

Analyzing the Australia's Budget between the years 2002 and 2003

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A budget is an estimate of Commonwealth revenue and expenditure for the forthcoming fiscal year. The Budget contains information on matters such as economic forecasts, the provision of G/S, the Government's social/political priorities and how the Government intends to attain these priorities.

The main objectives of the federal government are to gain:

- full employment of people 15-over who are willing and able to work
- price stability - government attempting to maintain stable prices by controlling inflation rates
- external balance - low current account deficit
- economic growth - increasing real GDP per capita so living standards improve

The role of a budget is to assist the government in achieving its economic objectives. The 3 possible budget outcomes are a Budget Surplus, this occurs when total level of economic activity is reduced by increasing taxes and lowering government spending. A Fiscal Policy is the use of government taxes and spending to alter macroeconomic outcomes. The contractionary fiscal policy ($G < T$) would be used to reduce spending and inflation. A Balanced Budget is the effect of the neutral stance of fiscal policy ($G = T$) where government spending is fully funded by tax revenue. Tax payers may spend/save less. A Budget Deficit increases output and level of economic activity by lowering taxes and increasing government spending. The expansionary fiscal policy ($G > T$) increases the amount of money available to the population.

The Government is budgeting for a \$2.1 billion surplus in 2002-03 although most countries in the OECD are expected to be in deficit. Strong growth in business investment should drive overall economic growth with low interest rates, low inflation and falling unemployment.

Strong economic and productivity growth is leading to the creation of new jobs, which will support continued growth in household consumption. Stronger business investment will be reflected in higher imports. With economic growth strengthening and employers becoming more confident, employment is forecast to grow. Strong and stable terms of trade has helped to increase real incomes and reduce inflation

An intergenerational report provides long-term projections for government spending and drivers of budget pressures over the next 40 years

Australia's population is ageing. Women are having fewer children and people are living longer. Lower birth rates are likely to result in a reduced rate of growth in government spending on education and payments to families.

In the future, the government could face significant spending pressures because of growth in health, aged care and age pensions. As the population is ageing, people want access to the latest medical advancements.

A widening gap between spending and revenue could jeopardise Australia's future economic prospects and push the Budget into deficit. The gap between spending and revenue is projected to grow to around 5 per cent of GDP in the next 40 years.

The Government has taken measures in the Budget to address the aging population

The Budget contains a number of initiatives to help maintain the good health of the Australian people such as improving access to GPs in outer metropolitan areas and improving public safety and hygiene. Better residential and community care services are provided for older Australians. Measures in this Budget are taken to address rapid growth in the Pharmaceutical Benefit Scheme (PBS) and Disability Support Pension. This ensures affordable access to necessary medicines.

The Baby Bonus provides tax relief to families and will encourage them to have children. Lower birth rates are likely to result in a reduced rate of growth in government spending on education and payments to families.

In the future, with more older people, the working-age population and the number of workers will be low compared with the total population. With lower growth in employment, economic growth is slower. Government revenue increases with growth in the economy. If more people are in the workforce then economic growth will be stronger and the funding of government services will be spread more evenly across the population. Welfare reforms will encourage more people to join the workforce by providing greater opportunities for those who have some capacity to work.

Forward planning is important to face the challenges of population ageing and increased costs of accessing the latest medical advancements. Future spending pressures will need to be managed so the quality of life continues to improve.