

Budget

[Economics](#), [Macroeconomics](#)



What are the macroeconomic effects of the budget proposal Movements and shifts of the curve 7. Conclusion 9 8. References 0 5. 2 . 6. 2 The first part of the assignment discusses the economic principles and criteria for a assessing a good budget proposal for any country. Section 3 discusses macroeconomic objectives of a budget, role of government and how it intervenes, tools available to government and the practical considerations (lags in the effects of fiscal policy) The next part of the assignment the team selected the 2009 South African budget proposal and listed all revenue and expenditure proposal 2.

What is a budget proposal Bedpan describes a budget as a " blueprint" for the nation, expressing the objectives and aspirations for the present and future for by the party in power. Mohr describes the budget is an instrument of the fiscal policy and determines the level and composition of government spending(G) and taxation(T). The Keynesian school of thought proposes that fiscal policy to be the most instrumental policy to influence total spending or aggregate demand (AD).

He lists the four functions of the budget as: Used to decide priorities Serves to evaluate specific public programmed, reviewing the state's activities annually used to increase economic growth and impact on development A system ofaccountabilityand controls over government officials and agencies, setting limits on their activities and safeguarding against corruption Obedient four groups of people involved in the national budget of South Africa and their roles in brief with regard to the budget are listed in the table below: The cabinet Controls the most critical decisions on the allocation of

public funds Civil servants Play supporting roles by providing information to politicians responsible for decision making Members of parliament

Acts as the defender of the public interest through its constitutional right to question reasons and feasibility Of each aspect Of the budget The public

Through organizations like Noose, interest groups, community based organizations and other bodies provide the voice of all members not directly involved in the budget process 3. Assessing government budget proposal 3.

1 Economic principles and criteria of good budgets The first step in determining economic principle and criteria for good budgets involves identifying what the budget proposal should achieve in terms of macroeconomic objectives. Mohr et al lists the following as the main macroeconomic objectives that can be used to judge a good performance of the economy: Economic growth Full employment Price stability Balance of payments (or external stability) Equitable distribution of income Efficiency T.

Manuel in delivering his 2009 South African Budget speech , emphasized the following five principles: Protecting the poor Sustaining employment growth and expanding training opportunities Building economic capacity and promoting investment Addressing the barriers to competitiveness that limit an equitable sharing of opportunities And maintaining a sustainable debt level that would not constrain our development tomorrow Mohr recognizes that the free market system allocates resources in the best possible way. However he also acknowledges that at times marketfailureoccurs where the market system does not achieve efficient allocation Of resources.

The market systems failures occurs in the following cases: Monopoly and imperfect competition Public goods Externalities Asymmetric information Common property resources Moor's summary of government's role is summarized on the table below: Role Aim Allocation function Correcting market failure and achieving a more efficient allocation of resources Distributive function Achieving more acceptable distribution of income Stabilization Promoting macroeconomic stability

3. 2. 1 How does government intervene The table below shows the five intervention options and examples of each that the government can use to achieve the above roles: Intervention Examples Public provision of goods and services through ownership or financing National Defense, hospitals, Eskimo, prisons Becoming a market participant Through price stability, income redistribution, Government spending

Transfer payments to change income distribution Taxation Personal Income Tax Regulation Labor laws, competition policy, anti-tobacco laws

3. Practical considerations: Lags in the effects of fiscal policy Recognition lags Implementation lags Response lags (603, 608) Therefore a good budget takes into cognoscente the macroeconomic objectives, address issues relating to market failures and takes steps address the needs of society and the scarce available resources. A good budget should also take into considerations the effects of lags in typefaces policy.

4. 2009 South African Budget proposal The group selected the 2009 South African Budget proposal. The budget speech was delivered by theFinanceminister Mr.. Tremor Manuel on the 1 lath February 2009.

The table below is a list the budget revenue and expenditure proposals:

Budget revenue proposals Budget expenditure proposals Taxes on income and profits Source: National Treasury 2009 Budget Review Statistical Table 2

and Table 3 5. Theory on economic principle of equity As stated in the preceding section, tax is one Of the instrumental tool available to government to achieve its roles of allocation and distributive unctiion's mainly through taxation. The criteria for a good tax proposal is that it must meet the following conditions: Neutrality Equity Administrative simplicity We now focus our attention and evaluate tax relief with reference to the criteria of equity.

Case and Fair refers to equity as fairness. Under this principle tax burden is distributed fairly. Two theories of equity or fairness exists. These are : 15, 16, 17 Benefits-received principles Ability-to pay principle 381 Under the benefits-received principle, taxpayers should contribute to overborne in proportion to the benefits they receive from public expenditures. This theory of fairness does not receive popular support as it is not possible to determine the value that taxpayers receive from public expenditures. The other theory of taxation, ability-to pay principle states that taxpayers should bear tax burdens in line with their ability to pay taxes. 5. 1.

Discuss vertical and horizontal equity. 17 In terms of tax revenue collected by government, horizontal equity relates to the concept of tax neutrality. It defines that the tax system should not criminate between similar things or people, or unduly distort behavior . Len other words, the people with a similar ability to pay taxes should pay the same or similar amounts. Vertical

equity usually refers to the idea that people with a greater ability to pay taxes should pay more. However, to those that believe in a flat tax, the idea of vertical equity could mean that the rich should not be punished for their success by paying higher taxes than others.