

ECS 1500

Introduction to Economics

Boston | UNISA 2015

Unit 8: The Public Sector

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Lecture Outcomes

Units 1 - 10

Macroeconomic Objectives

1. Full employment
2. Price Stability
3. External Equilibrium
4. Economic growth
5. Equitable income

Outcome 1 – Introduction

- 01 Introduction to Economic Environment
- 02 Understanding economic graphs

Outcome 2 – Price determination

- 03 Supply, Demand, Prices
- 04 Changes in Supply and Demand
- 05 Elasticity

Outcome 3 – Macroeconomic perspective

- 06 Measuring economic performance
- 07 Economic indicators

Outcome 4 – 3 important sectors

- 08 The Public Sector → Budget
- 09 The Financial Sector → Money Supply
- 10 The Foreign Sector → Balance of Payments / Trade

GDP
Gross Natl Income
Gross Dom Expenditure
Disposable Income
Gross / Net capital formation
CPI
PPI
Unemployment
Lorenz Curve
Gini Coefficient
Business Cycles
GDP
GNI

8.1 Introduction

- 8.1.1 The role of the Government
- 8.1.2 Market failures and G measures
- 8.1.3 The functions of G

8.2 The Budget of the SAG

- 8.2.1 Government Expenditure
- 8.2.2 Government Revenue
- 8.2.3 Personal Income Tax
- 8.2.4 Company Tax

8.3 Tax Criteria

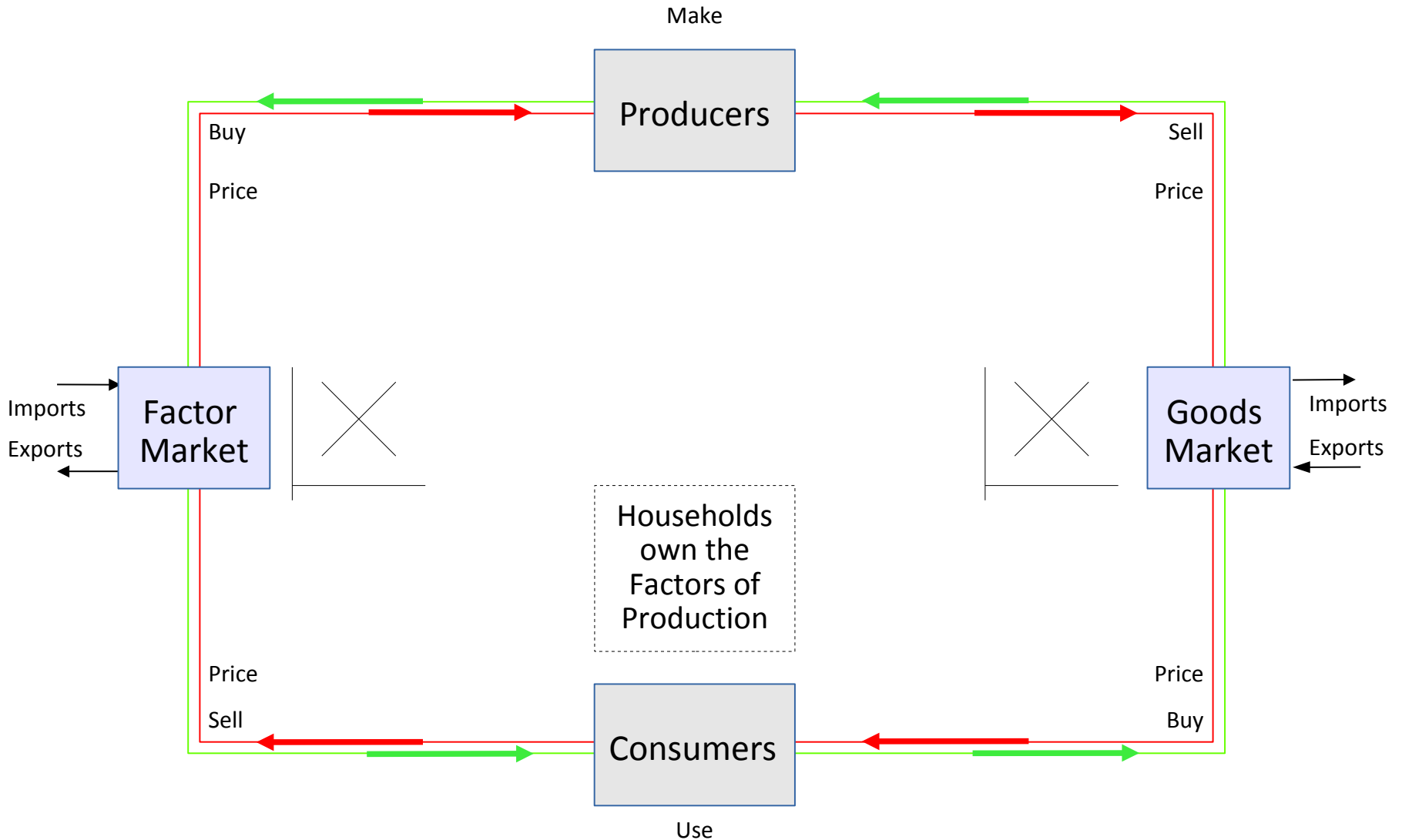
- 8.3.1 Neutrality
- 8.3.2 Equity
- 8.3.3 Administrative Simplicity

