

How To Cut Budget

Deficit ?



董任远 ——

The Australian President

徐名珠 —— The Secretary

徐彬 —— Professional 1

罗尚 —— Professional 2

陈子俊 —— Professional 3



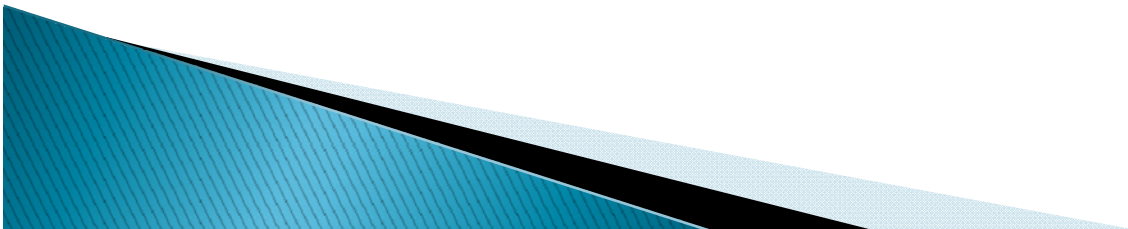
A Letter to the President

Dear and eminent president:

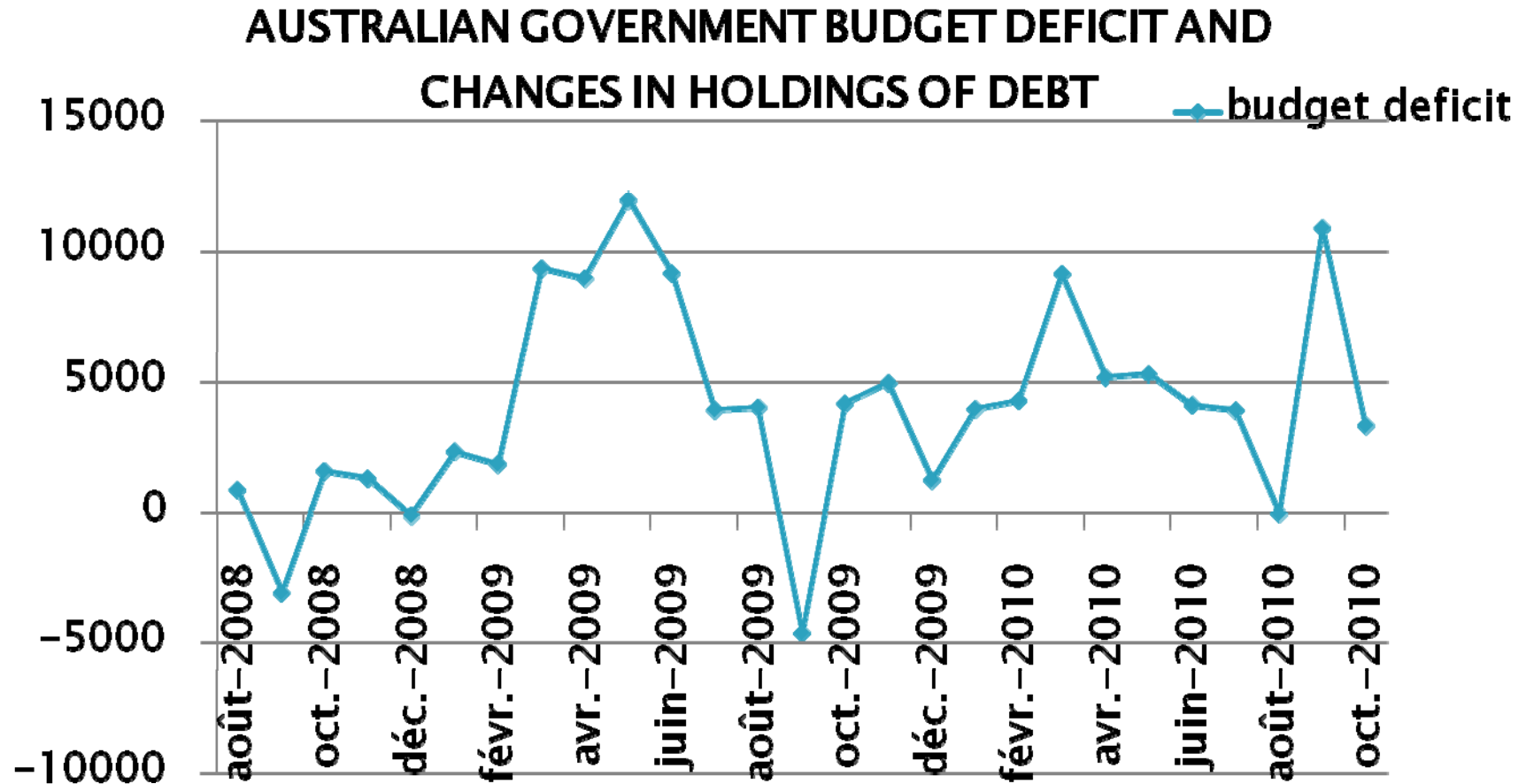
I was long inspired by your wise decision...

... (flattery) ...

The risk: uncontrollable size of the budget deficit



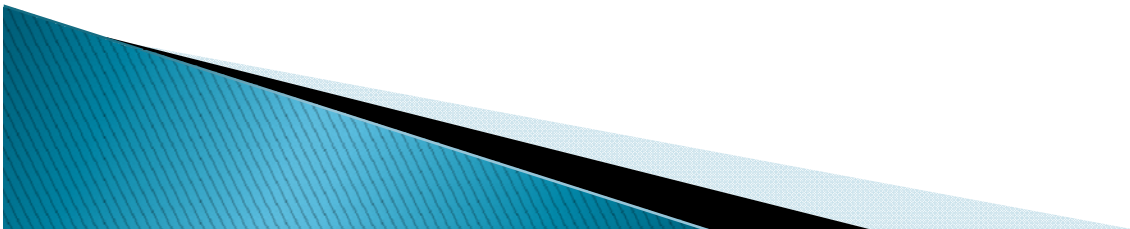
Evidence



Source: Australian Department of Finance Deregulation

Negative Effects:

