ECONOMICS

HSC Economics Assessment Task Number 3:
2009/10 Federal Budget

The annual federal budget forms the basis of fiscal policy. Governments use their spending regimes and taxation systems to influence the level of economic activity in an attempt to achieve conflicting economic objectives. The 2009/10 budget was handed down by the treasurer Wayne Swan on Tuesday 12/5/2009.

There were a number of major points within this budget, with the most significant feature being the huge $57.6 billion headline budget deficit. The last annual federal budget recorded a $23.1billion surplus and expectations were that this would be continued by the current government. Due to the global financial crisis though, economic objectives and conditions were severely altered. The deficit is the largest debt in modern Australian history and includes spending equal to 29% of GDP.

The central focus of this budget was the discretionary Government spending with the $22 billion "national building" scheme to support the recovery of the economy. This included the $8.5billion "Building Australia Fund" for development of roads, railways and ports, along with a $4.5 billion clean energy initiative that focuses on clean energy and greenhouse gas abatement technologies. The nation building scheme also includes over $5 billion on hospitals, healthcare, education research, tertiary education and jobs training programs.

The biggest beneficiaries from this budget were pensioners who will receive an extra $32.49 a week for singles and an extra $10.14 for pensioner couples. On the other hand though, the pension age was increased from 65 to 67. This change will be introduced gradually from 2017 until 2023.

Carers will also benefit from additional carer payments plus a one-off annual payment of $600.

The paid parental leave scheme was also a major feature of this budget, with new parents receiving 18 weeks of paid parental leave at the adult minimum wage rate.

Spending also included an extension of the first home owners grant, increased small business tax and investment benefits, increased incentives for rural doctors and improvements to the student income system by widening the eligibility criteria, benefiting over 67000 students.

While spending was the major focus of the 2009/10 federal budget, savings were also made in various areas.

Superannuation concessions and co-contributions were decreased and cuts were made to the Medicare 30% rebate and safety net system. Families earning over $240,000 p.a. will no longer qualify for any Medicare rebate.

By 2012/13 it is hoped that savings will match the $22 billion spending.

Fiscal stance is what impact the budget outcome is likely to have on economic activity. It can be expansionary, neutral or contractionary, depending of the current economic situation and objectives. The 2009/10 budget was highly expansionary, aiming to increase the level of economic activity. The Government achieved this by reporting a large deficit and undertaking additional discretionary spending. Fiscal stance is usually measured by the structural component of the budget, also known as the discretionary element.

These are the deliberate changes to spending and taxation as opposed to automatic stabilisers that change with economic activity.

The expansionary stance of the current federal budget was achieved by taxation cuts and additional government spending as outlined above. The budget included $22 billion of additional spending that was taken partly from previous budget surpluses and partly borrowed from overseas. The tax cuts since 2008/9 lost the government around $210billion in revenue.

While budgets are usually entirely contractionary or entirely expansionary, economist Ross Gittens suggested this budget was trying to spend and save simultaneously with large budget savings in some areas, for example the Medicare rebate cuts, paired with large levels of expenditure. While the budget included a number of saving initiatives, the savings were far outweighed by the additional expenditure, resulting in the $57.6 billion deficit and hence an expansionary budget stance.

Fiscal policy objectives include the six major conflicting economic objectives of sustainable growth, low unemployment, low inflation, external stability, equal distribution of income and wealth, and environmental management.

Current fiscal objectives are completely focused on keeping Australia economically stable in the current global financial crisis. Due to the collapse, or near collapse, of most of the major economies in the world, Australia came very near to experiencing a recession. It only just escaped the 2 consecutive quarters of negative growth, with a 0.4% in GDP increase over the last quarter. Current fiscal policy aims to foster spending and economic growth, to prevent recession and further economic downturn. The main focus will be on the economic objectives of growth and unemployment. Economic growth for the coming year is expected to be -0.5% and unemployment is expected to increase to 8.25%. This economic growth rate is undesirably low and the unemployment rate is too high, so both issues need to be addressed immediately.

The Government has stimulated the economy by distributing cash payments to middle and lower income households to increase spending, and has increased incentives for businesses to invest. These initiatives will have a multiplier affect on the economy, creating more demand for labour, increasing disposable incomes, and encouraging further spending. This process includes time lags so will need to be monitored throughout the coming quarters to ensure Australia is in the best economic position to recover from the global recession.

The 2009/10 federal budget is expected to have an expansionary and stimulating effect on the economy. The cash payments should stimulate the economy in the short term, while infrastructure spending should have the effect of long term sustainability of stimulation for the economy.

