Fiscal policy is the effects of the Government budget on the economy. It relates to the net position of combined government revenue and expenditure over ~~the~~ a 12 month period.

The Australian Federal Government has varried its use of Fiscal Policy (FP) ~~over~~ since it's election in 1996. ~~Of~~ Up until the end of the 20th century it has used FP to maintain external balance, ~~now~~ and now use it to supplement monetary policy in achieving internal balance. The specifics transactions within the budget also have an impact on economic growth and the distribution of income, alongside an obvious political adgenda. The Budget can be used in any number of those ways, and has been over the last decade. It can encourage or discourage economic growth, provide a more equitable income distribution and also assit external stability.

External stability is measure through a nations current account. For Australia's case its current accound has been in deficit (CAD) for ~~E~~ several years. This was a result of succesive years of ~~to the~~ labour government borrowing foriegn ~~mo~~ savings, coming off the 1992/93 recession. Since 1996, the Howard Liberal government has used FP to reduce the CAD, thereby assisting external stability.

The CAD can be written mathematically as:

$$CAD = (I-S) + PSUD.$$

'PSUD' is the Public sector underlying deficit, which is essentially a deficit Federal Government budget. Since 1996 the Federal Government has run budget

Surpluses to varrying degrees (in 1998/99 the operating result was surplus of $5630m and in 2000/01 it was surplus $4743m). This makes the formula for CAD be

CAD = (I−S) − PSUS (public sector underlying surplus)

To reduce the CAD the Government must therefore run budget deficits as low as possible and surpluses as high as possible so as to reduce the CAD or contribute as little as possible. Currently the CAD stands at 4·1% of GDP (according to the ABS), which is a marked improvement from the 6%+ CADs which were characteristic of the late 90s. This is a direct result of the Federal Government's stance of budget surpluses, along with the weakening global economy. This idea of 'servicing the debt' that has allowed the Government to assist external stability over the last six years, using FP.

The economist John Maynard Keynes saw

the purpose of FP very different to the late 90's Liberal Government. His belief was that through government spending and revenue, the budget should be used to influence the level of economic growth within the economy. This theory works on the basis of the economy being made up of 5 sectors, and leakages and injections through the economy and each sector creates the level of growth. As the Government is a pivitol sector within the economy, it's balance between Government spending (an injection) and taxation (a leakage) can significantly influence economic growth. If government spending is greater than its total taxation (ie, injections > leakages) then it is said to be expansionary, as it encourages increases in demand within the economy which promotes growth.

This aspect of FP has not been used by

the Australian Federal Government until recently. In the 2002 Budget papers it said that FP who no longer been used to address external balance as it seems to be 'under control'. The CAD is low, and as the government through repetitive surpluses no longer contributes to the CAD, the private sector (I-S) can control external balance. This has apparently been the case for the last few years as the papers stated that the expansionary setting since 2000 has contributed an estimated 1% percentage point to overall GDP.

The nature of the budget is seen through the change in the previous year. A budget is said to be expansionary if there have either been an increase in the level of deficit or a reduction in the amount of surplus funds. The latter has ~~been~~ been the current Gov't expansionary setting in the few years when the budget operating result has moved from a $9514m surplus in 1999/2000 to a $4743m surplus in 2000/01. This is the expansionary stance which has contributed the 1% to GDP.

The new use of FP could also be attributed to the change in the nature of the global economy. Where the global turndown has been offset by strong domestic growth in 2001 and 2002, which takes futher pressure off the CAD allowing FP to be used to supplement monetary policy (MP), in addressing economic growth. This 'supplement' idea of FP for MP is important as MP is designed to maintain non-inflationary economic growth. As the Australian government is only using FP as a supplement then FP's benefits the economic growth, is restricted to it's effect on inflation and inflationary expectations.

The redistribution effect of FP is largely done through the specific transactions of the budget. It relies on the specific nature of Government spending. If government spending is used on social welfare (as it often is) then it aids income equality by providing more money for lower income earners. In recent years the Australian government has not used FP to significantly influence income distribution. Aside from standard payments to the social welfare, any payments to lower income earners have been arguably politically motivated rather than economically, such as the 2001 'one-off' payments to ~~pensioners~~ retirees. Other than that, attempts to reduce dole payments (through the introduction of work for the dole) and even

~~ser~~ social services payments (with the introduction for 'forced' private health care and attempts to reduce sick welfare payments) have all had a negative impact on income distribution, which could ~~been~~ be contributing to the 0.446 Gini coefficient, up from 0.36 in 1988/89 (ABS)

The Federal Government, through the use of Fiscal policy can have a ~~tremend~~ significant influence on the whole Australian economy. By FP's ability to influence external stability, overall economic growth and income distribution, the government can effectly control the economy. It is predicted that it is likely to continue it's expansionary stance, with the 2002 budget outcome likely to be a deficit as the gov't comes unstuck with its 'surplus propaganda' going into 2003, where the weak global economy and it potential effect on the domestic economy, could force a budget deficit in an effort to encourage expansion and maintain external stability.

* (place at '*')

Another ~~less~~ significant contribution FP makes to economic growth is seen through the specific allocation of government spending. Government spending, if directed ~~to~~ to productive and efficient industries can increase their productivity, ~~allowing~~ flowing on to an increase in exports ~~and~~ which further increases economic growth. Governments must be wary however as to which industries it spends money on, ~~as~~ for if they are ineffecient in will restrict potential economic growth, by removing the impact of global competitors, ~~the~~. Therefore FP must involve careful decision making into which industries finances

~~go to and use~~ go to, allowing ~~the~~ economic growth.

- FP def.

- Background / trends on use of FP.
  & Intro stuff.

① Eco growth. → Exp.
  ∴ → target industries. domestic demand ↑ seen in use of FP.
  NB: expan. nature

  Comment on use.

② . Redistribute Y. → spending ~~etc~~ to specific areas.

③ ~ Exte. Stab.
  ⁝
  no longer tho.