

WE GOT ONE & A HALF STARS FROM JOBSEEKERS
UNDER 55, A BIG THUMBS UP FROM BULK-BILLED
PATIENTS & A "LOVE YOUR WORK" FROM THE PETROLEUM
& GAS INDUSTRY..



BUDGET OUTCOMES & FISCAL STABILISERS

What does the syllabus say?

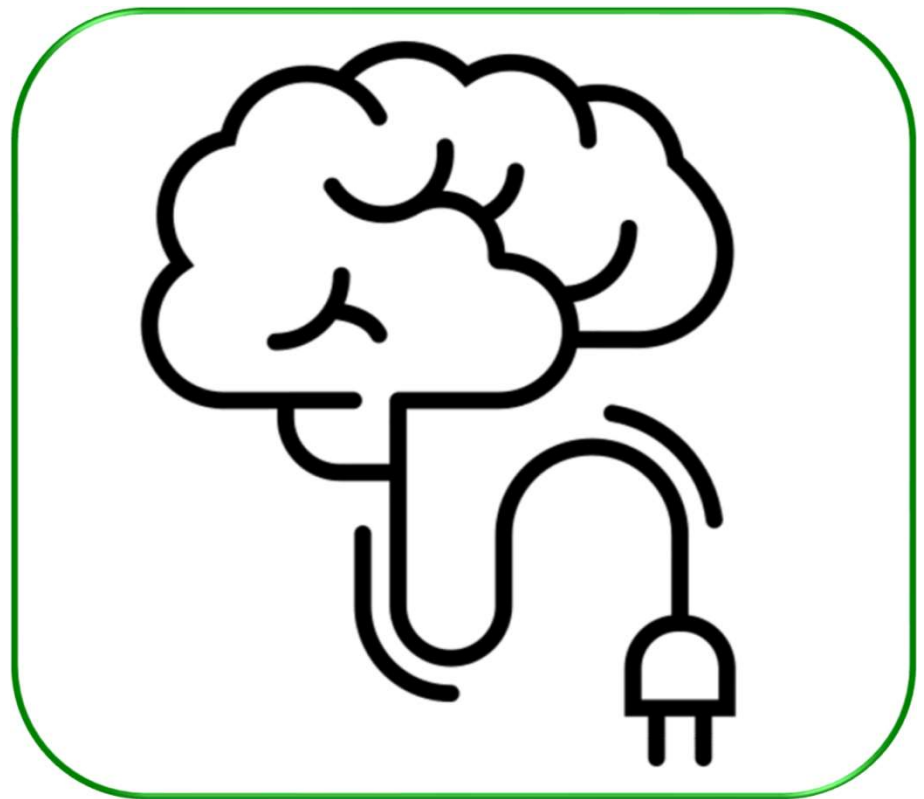
FISCAL POLICY

- the concept of fiscal policy
- the components of government revenue and expenditure in the budget
- the different budget outcomes i.e. balanced, surplus and deficit budgets
- reasons that account for differences between planned and actual budget outcomes
- methods of financing a budget deficit and the uses of a budget surplus
- the distinction between automatic fiscal stabilisers and discretionary fiscal policy
- the distinction between budget outcomes associated with automatic fiscal stabilisers and budget outcomes associated with discretionary fiscal policy
- the concepts of expansionary, contractionary and neutral fiscal policy stances
- the impact of different fiscal policy stances on the level of economic activity
- strengths and weaknesses of fiscal policy
- contemporary (the last three years) fiscal policy stances in Australia



Learning intention

We are learning about the government's use of fiscal policy in Australia.



Success criteria

- i. EXPLAIN what is meant by automatic fiscal stabilisers and discretionary fiscal policy.
- ii. DISTINGUISH between budget outcomes associated with automatic fiscal stabilisers and discretionary fiscal policy.
- iii. EXAMINE the 2022-23 Budget and discuss the likely impact of the two different types of stabilisers on economic activity.



Let's get started...

Review your understanding from yesterday's lesson by completing the following question:

- The actual budgetary outcome for 2022 – 2023 will be approximately \$4b. Discuss how this surplus might be used by the Albanese Government.