8.4 Fiscal Policy

8.5 Summary

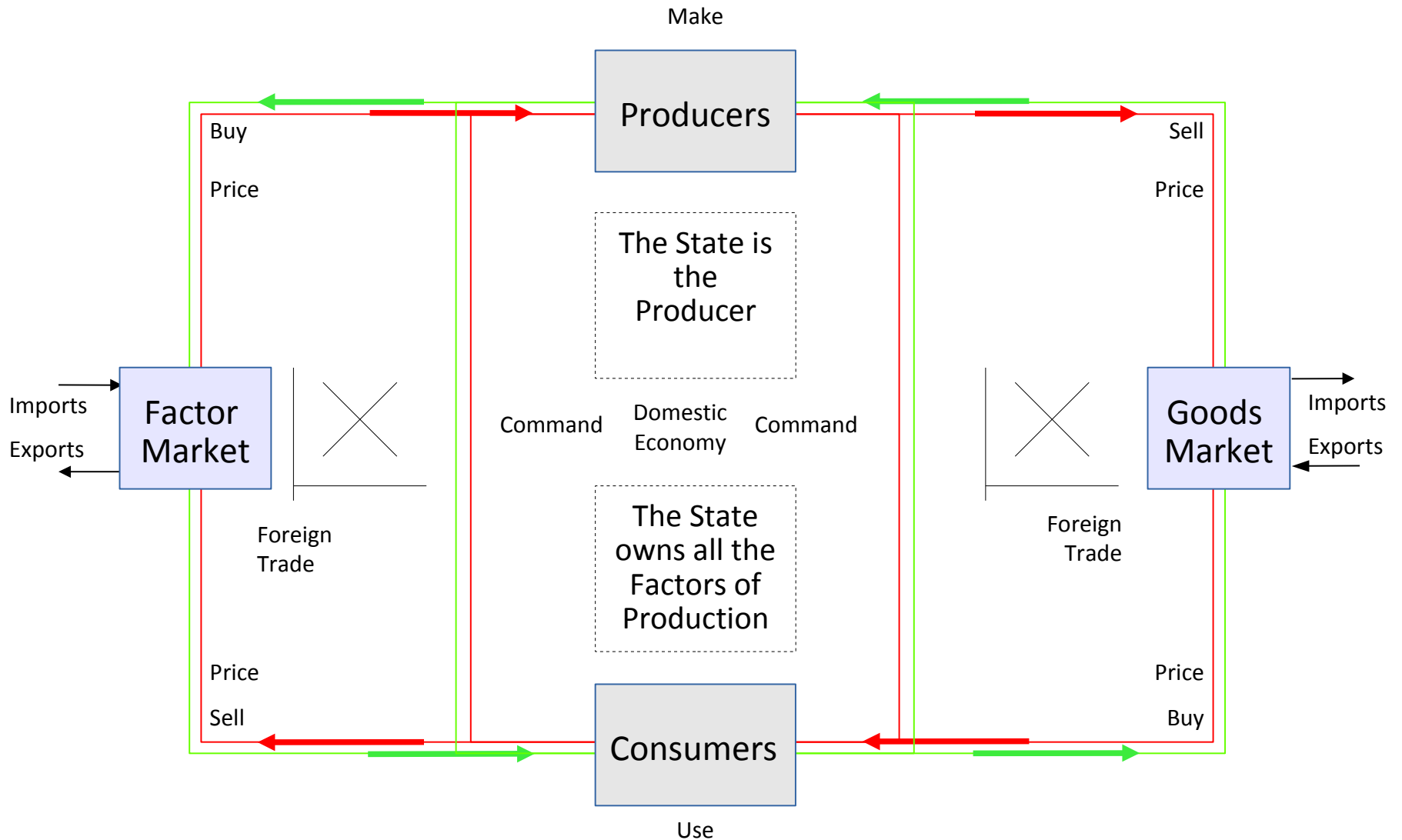
8.1 Introduction

The Private Sector | Free Market Economy



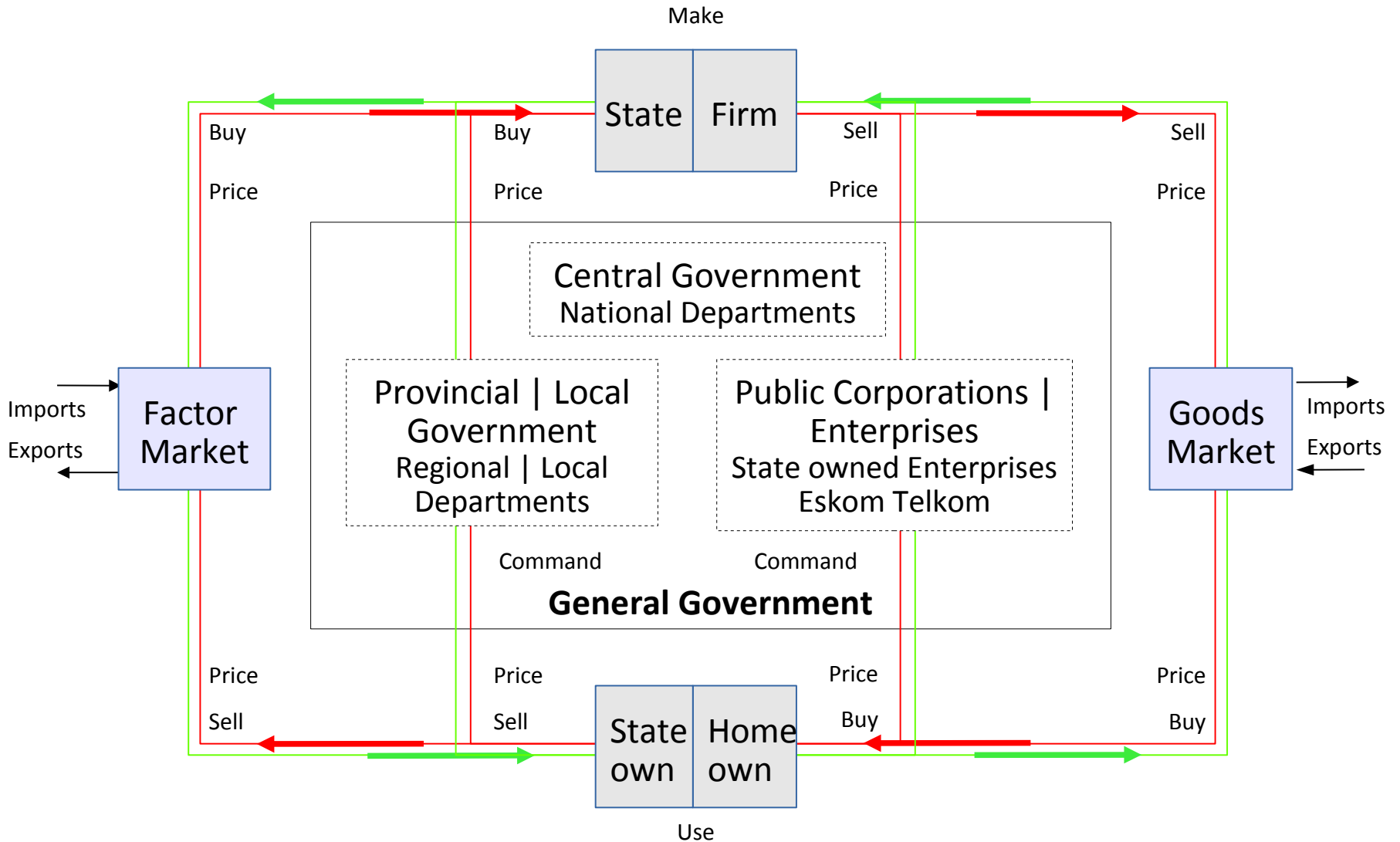
8.1 Introduction

The Command Economy



8.1 Introduction

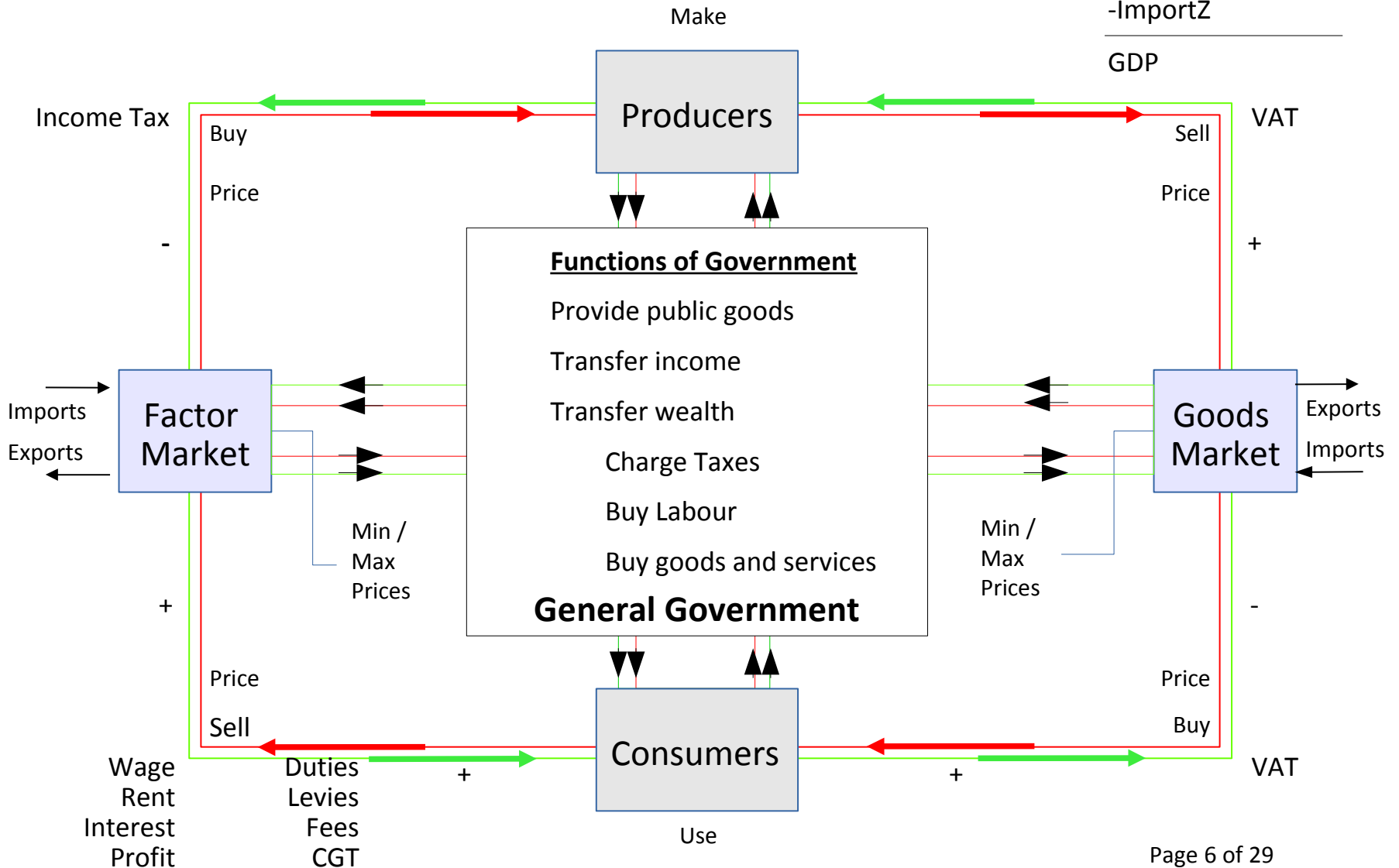
The Public Sector in the Mixed Economy



8.1.1 The Role of Government

