

Australia federal budget critics

[Economics](#), [Tax](#)



Government has developed different measures through the Budget to overcome limitations in the free market economy. Thus, in the 2012-13 Federal budgets, it has in some degree successful to overcome these limitations. Introduce Budget The Australian Federal Budget is an official document that is presented in Parliament to the parliament by the Treasurer. Its main purpose is to reveal the governments planned expenditure and revenue for the next financial year. Limitation Under the free market system, some needs of the community may not be satisfied and this has then lead to limitations within the market. These limitations include the provision of goods and services, income distribution, externalities and fluctuation in the economic activity. Hence, the government has the responsibility to interfere the free market in order to assist in resolving and controlling these situations. Types of budget In each financial year the different planning for revenue and expenditure can result to a different budget outcome, they include three possible outcomes: 1. Balanced budget - revenue is equal to expenditure 2. surplus - Revenue is greater than expenditure 3. deficit - Revenue is less than expenditure These budget outcomes can affect the fluctuation of the economic activity, which is directly influencing the business cycles of booms and recession. Economic activity The growth or recession of economy can be indicated by the following activities: income level, unemployment rate, production and GDP. It is a key consideration for government to decide which fiscal policy stance they will imply in Budget. In an expansionary policy, government aim to increase the level of economic activity by reducing revenue or increase expenditure, while in a contractionary fiscal policy aim the decrease economic activities by

increasing revenue or increase expenditure In the following financial year, Government focus of fiscal policy has shifted from expansion to contraction, by achieving a small surplus of \$1.5 billion. Therefore government has decided to reduce greatly especially on the business tax cuts. However there have been concerns about the 'over-expected' economy, due to the fact that the non-GST revenue is \$4.5 billion lower than forecast, thus the effectiveness of government to make the coming year a surplus will be rarely low. Moreover, the low inflation also indicates that there will be a decrease in the economic activity in the following year, if government insist for a surplus may lead insufficient support to some community group, e. g. unemployment.

Revenue is the source of income for the government. 94% of the revenue comes from taxation sources, (whilst the remaining comes from the profits of government enterprise, interest etc.) Taxation can be taken directly and indirectly through personal income tax or the GST. Inequality of income Inequity of income is the failure of income distribution in the market, and will always be a problem in the free market. It will generate a disadvantage group which mainly involves the low education and low skilled levels of people. Most of these people are living in relative poverty, where their living standards were poor in comparison with the rest of the society. Therefore the government plays an important role in reallocating the income to help the disadvantaged group, e. g. by using to revenue to build a comprehensive system of welfare benefits, such as: aged pension and unemployment benefits. The government has developed the spreading of the benefits of the boom package, which will channel \$3.6 billion tax revenue from the MRRT to support households and businesses

include providing \$1.8 billion to increase the rate of Family Tax Benefit A. Meanwhile, government will also cut the tax rate for personal income tax mainly targeting the low and middle income group. The redistribute of resources will be effective to achieve a more balance distribution of income in the society and will narrow down the gap between the rich and poor.

Externalities are external consequences and events that the bodies within the free market would not expect and are unplanned. These externalities can create harmful effects on the economy especially on the environment. Greenhouse gases are an example of externalities caused by the burning of fossil fuels during commercial activities. Therefore, one of the key focus areas of the government is to reduce the damage caused by these externalities. In the coming year's budgeting, government had implied 2 new taxes: The carbon Tax which are subject to 500 largest polluter in Australia Mineral; And also the Mineral Resource Rent tax (MRRT) had apply an after-profit to mining projects . Both taxes were effective to reduce Australia's emissions of greenhouse gases that cause climate changes and increase the investment to renewable energy. Carbon taxes as it can encourage company develop policies to lower their carbon emission so to cut the cost. However, there has been concern of the fall of economy activity due to heavy after tax in the mining industry that Australia's economy has been relying on and which will lead to the decrease of investment in the industry.

Expenses refer to the government spending. It aims to redress the failure of the market to provide an allocation of resource and influence the decisions of customers and business by providing funding, subsidies etc. Goods and services Free market may sometimes fail to provide certain necessary goods

and service. Therefore, the government has to spend a lot of money and be in charge of providing them. These goods is mainly divided in : * Public good - difficult to prevent anyone from using, so it'll not possible to convince them to pay for them. E. g. the defense force service * Merit good - market has provided inadequate quantity of these products, e. g. health care system, education. Government has decided to put \$3. 7 billion to improve the age care system and \$515 million in the dental health services. It will be an effective preparation for the retirements of the 'baby boom' generation, whereas there will be a rapid increase of number of people using the system. However to the change of focus in the fiscal policy, government has decided to cut down \$5. 5 billion of defense services expenses which has raise worry about the ability of the defense force, and if it will be able to protect Australia where there's emergency. Conclusion In the 2012-13 Budget, government has acknowledged the limitations of the economy, and had applied numbers of policies to overcome them. Some of the policies are recognised to be making a positive impact to the economy, e. g. improving the age care system. Yet not all of them were necessary effective and may even lead to negative impact, e. g. achieving a small surplus in a low inflation period.