19 Budget included:

Tax

- Cuts to personal income tax rates via a seven-year tax plan. This will in the short run provide lower tax rates for low and middle income earners. Over 10 million low and middle income Australians will receive up to $530 in tax relief for the 2018-19 income year. High income earners will pay lower tax rates from July 1 2024.
- Making multinationals pay their fair share of tax — new rules will be put in place together with a Tax Avoidance Taskforce to ensure that multinationals comply with the law.
- Targeting organised crime and tax evasion by establishing a Black Economy Task Force
- Extending the $20 000 instant asset write-off provisions for small businesses

Infrastructure

- Implementation of a $75 billion 10-year national infrastructure plan which will improve road safety, tackle congestion and deliver essential rail links both within the major cities and across regional Australia.
- Improving water infrastructure and the accuracy of GPS for regional Australians and increasing access to a broader range of agricultural and veterinary chemicals.

Health

- Improvements to the quality of care and safety in aged care services to guarantee and respect the dignity of older Australians.
- Support for the mental health of older Australians will be boosted while helping them to remain in their homes and connected to the community.
- A new public hospital agreement will deliver more than $30 billion in additional funding between 2020-21 and 2024-25 — a 30 per cent increase over the previous five years.
- Funding for the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS) is guaranteed through the Government legislated Medicare Guarantee Fund with $34.4 billion being credited to the Fund for the current year and a further credit of $35.3 billion will be made to meet estimated MBS and PBS expenditure for 2018-19.

Environment

- New funding for biosecurity and better management of pests and weeds
- Investing more than $500 million to secure the future of the Great Barrier Reef and the jobs it supports, including through improving water quality, combating crown-of-thorns starfish and conducting scientific research.

Education

- Support for Australians to develop the skills they need in a smarter economy by investing in research, science and technology jobs and maintaining our reputation as a global industry leader in medical research.
- Increased levels of needs-based school funding to achieve better results for Australian students and to provide more support. This will be achieved through the $24.5 billion Quality Schools package.

Research and Development

- Supporting medical research through the establishment of a 21st Century Medical Industry Growth Plan which will deliver $1.3 billion to support Australia as a global health industry leader in medical technology, biotechnology and pharmaceuticals while improving health outcomes for all Australians through investments in medical innovation.
The Budget Outcome

The budget outcome represents the difference between outlays (spending) and receipts (revenue). If outlays are greater than receipts, this will result in a budget deficit which tends to have an expansionary effect on the economy and is mostly used when the government believes that the economy needs stimulus. If the opposite occurs and receipts are greater than outlays, this will bring about a budget surplus. Surplus budgets are used to slow aggregate demand and the rate of growth of the economy.

The budget outcome for 2018-19 is expected to be a deficit of $14.6 billion, or equal to 0.8 per cent of GDP. This compares with the 2017-18 budget which is predicted to be a deficit of $18.2 billion or 1.0 per cent of GDP. This means that the government expects this year’s budget to not be as expansionary as last year’s. This is due to the fact that the government is aiming to return the budget to surplus by 2019-20. It wishes to do this because for the last decade Australia has been running budget deficits which need to be financed through government borrowing from either local sources or from overseas.

The accumulation of debt is a concern for the government. If deficit budgets are allowed to continue, more money needs to be borrowed by the government to finance these deficits. As a result, more government outlays will be needed to pay interest on debt. This will mean that less will be available to finance other national needs.

1. Explain the difference between a budget deficit and a budget surplus.

2. When is a government most likely to use each type of budget? Explain how each can be used to affect the economy’s rate of growth.

3. Use your text to explain the difference between a direct and an indirect tax.

4. What percentage of total revenue do direct taxes represent? (Refer to Figure 22.1)

5. Describe how any three initiatives announced in the budget will act to:
   - redistribute incomes and
   - affect the way resources are allocated

6. How will the announced changes in the budget impact:
   - high income earners
   - low to middle income earners/families
   - welfare recipients
   - the nation’s supply capacity

7. Newshound
   You are a reporter for the Economics Times Newspaper and your editor has asked you to write a short article about the recent budget and what the Government is trying to achieve through its planned outlays and revenue. You have been given a 300 word limit. Your article should be based on the information above.
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