

## MACROECONOMICS AT WORK EXERCISE

### THE BUDGET SURPLUS AND TAX CUTS

**REFERENCE:** Tim Hughes, 'When tax cuts spell disaster', *The Courier-Mail*, 6 October 2003, p. 15.

**CHAPTERS RELEVANT TO THIS EXERCISE:** Chapter 15.

### OVERVIEW

In the 2002-03 financial year the total receipts of the commonwealth government exceeded its total expenditures in that time period by \$7.5b, thus yielding a realised budget surplus of this amount. This article raises both microeconomic and macroeconomic issues associated with the debate about whether or not the surplus should be returned to taxpayers in the form of tax cuts.

### QUESTIONS

1. What, specifically, is referred to by 'tax cuts'?
2. What are the most important microeconomic issues associated with tax cuts of the type advocated?
3. What is the popular argument put forward for tax cuts in the face of a budget surplus? Why is it suggested in the article that a budget surplus might more validly point to tax *increases* rather than tax cuts?
4. Explain the suggestion in the article that a 'less risky' use for a surplus would be 'increased spending on community services, such as health and education'.
5. What is the argument underlying the suggestion that if tax cuts were given, they would be better directed at lower income earners rather than higher income earners?
6. Why has it been suggested (e.g. by the Prime Minister) that the \$7.5b surplus might not even be available to hand back?