Due to the additional spending, (resulting in such a large budget deficit) the economic effect should be one of positive growth. The government is predicting a 0.75% increase in GDP in 2009/10, and GDP of 4.5% by 2014/15, up from the current negative 0.5% GDP.

The additional spending also has negative effects. The deficit is 4.9% of GDP and the spending will exceed savings for the next 3 years. The annual interest payments will be of the order of $7.6 billion and this could harm the external balance and create uncertainty for investment. A large debt problem could also put a constraint on further economic growth.

The budget initiatives are also expected to address the economic issue of unemployment. Originally, unemployment was expected to reach almost 10%, but due to encouragement of economic activity, this figure is now expected to peak around 8.5%.

The budget plans have estimated to have saved approximately 210,000 jobs. An example of job savings is in the real estate sector. The governments extension of the 1st home owners grant means more people will be buying homes and applying for home loans, creating thousands of jobs in the industry.

The current budget will also have some effects on the economic objective of environmental management. It is important that the Government aims for economic growth while ensuring this growth is environmentally sustainable. Sometimes the objectives of growth and environmental management may conflict but Governments must try to find a suitable balance between the two. The current budget will positively affect environmental management, with the inclusion of a $4.5 billion clean energy and greenhouse gas abatement technologies proposal. This will both benefit the economic growth figures and help achieve environmentally sustainable growth.

A budget handed down in such difficult economic times will always attract criticisms and conflicting views about its effectiveness and as to how it has addressed economic problems. Looking at budget initiatives and lining them up with economic objectives, the 2009/10 budget seems to be a fairly appropriate response to Australia's current economic position.

The discretionary spending in different areas of the economy is appropriate to stimulate economic growth and to help prevent more negative growth quarters. This extra spending will also create more jobs and soften the effects of the global downturn. Instead of our economy shrinking by an expected 2.75% it can be limited to 0.5% shrinkage due to fiscal policy initiatives. It is considered good policy to increase spending in a recession and to record a budget deficit, as long as spending is responsible. Cost cutting is also normal policy in areas where it is excessive. An example of cutting spending to justify large spending in other areas is the Medicare cuts, where higher income earners have had their rebates decreased. The super concessions and co-contributions have also been reduced. While this does not benefit higher income earners planning to live off their superannuation reserves, it is a responsible and appropriate initiative by the government in the present economic conditions.

The budget also provided an appropriate response to the economic objective of income and wealth distribution in current economic situations. The government increased pension payments, but justified this with an increase in the pension age. Australia has an ageing population and this means the government is supporting people with the pension for much longer, as well as supporting some retirees that can live sufficiently off their superannuation. This is costing the government excessive amounts of money annually, and in tough economic conditions this needed to be addressed as the money was needed for other groups in society. The government's budget introduced a gradual rise in the pension age from 65 years old to 67 years old. This increase will take place between 2017 and 2023.

While the budget reported the biggest deficit in modern Australian history that means Australia will be in debt for 10 years, the budget was a very appropriate response to current economic conditions in Australia. The extra spending was responsible, stimulating the economy as a whole, and targeting the groups that needed it most, for example, the single household pensioners. The spending was also paired with savings in some areas of the economy, such as health insurance and superannuation.

The Governments quick response has also been congratulated by many. In the 1991 recession, Government reactions were less drastic and meant the recession was prolonged.

The scale of the current deficit is expected to help the Australian economy return to positive growth more quickly.

As expected, the budget did attract some criticisms from various sources. Economist and journalist, Adele Horin, criticised the budget for irresponsible spending, and failing to meet the needs of some of the neediest groups in society. The budget focused on increasing pension rates, when the "Harmer Pension Review" found that most couple pensioners did not need an increase, while no unemployment benefits were included in the budget. Horin believes more money should have been taken from the upper-middle classes so that benefits could be extended to other needier groups.

Economist Ross Gittens also criticised the 2009/10 federal budget, stating the Government were acting too early. Gittens described the budget as "planning the clean-up after the cyclone, even before the cyclone's hit". The government was already focusing on how to recover the economy, even though the recession has only just reached Australia. Gittens is worried the worst of the recession is yet to come, and when it does, Australia won't be able to react appropriately, because they have already done all they can.

The 2009/10 budget was received favourably on the whole, with most agreeing it addressed the most important economic issues, but many believe the budget should have been harsher. More cuts should have been made due to the difficult economic times.

Despite criticisms, this budget seems a very appropriate response to the current economic situation. While it may be slightly premature and does not benefit all groups, it aims to address a number of key economic objectives and soften the blow of a global economic downturn, which is the highest priority of both Australian and global Governments at the present time.

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