The need to measure in numbers

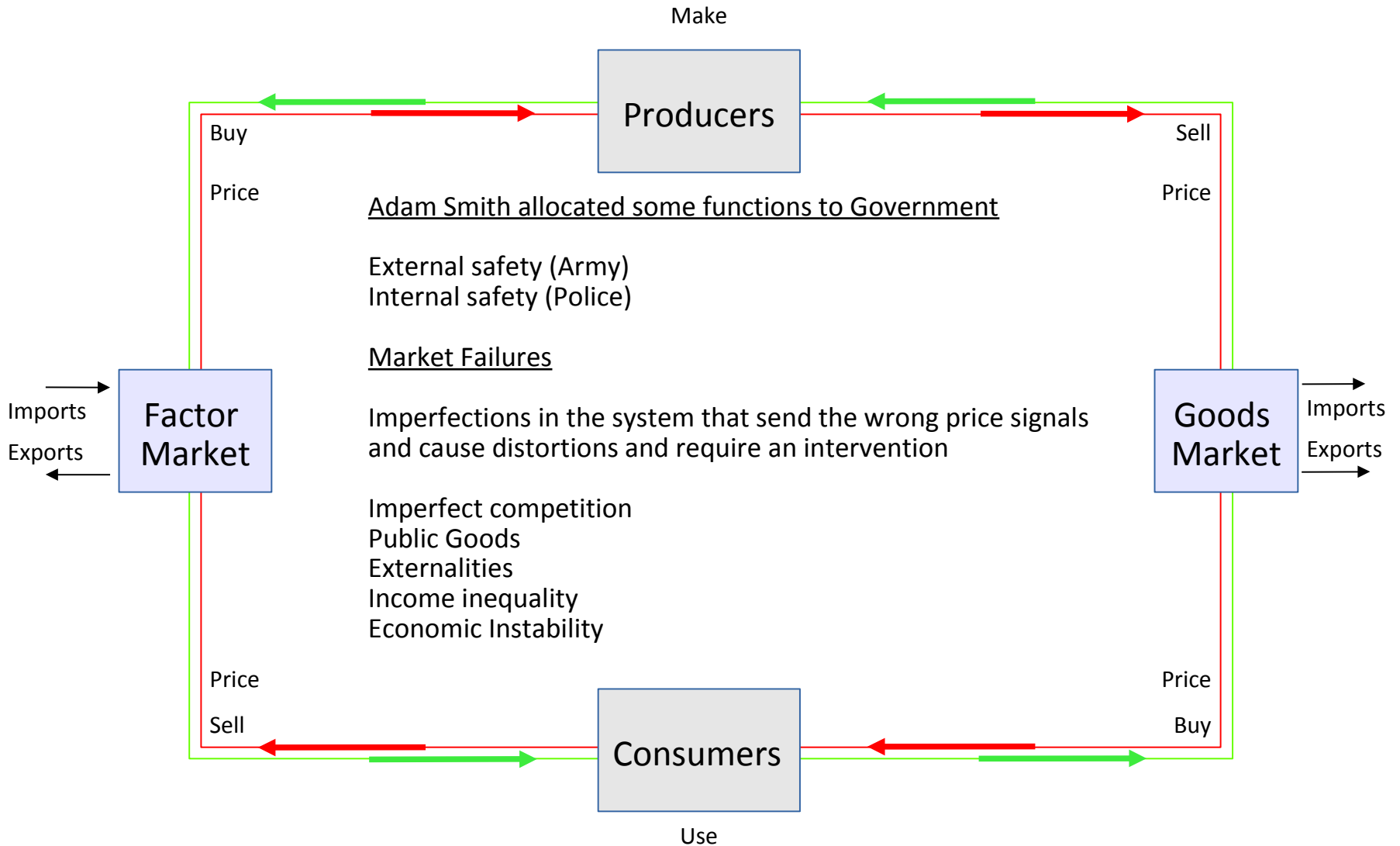
- Consumption
 - +Investment
 - +Government**
 - +eExports
 - ImportZ
-
- GDP



- Macroeconomic Objectives
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8.1.2 Market Failures

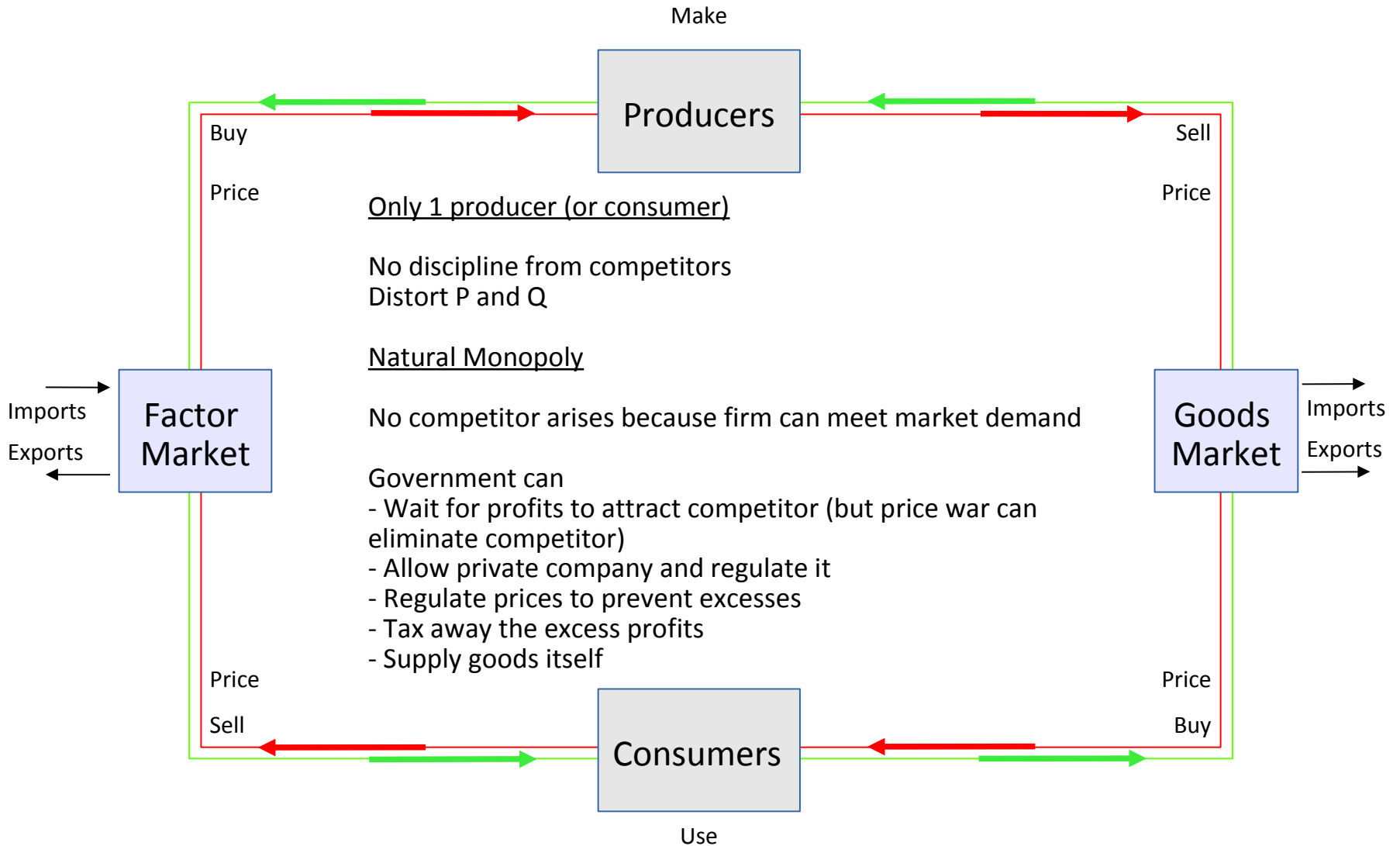
When the market fails to provide the best outcome