Key vocabulary



automatic
stabilisers

PAYG tax

welfare
payments

discretionary
stabilisers

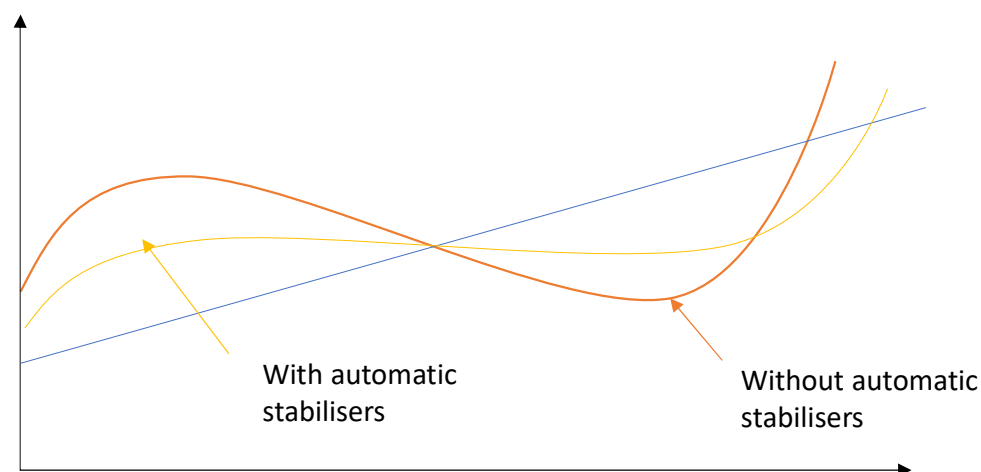
infrastructure

cyclical
balance

structural
balance

What are automatic stabilisers?

- Automatic stabilisers refer to adjustments in levels of revenue and expenditure and can result from changes in the level of economic activity (booms and recessions). These adjustments are beyond the control of the government.
- There are two main automatic stabilisers:
 1. Unemployment benefits
 2. PAYG income tax system
- Should the economy move into a downswing, claims for unemployment benefits will rise and government revenue from income tax will fall. The opposite effect will be noted during an upswing.



Time to think...

How will the low level of unemployment experienced during 2023-24 affect automatic fiscal stabilisers in Australia?



What are discretionary fiscal stabilisers?

- Discretionary changes in fiscal policy are deliberate changes in revenue and expenditure levels by the government.
- For example, in the 2020 the Federal Government announced discretionary spending measures such as the introduction Job Keeper and an increase in Job Seeker.
- These deliberate changes in the taxation policy altered the structural component of the budget and was used to stimulate and stabilise the economy in the medium-term.



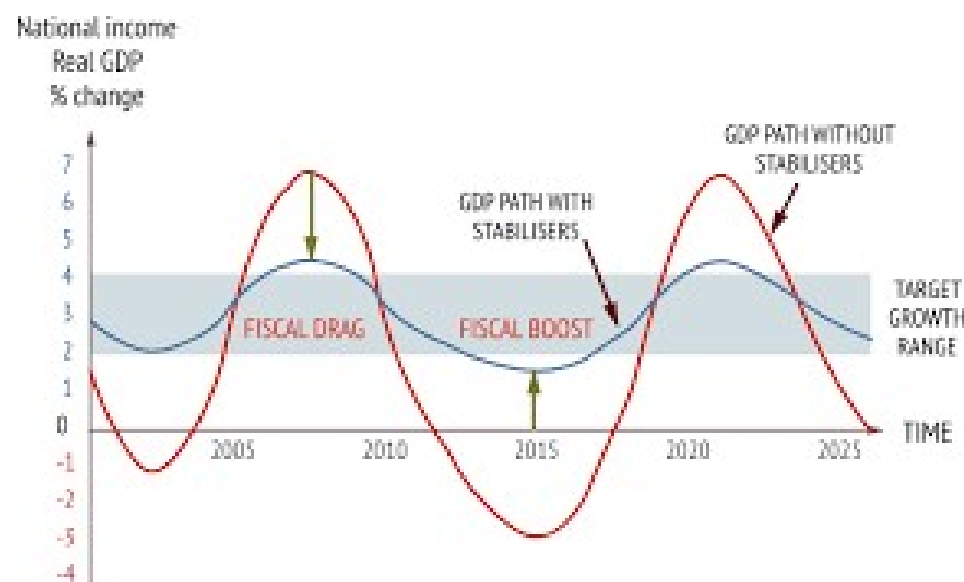
Time to think...

