Israel National Defense College

47th Class 2019-2020

**Practical Issues in Economic Policy Seminar**

**Summarizing Group Exercise - State Budget – Macro**

Congratulation. A new government has been established and is required to approve a state budget for 2020. You are required to assist it in formulating budget priorities.

The board below provides data on the approved budget for 2019 and its actual execution. You are required to specify the changes you want to make in the budget (relative to 2019) in the area of expenditure, revenue (taxes) and government deficit (total expenditure minus revenue). After working in teams (about 40 minutes), and after you have completed the last column in the table, you will be required to present your proposed changes in the plenum (each group will have about 5 minutes).

**The government budget of 2019 (original and executed) and the proposal for 2020, billions NIS.**

|  |  |  |
| --- | --- | --- |
| 2020 | 2019 |  |
| A Proposed Change in Regard to Execution | A Gap Between Execution and Budget | Actual Execution | Original Budget | Section |
|  | **2.8+** | **399.8** | **396.9** | **Total Expenses** |
|  | 1.8+ | 180.3 | 178.5 | Social Offices |
|  |  |  | 60.5 |  From it: Education |
|  |  |  | 38.7 |  From it: Healthcare |
|  | 1.2+ | 60.0 | 58.8 | Administrative Offices |
|  | 3.9+ | 35.6 | 31.7 | Economic Offices |
|  | 0.8+ | 69.8 | 69.0 | Security System |
| 1.0- | 1.2- | 29.9 | 31.1 | Interest on Government Debt  |
|  | 3.8- | 24.1 | 27.9 | Miscellaneous (Including Interest and Social Security Debt( |
|  |  |  |  | *Additional Possible Sections:* |
|  |  |  |  | Social Security Allowances |
|  |  |  |  | Infrastructure Investment |
|  |  |  |  |  |
|   |  |  |  |  |
|  | **9.2-** | **347.6** | **356.7** | **Total income** |
|  | 3.4- | 168.5 | 171.9 | Direct Taxes (Income Tax , Health Tax, Cooperate Tax)  |
|  | 2.5- | 142.0 | 144.6 | Indirect Taxes (Customs, VAT) |
|  | 3.2- | 37.0 | 40.3 | Fees and Other Income |
|  |  |  |  |  |
|  |  |  |  |  |
|  | **12.0+** | **52.2** | **40.2** | **Deficit ( expenditure minus revenue)** |
|  | 0.8%+ | 3.7% | 2.9% | Deficit - In Product Percentages |

Emphases and remarks for your attention:

1. Regarding the exercise – there is no great importance number accuracy. The emphasis is on the direction of the proposed change **and bringing economic arguments in support of your proposal.**
2. Time is short - **Focus on 3-4 lines where you want to propose budget changes.**
3. It is impossible to determine separately both the expenditure, the revenue and the deficit.

Deficit = Expenditure - Revenue

For example, if you increase expenses by (+2) and decrease revenues by (-3) -> the deficit will increase by 5 billion NIS to 57.2 billion NIS.

1. Regarding the deficit, please note that in 2019 it amounted to 52.2 billion NIS (3.7 percent of GDP), higher than the original target of 40.2 billion NIS (2.9 percent of GDP). Over time, a deficit of more than 2.9 percent of GDP leads to an increase in government debt. An increase in debt will, in the future, require an increase in total interest payments on the debt. You may propose any increase / no change / reduction in the deficit - but you will have to justify it financially.
2. Note that interest payments on debt for 2020 are already known and predetermined according to the debt accumulated so far by the government. They are expected to be 29.0 billion NIS, therefore a decrease of 1 billion NIS, as shown on the board.
3. Government accounting is complicated ... I have added two sections - annuities and infrastructure investment - that do not appear as a separate item explicit in the budget book. You may also make changes to these sections. In some of the ministries (education, health) budget execution in 2019 is unknown. Assume that execution was equal to planning.
4. Stay in the macroeconomic world, but **try to be a little more specific than the details that appear on the board**. For example, if you want to propose an increase in the allowance budget, indicate which one (old age? Children? Disabled? Income assurance?) Or if you wish to propose a cut in the education budget - specify in what area (teacher pay? Increasing class sizes? Reducing hours? Reducing enrichment programs?)
5. It is possible to be financially creative and offer taxes or expenses that do not specifically appear on the board or do not exist at all today. Use the empty lines for this.
6. In reality, the state budget grows naturally every year according to demographic changes and predetermined factors (the "autopilot"), and the incomes increase accordingly with the growth of economic activity in the market. Ignore these factors. The changes you propose go beyond "autopilot."

Good Luck!