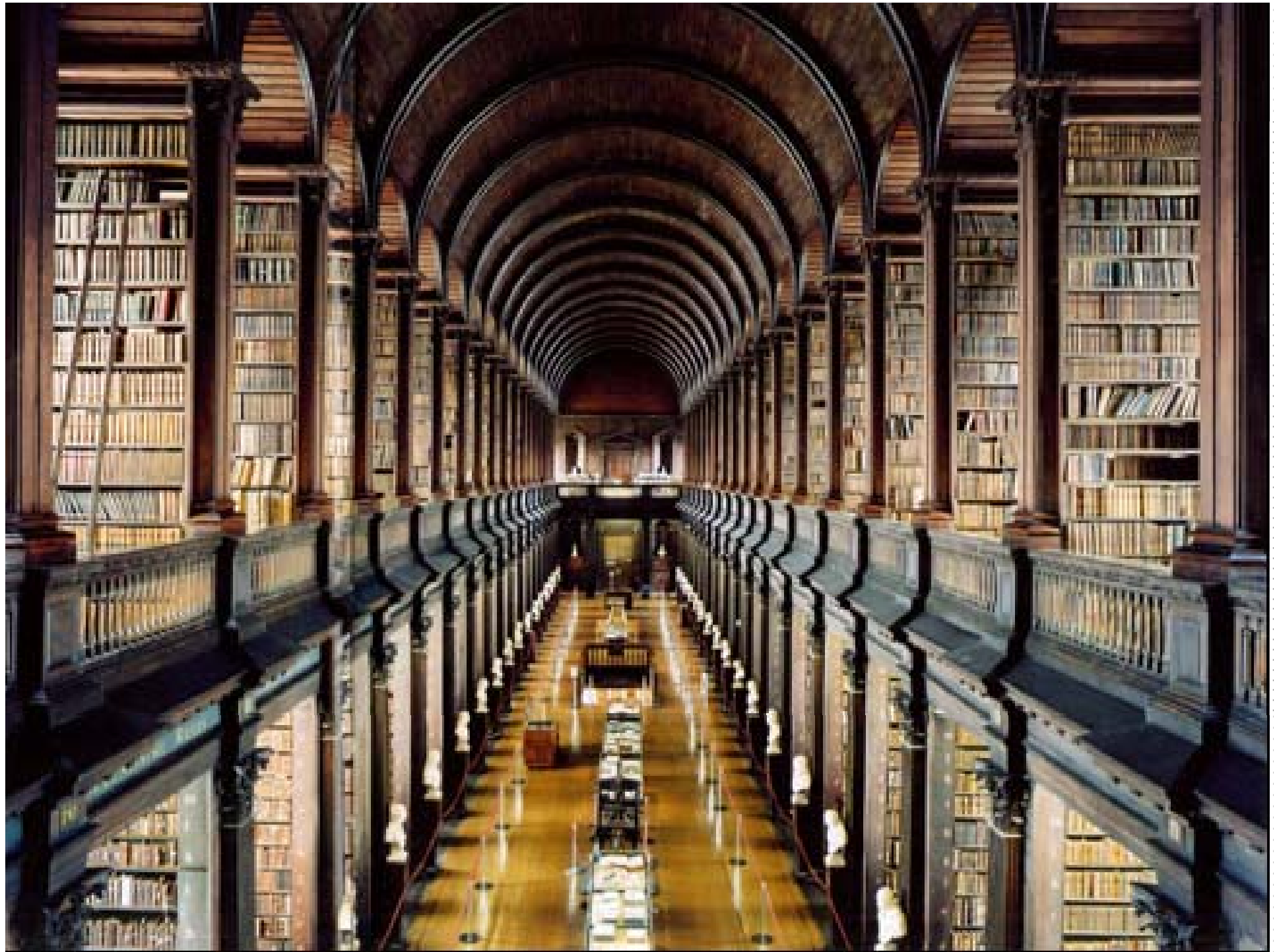
Equity
& Social welfare











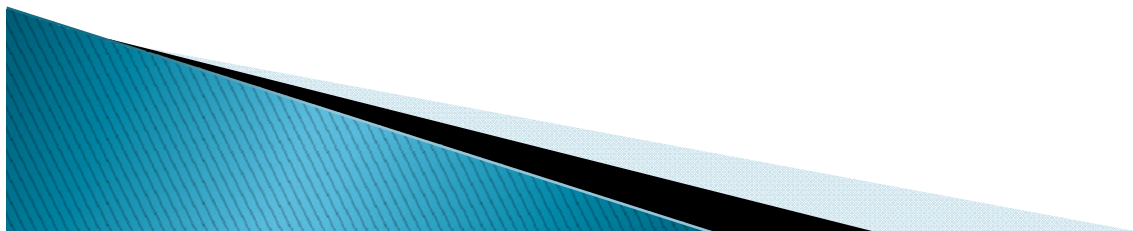


Negative Effects

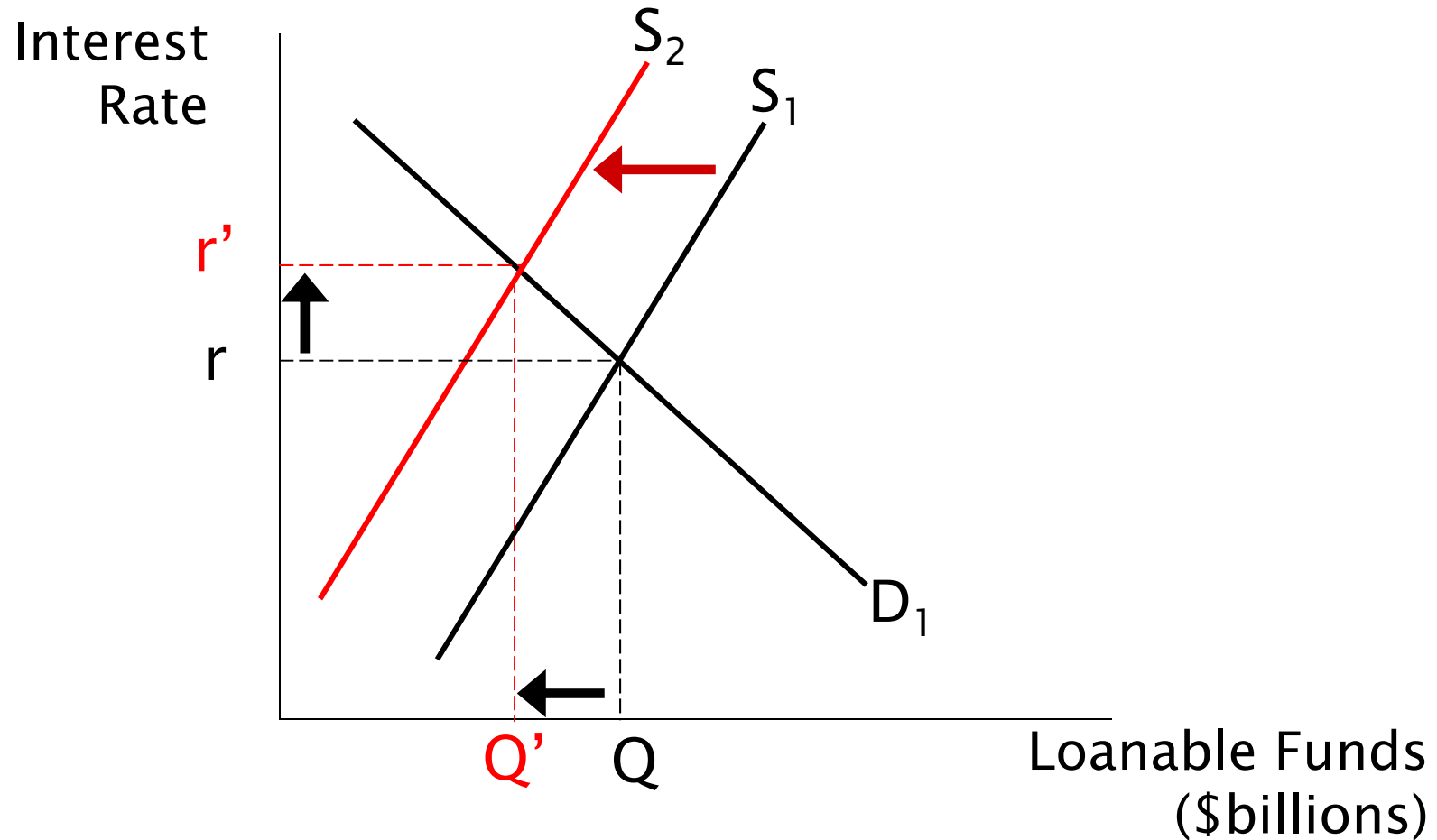
- ▶ Hinder to saving
- ▶ Prevent long term economic growth