What are the similarities and differences between automatic stabilisers and discretionary fiscal policy?



What are discretionary fiscal stabilisers?

Automatic and discretionary fiscal stabilisers can both play a counter-cyclical role i.e. they tend to smooth out the effects of booms and recessions on the economy. The difference between the two is that automatic stabilisers come into play without the government having to take specific action. Discretionary stabilisers; however, require the government to pass legislation through the Parliament before they can come into effect.



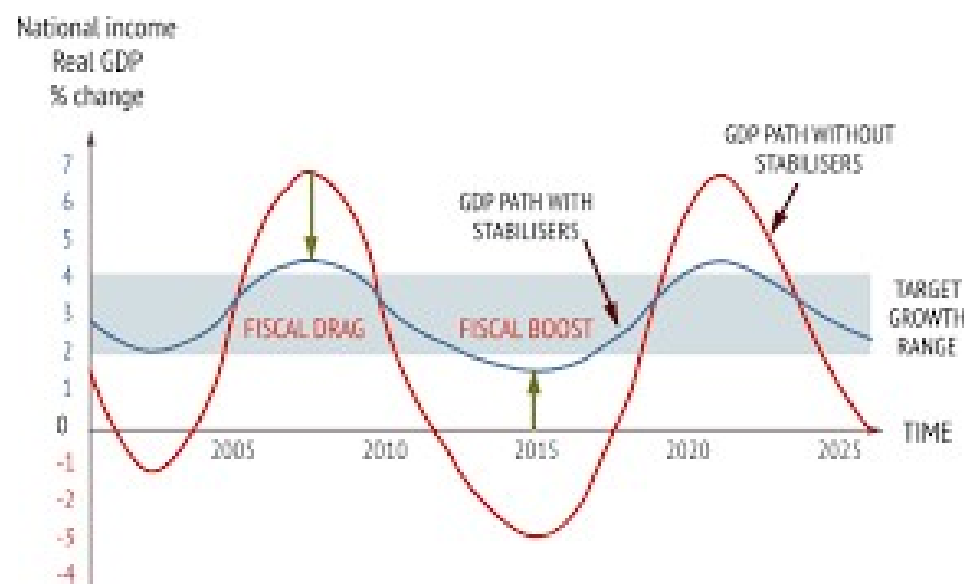
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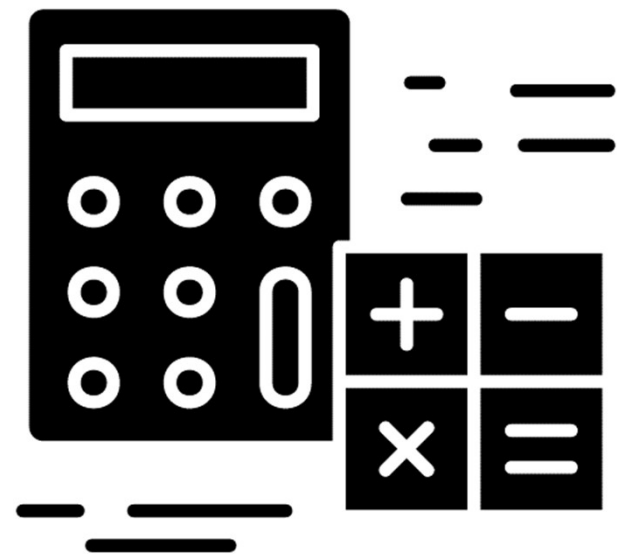
Time to think...

What do you think is meant by the cyclical component and the structural component of the budget?



How did you go?