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8.1.2.1 Market Failures

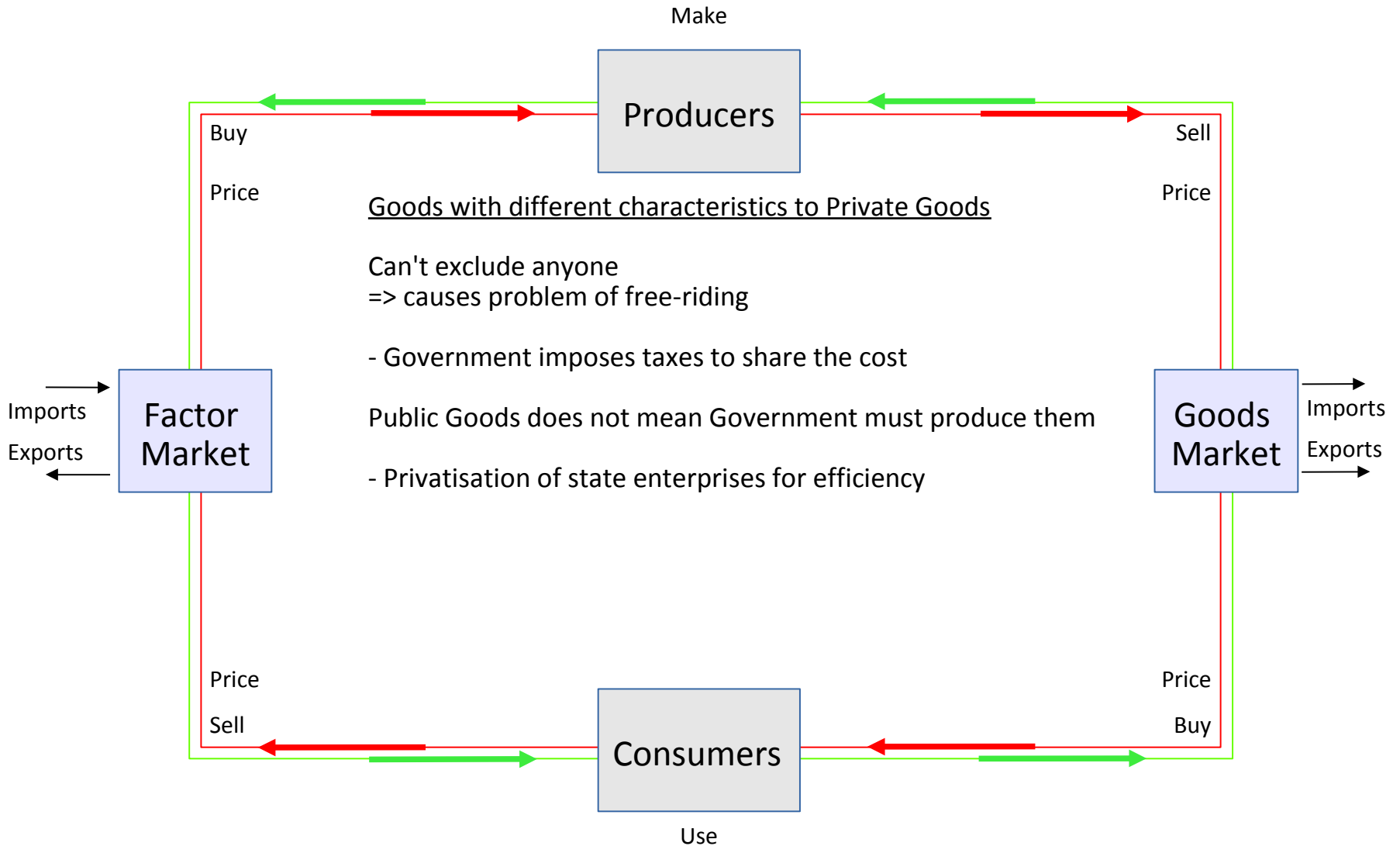
Imperfect Competition



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8.1.2.2 Market Failures

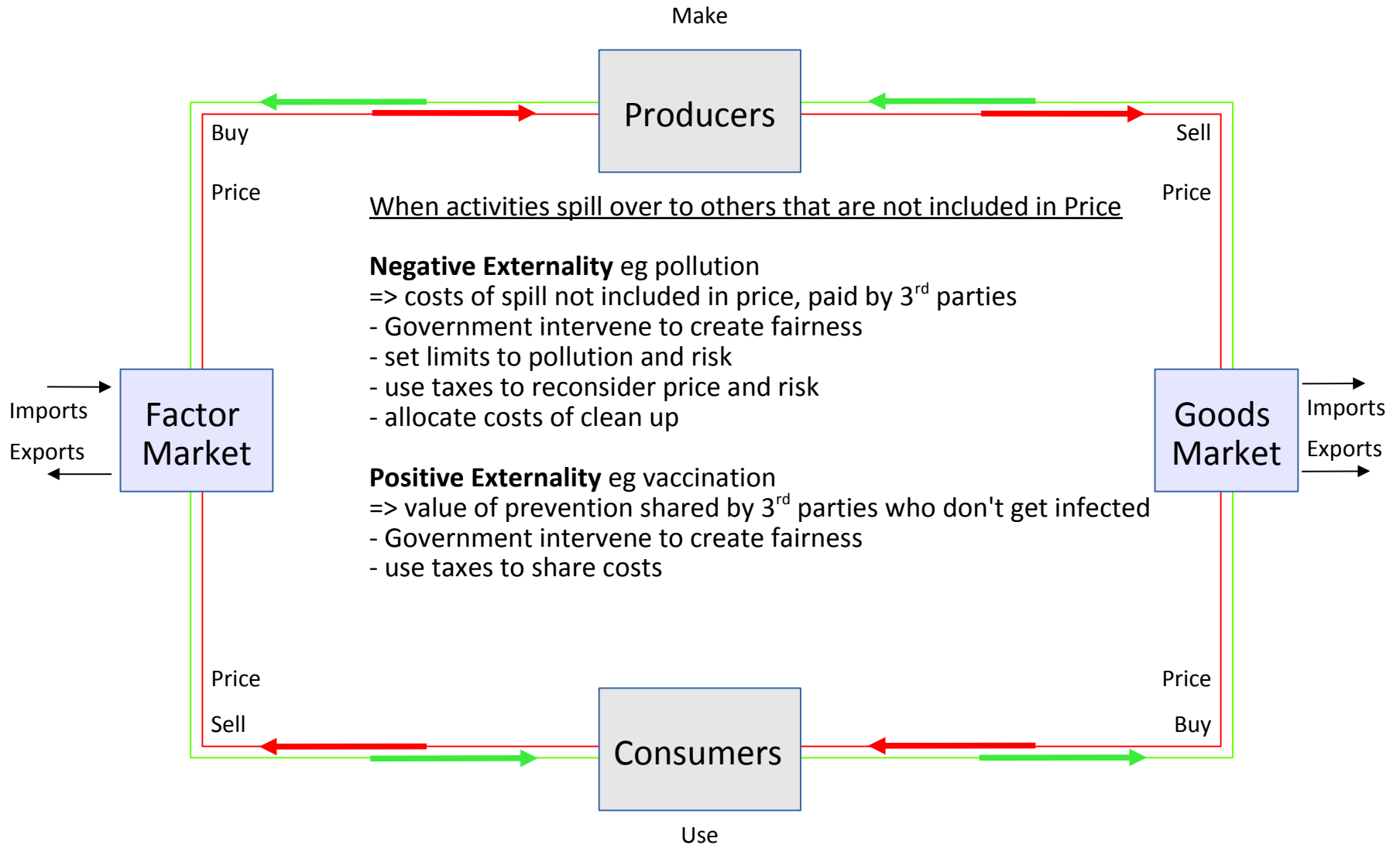
Public Goods



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8.1.2.3 Market Failures

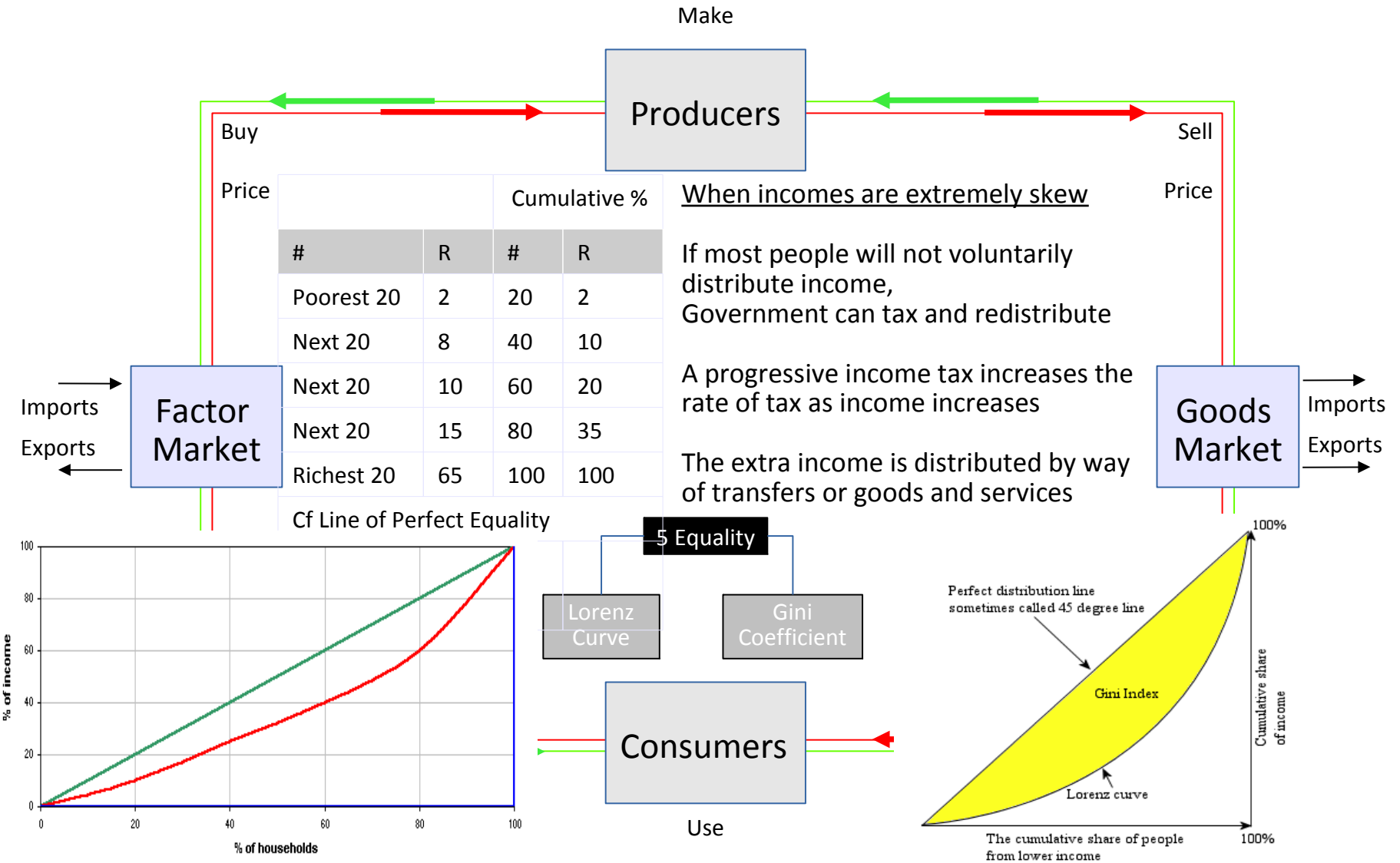
Externalities



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 4. Economic growth
 5. **Equitable income**