- ▶ Saving :

$$\begin{aligned} S = I &= (Y - T - C) + (T - G) \\ &= \text{Private saving} + \text{Public saving} < 0 \end{aligned}$$



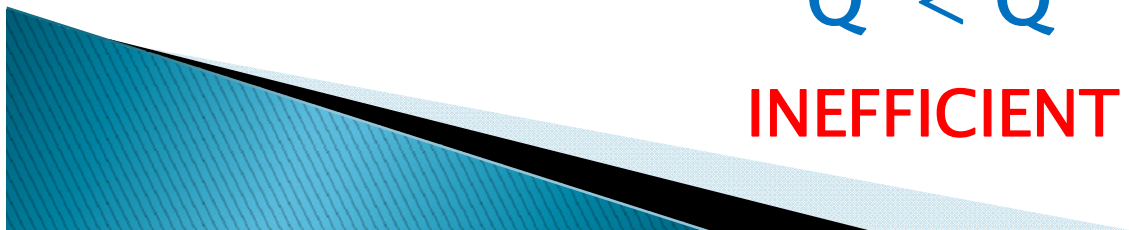
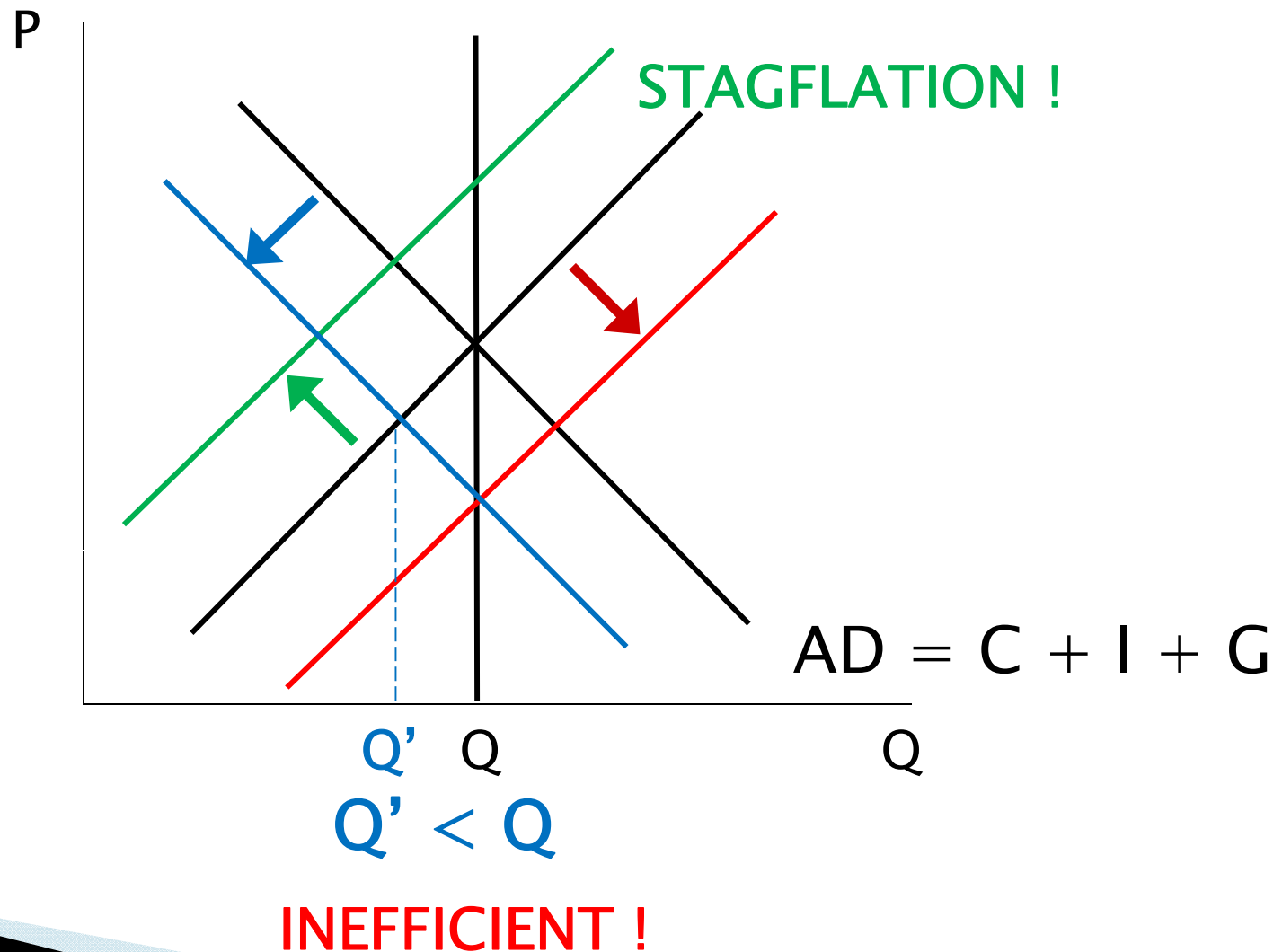
Market for Loanable Funds