The **cyclical component** of the Australian budget is related to those aspects of government expenditure and revenue that are related to automatic stabilisers which change automatically in line with the business cycle. The **structural component** of the budget refers to discretionary decisions made by the government related to government spending and revenue. The structural component of the budget may reflect fundamental changes in the economy such as an aging population.



Time to think...

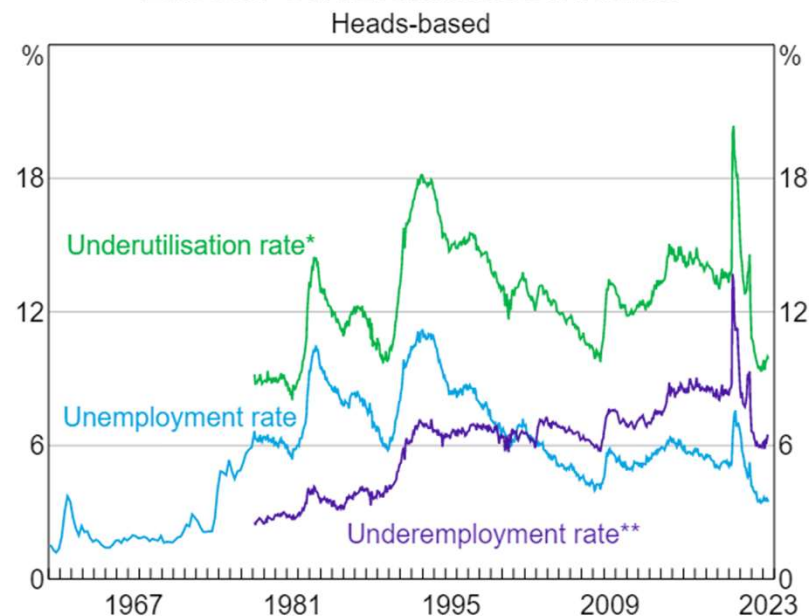
What are the differences between budgetary outcomes associated with automatic stabilisers and discretionary fiscal policy?



How do fiscal stabiliser affect the budget balance?

- Automatic fiscal stabilisers are associated with cyclical budget balances.
- In general, budget balances are cyclical.
- Surpluses tend to occur during times of strong GDP growth when tax receipts are up, and welfare spending is down.
- Deficits tend to occur and rise during times of economic slowdown, driven by a combination of declining tax revenues and rising welfare expenditure.
- It follows that a cyclical deficit will normally improve with economic growth.

Labour Underutilisation Rates



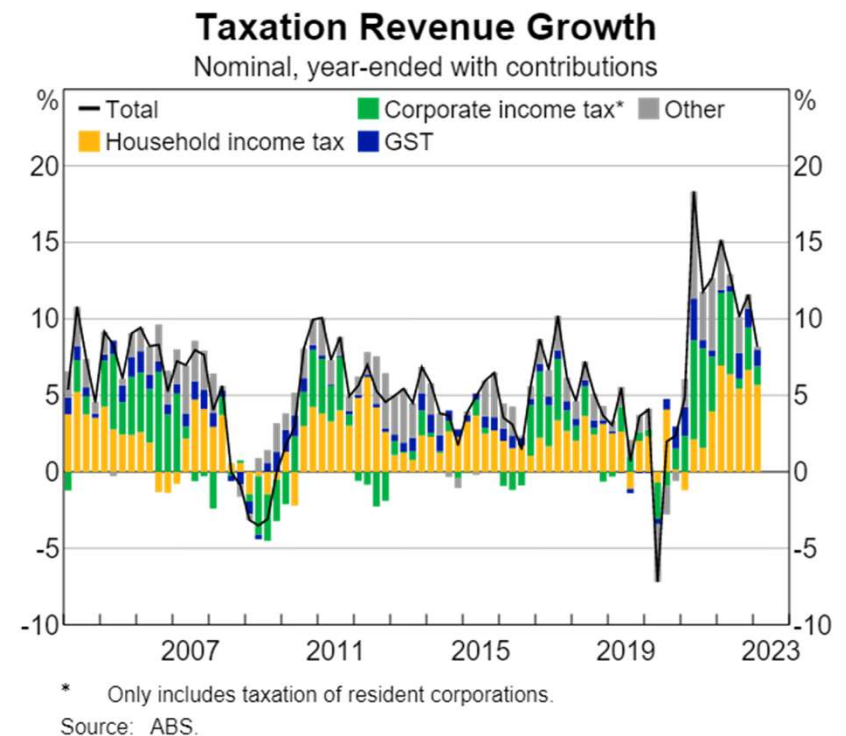
* Sum of the unemployment and underemployment rates.