8.1.2.4 Market Failures

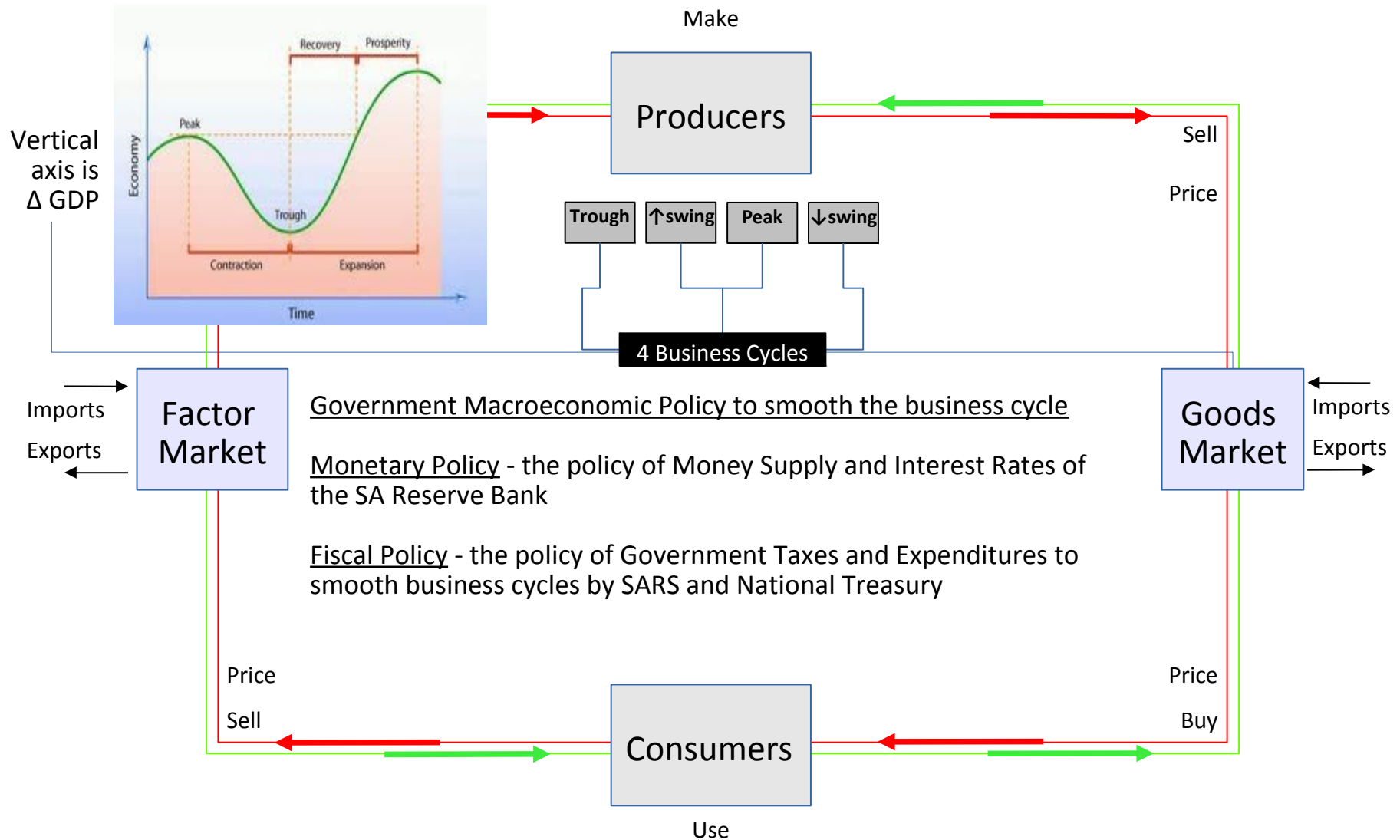
Income Inequality



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8.1.2.5 Market Failures

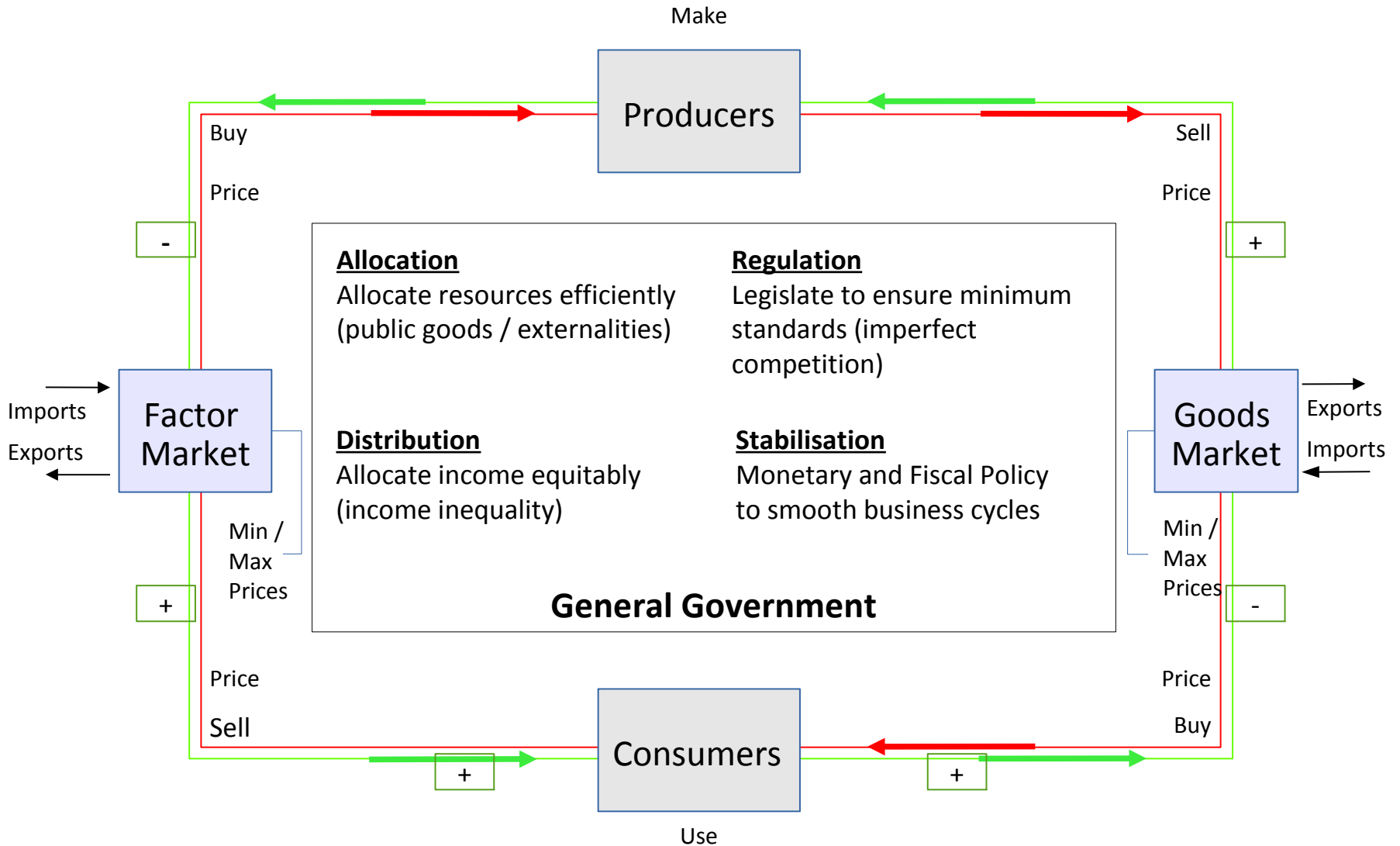
Economic Instability



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8.1.3 Functions of Government