Total investment decrease,
Crowding Out Effect

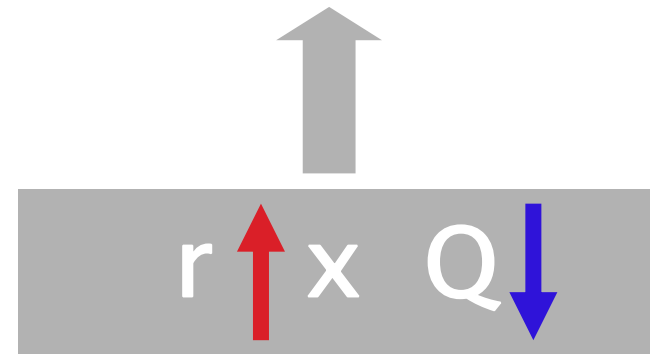
Negative Effects

- ▶ Shrinking domestic goods and service market

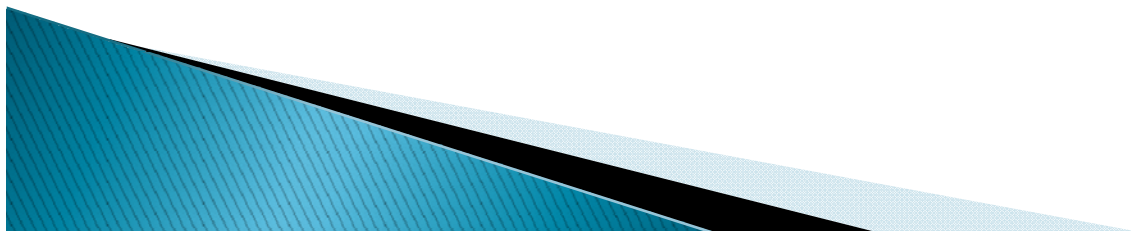


Policies

- ▶ Reform tax system
 - Increase tax rate \neq increase tax revenue



Which to raise ? Which to cut ?

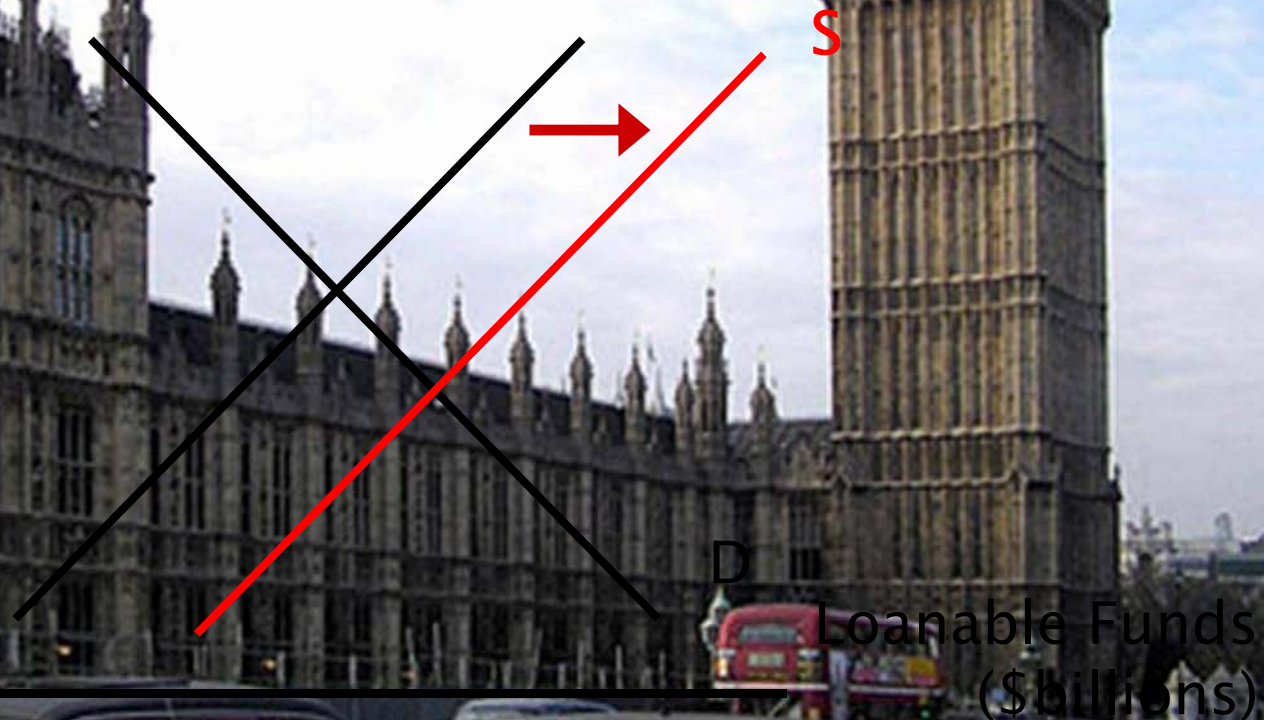


Examples of UK

- ▶ Increase consumption taxes 17.5% → 20%

Market for Loanable Funds

Interest
Rate



Examples of UK

▶ Increase Income Tax threshold

by £1000

Levy heavy tax on:

oil companies &

Financial Institutions : Banks



Cutting Government Expenditures



Freeze the salaries of government officials

Reduce public expenditures in public infrastructures

Delay the retirement age (The same for France)

→ No expenditures on pensions

→ Increase the labor → Increase the production

Less subsidies in education

→ Rising tuition fee by universities

→ demonstration by students

Cutting Government Expenditures

Example of US:

- Reform the pension system
- Baby boom
- Remove the responsibility of pension from government to companies



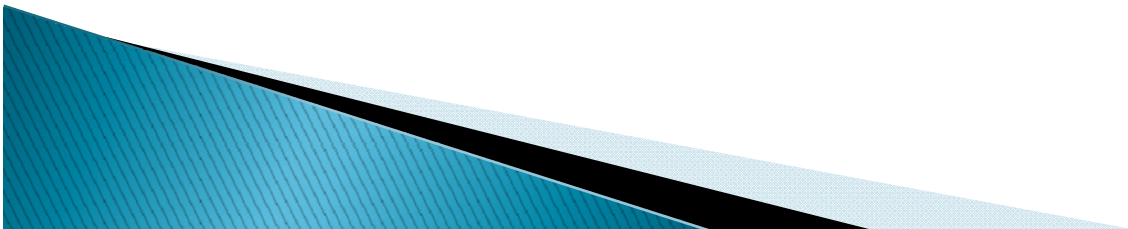
Policy 1 & 2:

pose a dilemma between

cutting budget deficit

&

stimulating economic growth !!!



Policy

Open market operation

- To sell government bonds
- It's a temporary relief
- you have to pay back later and more!!!