** Employed people who want, and are available, to work more hours.

Source: ABS.

Time to work ...

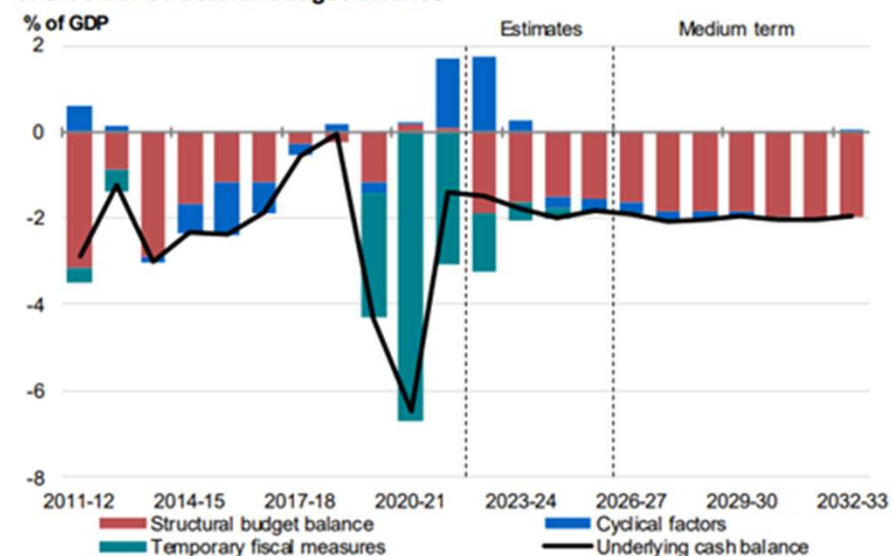
- i. Describe the overall trend in taxation revenue growth as a % of GDP from 2019 to the commencement of 2023.
- ii. Account for the trends in taxation revenue over this period of time.
- iii. How would these changes have affected the cyclical component of the Australian federal budget?
Improved it apparently
- iv. What impact would this have had on the actual budget outcome for the 2022-2023?



How do discretionary fiscal stabilisers affect the budget balance?

- Discretionary fiscal policy relates to the structural component of the budget.
- Discretionary fiscal policy may be used to stimulate the economy during an economic downturn i.e. having an expansionary effect.
- However, should the structural component of the budget move into deficit this will remain even when the economy is operating at its full potential.
- As such, deficits related to discretionary fiscal policy are regarded as a more serious problem than a cyclical deficit.

Chart 3.20: Structural budget balance



Before you go...

Australia's structural budget deficit in 2022-23 was caused by spending on aged care, hospitals, and defence expenditure. Assume that the structural deficit is equal to \$15b and the MPC is 0.5 then complete the following:

- Calculate the increase in income caused by this change.
- Show the impact of this change using an AE model.
- Discuss the impact of this spending on the Australian economy.



How can I support my learning from today?

- ☐ Test your understanding on the success criteria each day. Address any gaps in your learning.
- ☐ Pre-read Chapter Eight of the text.
- ☐ Take Cornell notes on Chapter Eight of the text organised under the syllabus dot-points.
- ☐ Create a glossary of key economic terminology.

Success criteria checklist

I CAN...

- ☐ EXPLAIN what is meant by automatic fiscal stabilisers and discretionary fiscal policy?
- ☐ DISTINGUISH between budget outcomes associated with automatic fiscal stabilisers and discretionary fiscal policy?
- ☐ EXAMINE the 2023-24 Budget and discuss the likely impact of the two different types of stabilisers on economic activity?