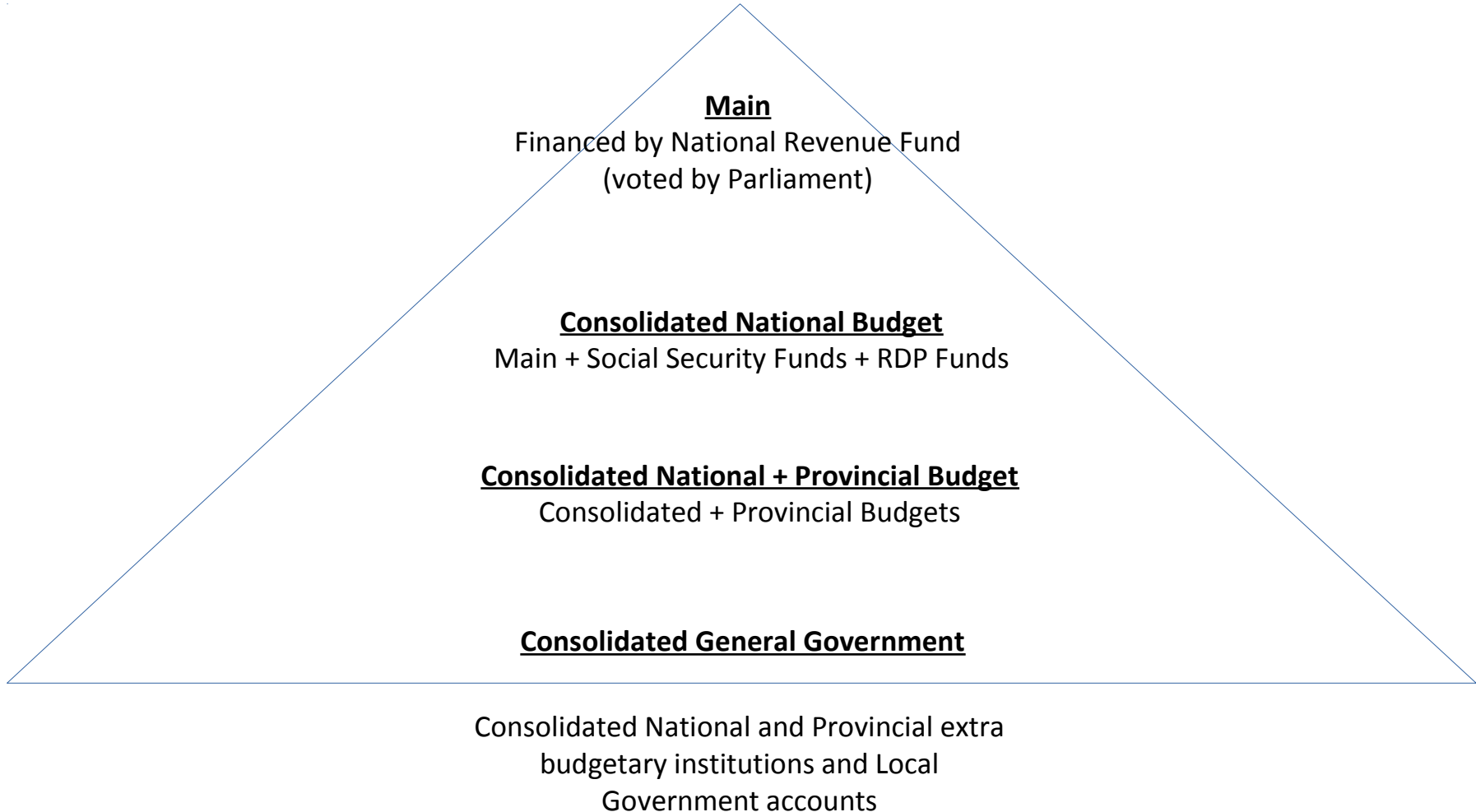
Allocation, Regulation, Distribution, Stabilisation



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8.2 The Budget of Government

The definitions of the Budget



Macroeconomic Objectives

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8.2 The Budget of Government

The definitions of the Budget

Summary of the national budget

R million	2014/15		2015/16	2016/17	2017/18
	Budget estimate	Revised estimate	Budget estimate	Medium-term estimates	
REVENUE					
Estimate of revenue before tax proposals			1 041 015		
<u>Budget 2015/16 proposals:</u>					
Tax proposals after fiscal drag 2015/16 (Net):			8 275		
Personal income tax			-		
Fiscal drag relief			-8 500		
Rate increase in income tax			9 420		
Medical credits			-920		
Business income tax			-150		
Energy-efficiency savings tax incentive			-150		
Taxes on property			100		
Adjustment in transfer duty			100		
Indirect taxes			8 325		
Increase in general fuel levy			6 490		
Increase in excise duties on tobacco products			602		
Increase in alcoholic beverages			1 234		
Estimate of revenue after tax proposals	962 782	954 269	1 049 291	1 165 988	1 265 409
Percentage change from previous year			10.0%	11.1%	8.5%

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8.2 The Budget of Government

The definitions of the Budget

EXPENDITURE					
Direct charges against the National Revenue Fund	501 667	501 606	537 847	577 095	615 123
Debt-service costs	114 901	115 016	126 440	140 971	153 376
Provincial equitable share	359 922	359 922	382 673	405 265	428 893
General fuel levy sharing with metropolitan municipalities	10 190	10 190	10 659	11 224	11 785
Skills levy and sector education and training authorities	13 440	13 200	14 690	16 140	17 400
Other ¹⁾	3 214	3 278	3 384	3 496	3 669
Appropriated by vote	637 896	633 516	679 498	717 849	760 740
Current payments	187 903	187 717	194 475	207 091	218 985
Transfers and subsidies	428 913	426 944	464 956	493 017	522 068
Payments for capital assets	17 509	15 466	16 696	17 395	19 322
Payments for financial assets	3 571	3 389	3 371	345	365
Plus:					
Unallocated reserves	3 000	–	5 000	15 000	45 000
Estimate of national expenditure	1 142 562	1 135 122	1 222 345	1 309 944	1 420 862
<i>Percentage change from previous year</i>			<i>7.7%</i>	<i>7.2%</i>	<i>8.5%</i>
2014 Budget estimate of expenditure		1 142 562	1 232 590	1 323 624	
<i>Increase / decrease (-)</i>		<i>-7 441</i>	<i>-10 246</i>	<i>-13 680</i>	
Gross domestic product	3 789 630	3 879 920	4 191 752	4 538 780	4 926 134

1) Includes direct appropriations in respect of the salaries of the President, Deputy President, judges, magistrates, members of Parliament, and National Revenue Fund payments (previously classified as extraordinary payments)

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8.2 The Budget of Government

The definitions of the Budget

Summary of the consolidated budget

R million	2014/15		2015/16	2016/17	2017/18
	Budget estimate	Revised estimate	Budget estimate	Medium-term estimates	
National budget revenue ¹⁾	962 782	954 269	1 049 291	1 165 988	1 265 409
Revenue of provinces, social security funds and public entities	136 466	136 722	139 564	165 526	174 122
Consolidated budget revenue ²⁾	1 099 248	1 090 991	1 188 855	1 331 514	1 439 531
National budget expenditure ¹⁾	1 142 562	1 135 122	1 222 345	1 309 944	1 420 862
Expenditure of provinces, social security funds and public entities	109 752	108 248	128 662	138 859	140 878
Consolidated budget expenditure ²⁾	1 252 314	1 243 370	1 351 007	1 448 804	1 561 740
Consolidated budget balance	-153 066	-152 379	-162 152	-117 290	-122 209
<i>Percentage of GDP</i>	<i>-4.0%</i>	<i>-3.9%</i>	<i>-3.9%</i>	<i>-2.6%</i>	<i>-2.5%</i>
FINANCING					
Domestic loans (net)	156 786	167 544	158 926	134 927	133 570
Foreign loans (net)	3 423	10 330	10 360	-374	12 220
Change in cash and other balances	-7 143	-25 494	-7 134	-17 262	-23 581
Total financing (net)	153 066	152 379	162 152	117 290	122 209