Printing money

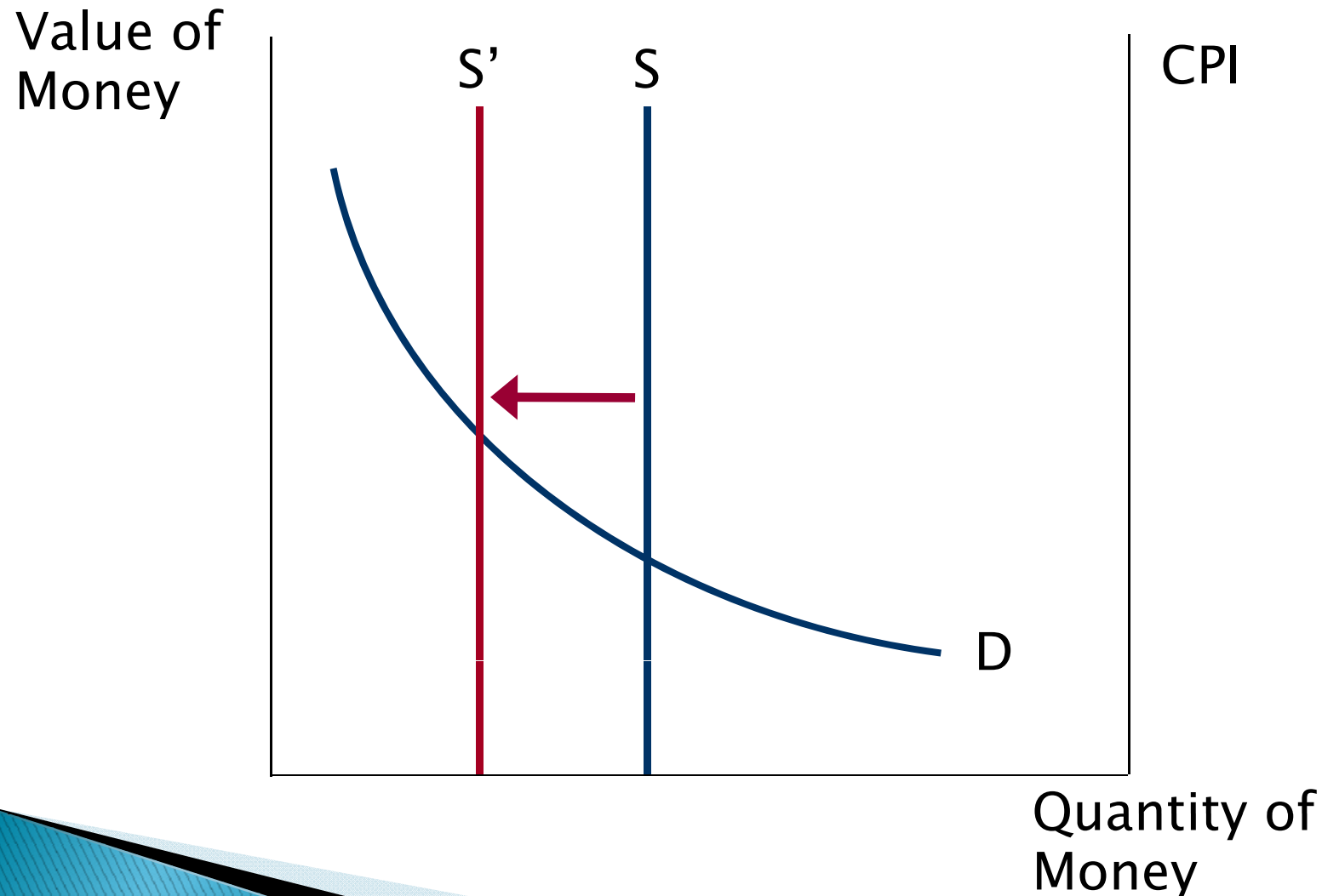
Increase the CPI and the Inflation Rate

- ▶ Decrease the Unemployment Rate
- ▶ Value of Dollar depreciate, indebtedness decrease



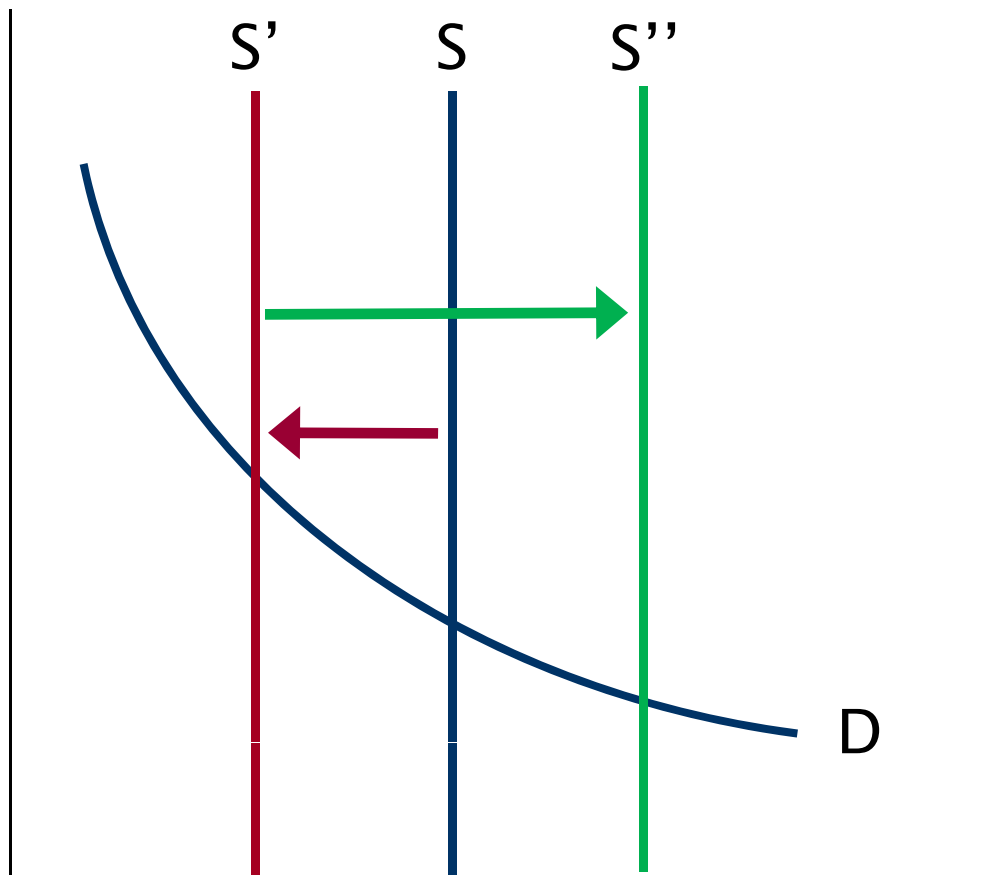
Open market operation

- ▶ Sell government bonds



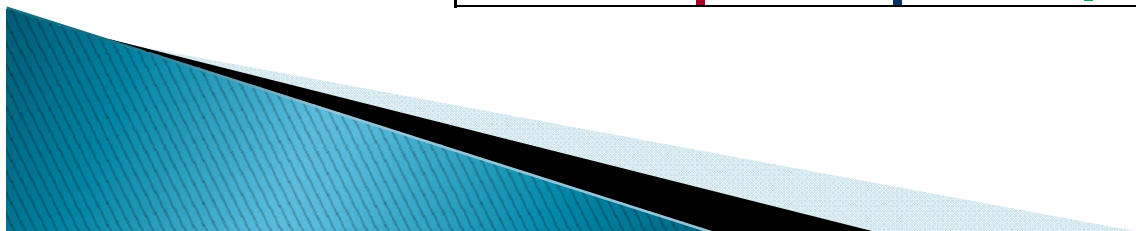
▶ Print Money

Value of Money



CPI

Quantity of Money



Examples of US

First sell government bonds

Then print money

Reputation at risk!!!