8.2.2 Government Revenue

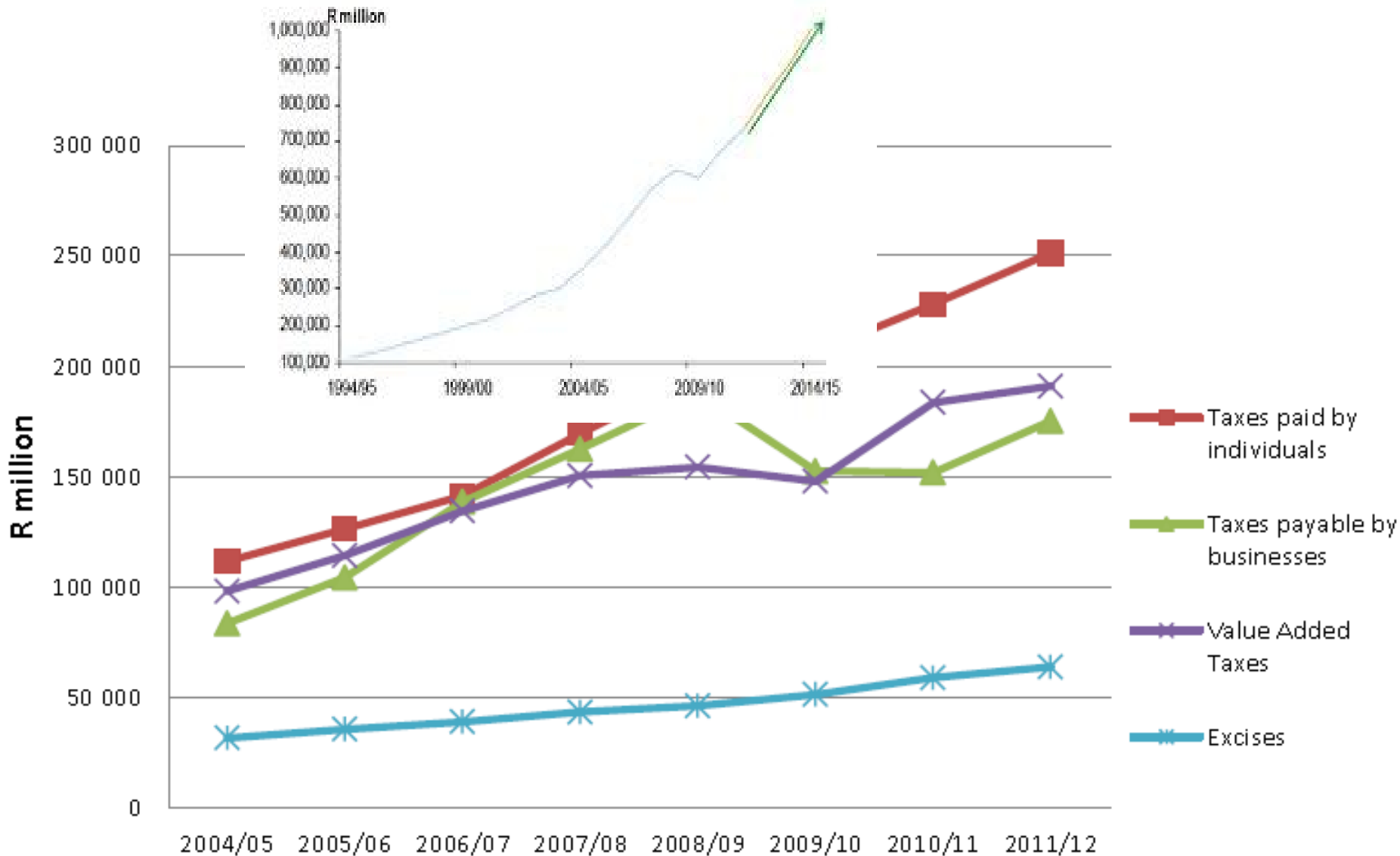
Taxes collected, by source

Consumption

+Investment

+Government

+Exports



Consumption

+Investment

+Government

+eXports

-ImportZ

GDP

8.2.3 Personal Income Tax

Income tax is normal tax paid on your taxable income

Taxable Income = Income Earned – Tax Rebate

Counting

Remuneration (income from employment), such as, salaries, wages, bonuses, overtime pay, taxable (fringe) benefits, allowances and certain lump sum benefits

Profits or losses from a business or trade

Income or profits arising from an individual being a beneficiary of a trust

Director's fees

Investment income, such as interest and foreign dividends

Rental income or losses

Income from royalties

Annuities

Pension income

Certain **capital** gains

You are liable to pay income tax if you earn more than:

R73 650 if < 65

R114 800 if 65+.

R128 500 if 75+

Consumption

+Investment

+Government

+eXports

-ImportZ

GDP

8.2.3 Personal Income Tax

Income tax is normal tax paid on your taxable income

Taxable Income (R): Rates of Tax:

0 – 181,900	18% of taxable income
181,901 – 284,100	R32,742 + 26% of taxable income above R181,900
284,101 – 393,200	R59,314 + 31% of taxable income above R284,100
393,201 – 550,100	R93,135 + 36% of taxable income above R393,200
550,101 – 701,300	R149,619 + 39% of taxable income above R550,100
701,301 and above	R208,587 + 41% of taxable income above R701,300

Progressive Tax

< Age 65:	Age 65 - 75:	Age 75+	
Rebate:	R13,257	R7,407	R2,466
Threshold:	R73,650	R114,800	R128,500

2015/2016

	<65	65 – 75	75
Taxable Income (R):			
Income	213,257	207,407	202,466
Less Rebate	13,257	7,407	2,466
Taxable Income	200,000	200,000	200,000
Bracket	2		
- Base	32,742		
- %	26		
- Excess	18,099		
% x Excess	4,706		
Total	37,448		
Average %	18.72%		
Rebate	13,257	7,407	2,466
Threshold	73,650	114,800	128,500
Less Threshold	73,650	114,800	128,500

Consumption

+Investment

+Government

+eXports

-ImportZ

GDP

8.2.3 Company Tax

Company tax is a direct tax on the profit of a legal person

Expenses of firm are first deducted from income

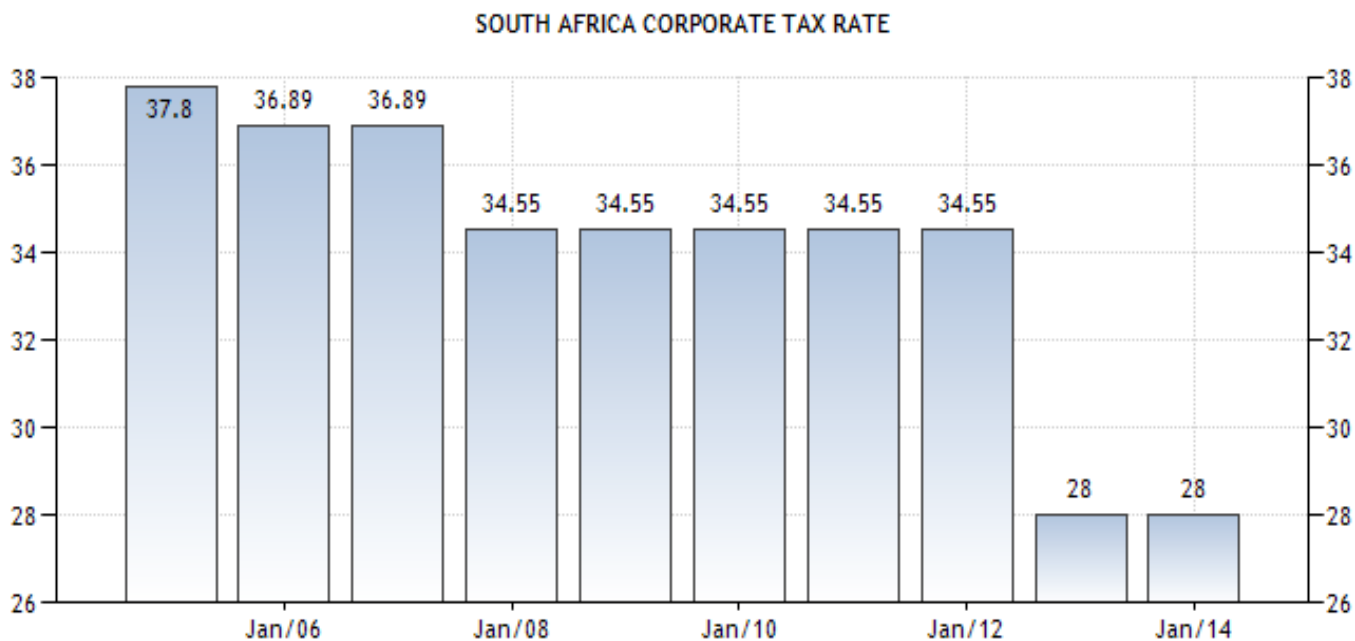
After tax profit can be (1) reinvested or (2) distributed as profits

To encourage reinvestment,

(1) Secondary Tax on Companies of 10% on net of dividends until 2012

(2) Dividends Tax on shareholders of 10% on receipt of dividends

- tax collection by company and not individual



Consumption

+Investment

+Government

+eExports

-ImportZ

GDP

8.3 Tax Criteria

Characteristics of a good tax system

Neutrality

- = the tax system should not distort relative prices or change behaviour
- = excess burden should = 0 (the additional cost of the tax)

Equity

- = fairness in terms of the Benefit Principle
- = Fairness in terms of Ability to Pay Principle

Administrative Simplicity

- = low compliance and transaction costs

South Africa Taxes	Last	Previous	Highest	Lowest
Corporate Tax Rate	28.00	28.00	37.80	28.00
Personal Income Tax Rate	41.00	40.00	41.00	40.00
Sales Tax Rate	14.00	14.00	14.00	14.00
Social Security Rate	3.00	3.00	3.00	3.00 percent
Social Security Rate For Companies	2.00	2.00	2.00	2.00 percent
Social Security Rate For Employees	1.00	1.00	1.00	1.00 percent

Consumption

+Investment

+Government

+eXports

-ImportZ

GDP

8.3.1 Tax Criteria

Neutrality

Individuals make decisions about spending, saving and working based on their needs, wants and talents, unless taxes distort their thinking.

Businesses make their production, employment and investment decisions efficiently based on their opportunities and resources, but taxes distort their decisions.

Taxes on income discourage work, so the economy will produce less.
Sales taxes on goods but not services cause people to buy more services.

Great Britain experimented with the most neutral tax of all, the "head tax," during the 1980s. Every adult was taxed a fixed amount for the support of local governments. Everyone from the dustman to the Queen paid the same amount. This tax is neutral because--short of the guillotine-- no one can change their behavior to avoid it. Changing investment, employment or spending decisions has no effect on the tax paid. Thus, it is thought, people will make efficient use of their resources. The tax didn't last long. It was attacked mainly on equity grounds.

Governments should choose tax bases that are little affected by the imposition of taxes eg fuel

Consumption

+Investment

+Government

+eXports

-ImportZ

GDP

8.3.1 Tax Criteria

Equity

Horizontal Equity

Like taxpayers are taxed alike.

Vertical equity

Taxpayers in different circumstances are taxed differently, in an appropriate way.

1. Ability to Pay

Standard taxes are set based on measures of a taxpayer's income or wealth.

Income is the most common measure of ability to pay.

Taxes are progressive when they rise as incomes rises(eg PAYE)

Taxes are regressive if they fall as income rises (eg UIF)

Taxes are proportional when they are flat as income rises

2. Services Received or Benefits

Taxes are based on the government services or facilities they use (e-Toll)

Fees or charges for a public park or school

Consumption

+Investment

+Government

+eXports

-ImportZ

GDP

8.3 Tax Criteria

Administrative Simplicity

Taxes are costly to collect, and some are more costly than others.

1. Public Cost

Costs to the government include pay of employees and their equipment to keep track of taxpayers, prepare forms and instructions, valuing the tax base, calculating the tax owed, accounting for revenue received, and handling appeals.