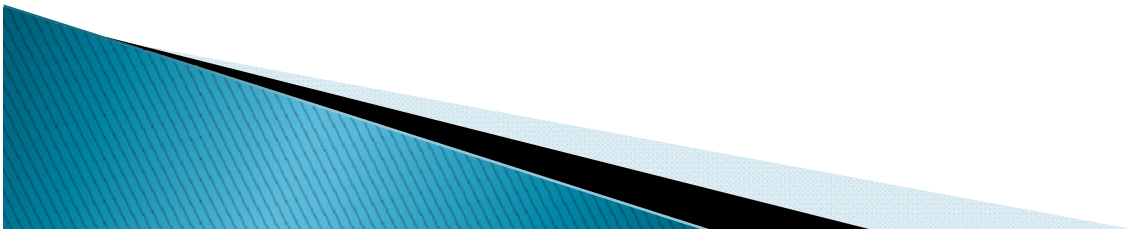


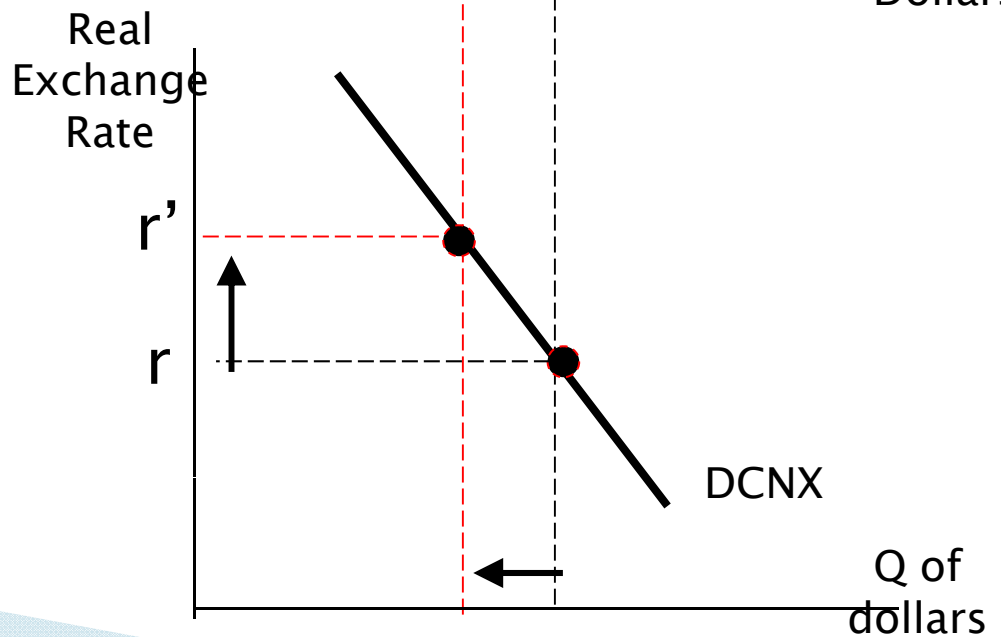
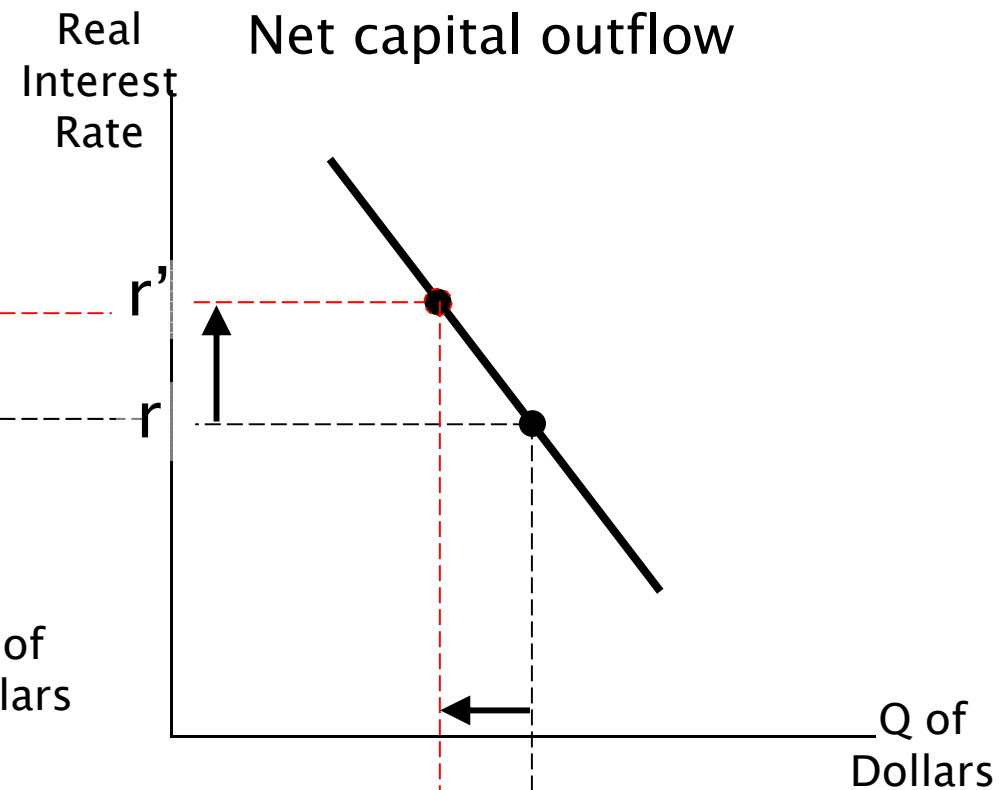
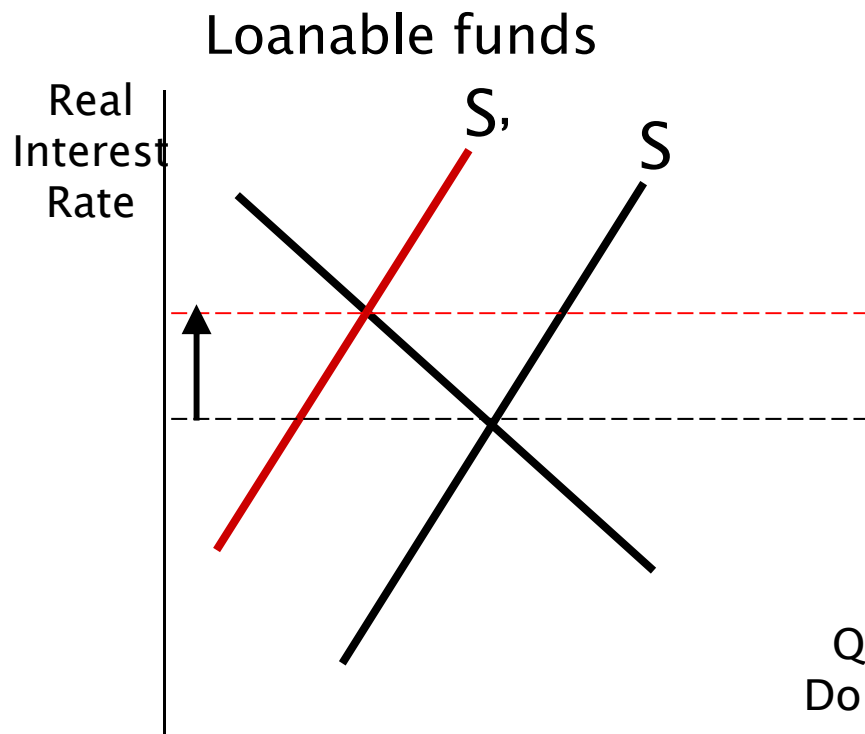
Open Market Condition

- ▶ Increase Net Foreign Investment

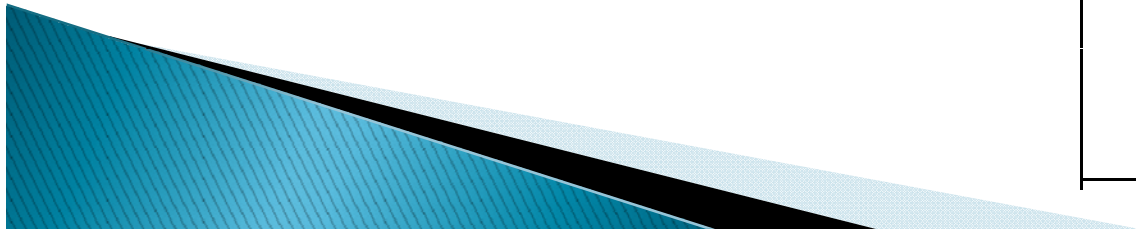
$$S = I \downarrow + NFI \uparrow$$

Increase NFI is not easy however

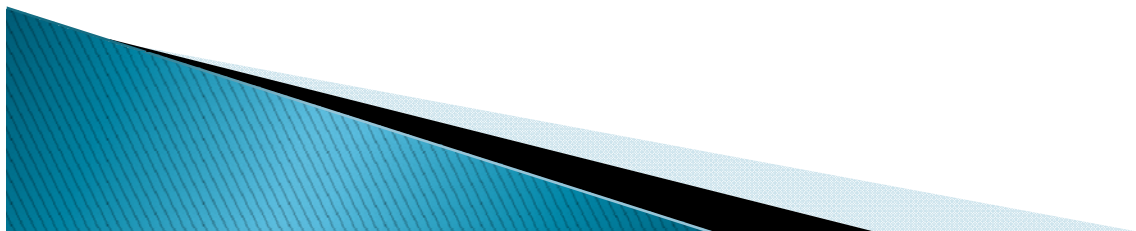
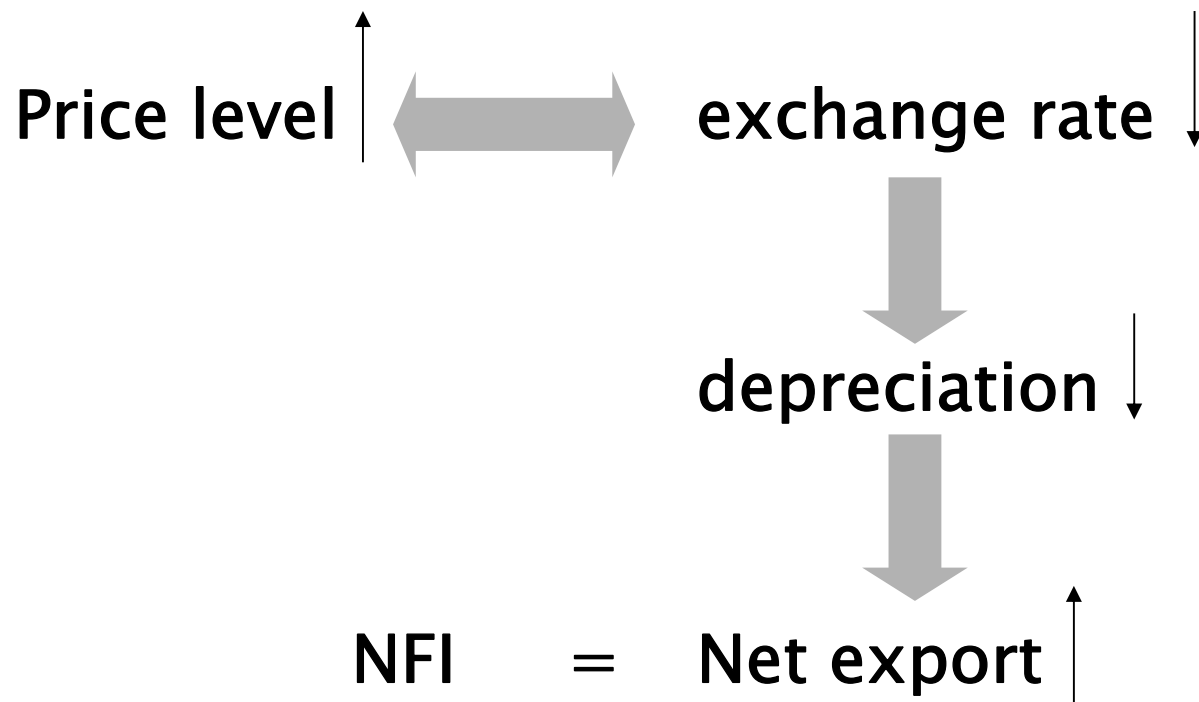




▶ When a budget deficit occurs, NFI decreases and moves in the opposite direction



- ▶ In order to increase NFI, shall we allow inflation?
(such as printing a lot of money)



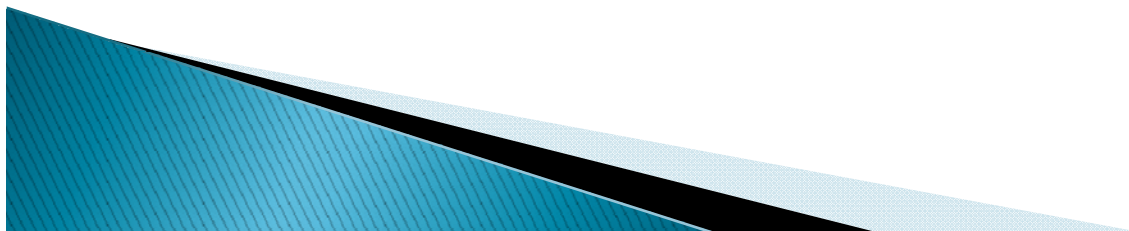
Yes, but not absolutely

NFI = Foreign assets owned by domestic investors

- Domestic assets owned by foreign investors

When inflation → depreciate

- Government bonds sold to foreign investors become unfavorable.
- Domestic investors prefer to invest abroad → sacrifice domestic industries.