Enforcement of a tax requires notifying taxpayers of the rules for payment, and identifying, apprehending and prosecuting tax delinquents and evaders. The cost of enforcement rises the higher is the tax rate, and the more complex are the rules defining the tax base.

2. Private Cost

Taxes cost taxpayers to pay = Compliance Costs.

Taxpayers must keep track of transactions and income sources.

For some taxes they may hire accountants and tax preparers.

If they disagree, they may have to file and follow through with an appeal.

Some costs are in money (the tax preparer's fee), others are in time (spent on forms)

Property Taxes have high public costs but low private costs

- every property must be assessed and its record kept on file
- many taxpayers with mortgages never see a tax bill

Income tax has low public costs but high private costs

- SARS is a big, expensive agency
- industry of tax attorneys, accountants, and preparers is larger
- hours of time of the millions of taxpayers each year

Consumption

+Investment

+Government

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-ImportZ

GDP

8.4 Fiscal Policy

Tax cuts or increases lift or drop disposable income

Fiscal policy is the effect on the aggregate economy of the overall levels of spending and taxation, and more particularly, the gap between them.

Contractionary when revenue is higher than spending (budget is in surplus)

Expansionary when spending is higher than revenue (budget is in deficit).

Administrative lag

period for decision makers to make a decision and implement it

Impact lag

period before changes have effects

Political business cycle

Manipulating of Fiscal Policy by politicians ahead of elections

8.2.1 Government Expenditure

The definitions of the Budget

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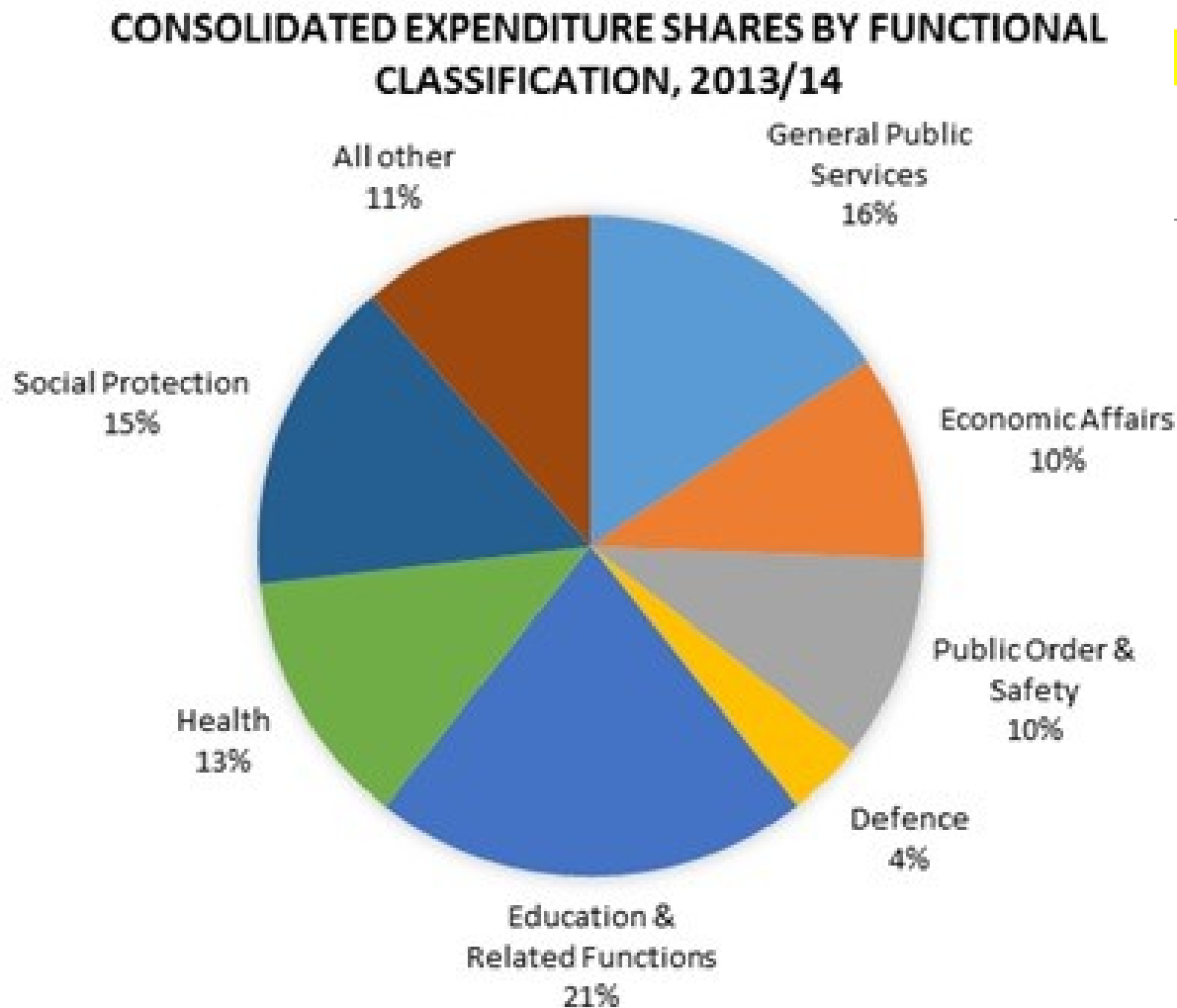
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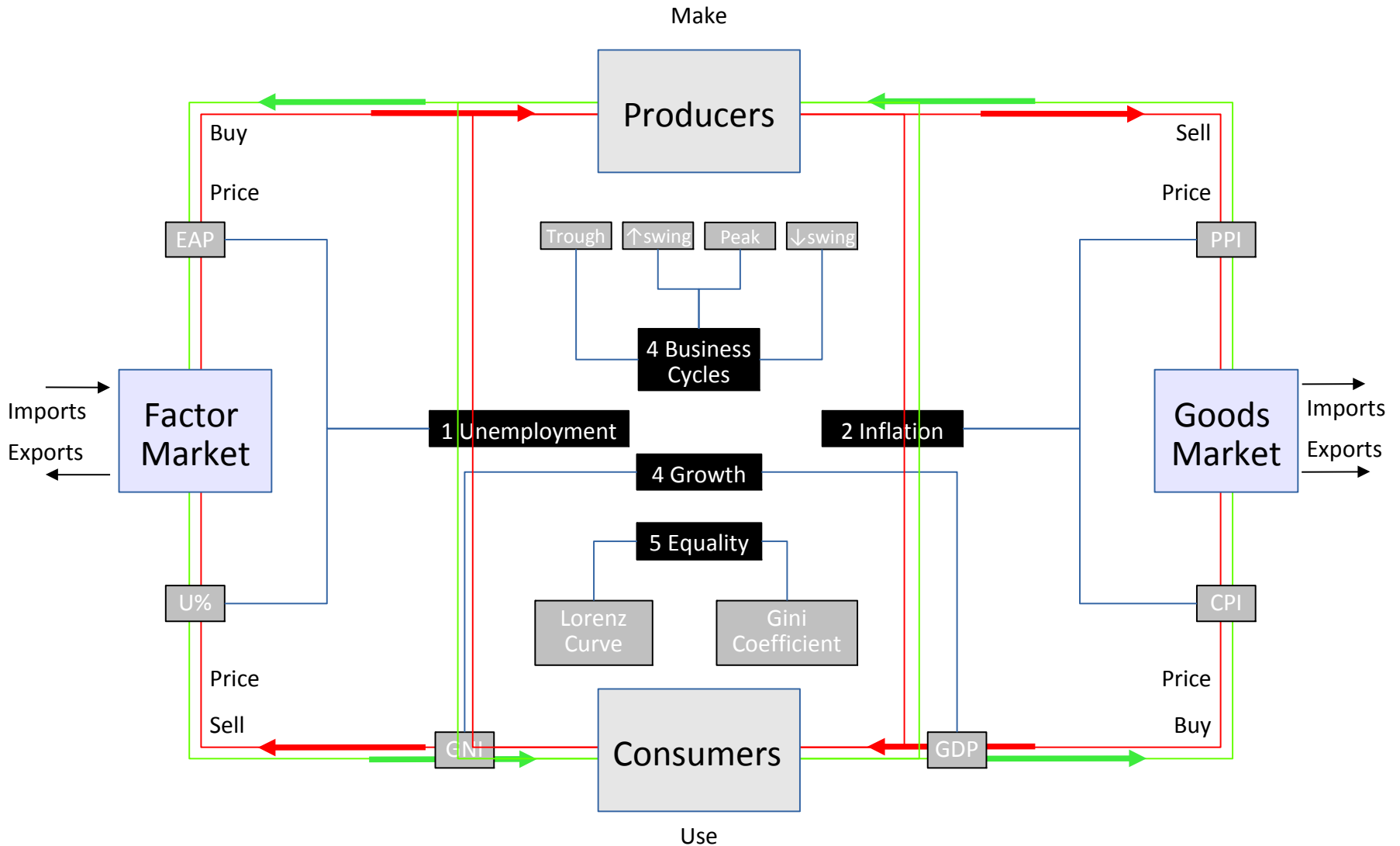
GDP



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Summary: Economic Indicators

The need to measure in numbers



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