Examples of US

The total money available to US investors is fixed

Invest more in the foreign assets

→ Invest less in domestic assets

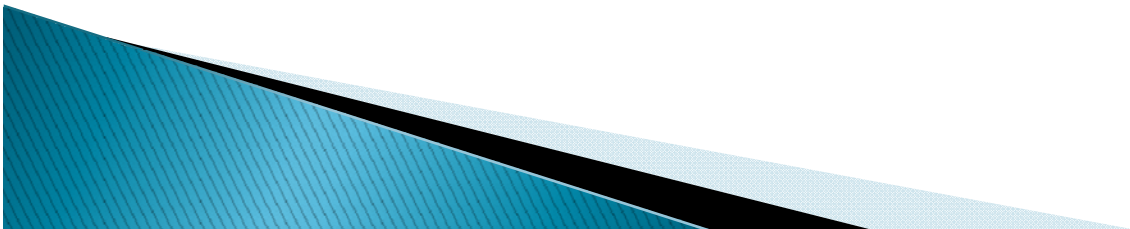
→ Which leads to unemployment

In America, investment abroad is 17,8%

Domestic investment is 6,8%

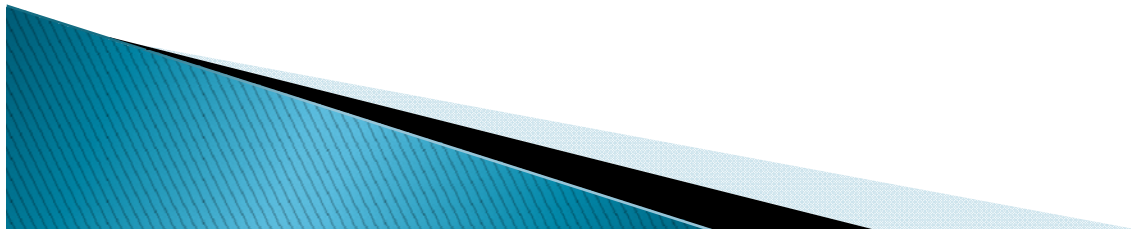
**And be cautious of the credibility
of the NFI**

**(Bad debt of government
investment is
actually the cause of budget
deficit!!!)**



- ▶ A dilemma between the
future interest rewards
&
present money

- ▶ So allow inflation, but keep capital stability



Cutting Government Expenditures

Auction off, Privatize state-owned assets

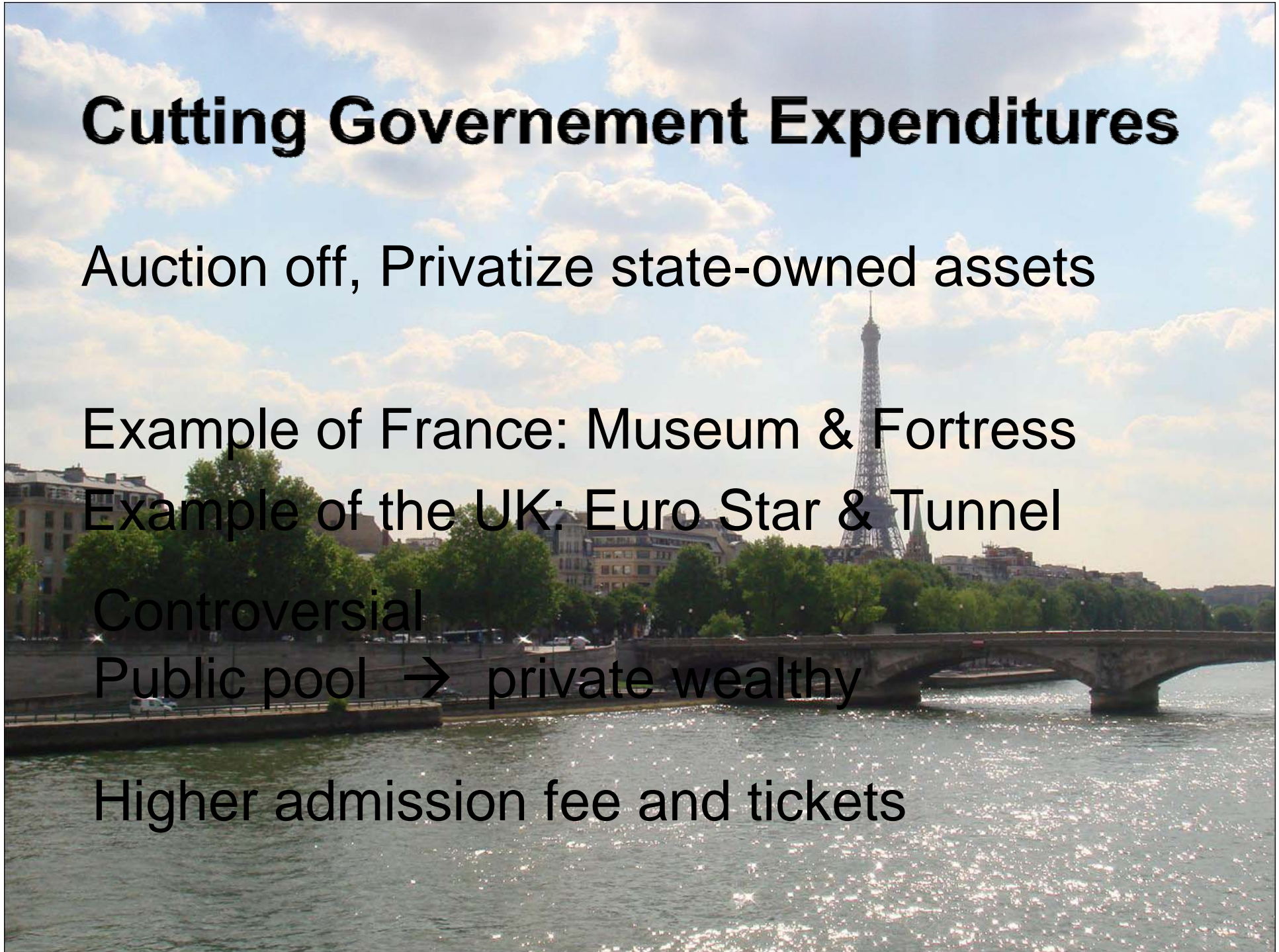
Example of France: Museum & Fortress

Example of the UK: Euro Star & Tunnel

Controversial

Public pool → private wealthy

Higher admission fee and tickets



Summary: Australian Tax Reform

Principles:

- ▶ Equity
- ▶ Efficiency
- ▶ Simplicity
- ▶ Sustainability
- ▶ Policy consistency



Measures

- Introducing a rent tax on nonrenewable resources;
- Cutting the company tax rate from 30% to 25%
- Reducing the complexity of personal income tax
- Enhancing taxes on consumption
- Promoting higher workforce participation



The End

Thank you !