Analyse how recent trends in Australia's economy were influenced by macroeconomic policy.

The government can use the two macroeconomic policies of monetary and fiscal policy to influence Australia's economic trends of growth, price stability, unemployment, external stability and distribution of income. Fiscal policy refers to the budgetary use of the government spending and taxation to influence economic growth, maintaining it at a sustainable 3-4%, resource allocation and distribution of income. Monetary policy is utilised by the RBA, to avoid any political constraints and thus implementation time lag, and it refers to the changing of the cash rate and through the transmission mechanism, its impact on the economy, in order to achieve its goals of full employment, price stability and economic prosperity.

During the second mining boom in 2011-12, the government implemented contractionary fiscal policy to begin fiscal consolidation as economic growth was at a sustainable rate of 3.4% in 2012. The first year of contractionary policy led to economic growth falling to 2.6% in 2013. Fiscal consolidation is when the government deliberately increases taxations and decreases expenditure in order to achieve a budget surplus. This leads to decreased disposable income, reducing consumption and investment, lowering aggregate demand and thus slowing economic growth.

The 2011-12 budget introduced a variety of new taxes and contractionary policies such as mining tax and the removal of subsidies from the PMV industry. The mining tax was a 40% taxation on mining company profits which increased their production costs, leading to decreased productive capacity. This tax was supposed to discourage mining companies from emitting greenhouse gases, incentivising them to invest into greener solutions and environmentally friendly production alternatives. However, this tax along with removing subsidies from the PMV industry, would lead to structural unemployment, unemployment spiking at 5.6% in 2012, up from 5.2% in 2011. The closure of the PMV industry 3 years later would lead to the loss of 50,000 jobs and unemployment peaking at 6.1% in 2014.

The government also initiated a gradual increase in the superannuation rate from 9% to 12% over the next 10 years, starting from 2012. Superannuation is a form of compulsory savings which means that this policy will increase domestic savings, allowing private investors to rely on the domestic pool rather than overseas borrowing. This decrease in foreign investment incurs less NPY debits in the form of servicing costs, leading to an improvement in the CAD and NFD as % of GDP, improving external stability. The CAD as % of GDP decreased to 3% from 4% from 2012-2013 while NFD marginally decreased from 52.2% to 51.1% of GDP in 2012-2013.

The RBA implements expansionary monetary policy by shifting the policy interest rate corridor downwards. This is done by decreasing their borrowing and lending rates to banks in the short term money market which will incentivise banks to also decrease interest rates to maintain competitiveness. Through the transmission mechanism, economic growth will increase as with lower interest rates, the cost of borrowing decreases, incentivising consumption and investment in the savings and investment channel, thus increasing aggregate demand and economic growth.

Changes in monetary policy during the second mining boom would have delayed impacts on the economy due to longer impact time lag than fiscal policy. In response to the onset of the European Sovereign Debt crisis, as outlined in their December 2011 statement, loosening monetary policy was utilised to lower interest rates, cash rate decreased from 4.25 to 3.75 in 2011, relative to global interest rates to discentivise foreign investment, particularly to European investors as they had become high-risk. This led to lower foreign investments as the rates of return decreased, thus incurring less NPY debits and decreasing the size of the CAD from 3% to 1.6% in 2013-2014, improving external stability.

Over the next 3 years, economic growth and inflation would continue to fall due to fiscal consolidation. Despite the RBA's repeated cuts to the cash rate from 4.25% in 2012 to 1.5% in 2016, inflation continued to plummet, from 2.49% in 2014 down to 1.61% in 2019, showing the conflict of policies. Loosening of monetary policy leads to decreased interest rates, which lowers the cost of borrowing and thus encourages consumption and investment, leading to increased aggregate demand and economic growth. However, the RBA's transmission mechanism could not compete with the contractionary measures in fiscal policy leading to the policy mix having an overall contractionary effect on the economy. Economic growth was at an average of 2.5% throughout 2014-2019, lower than the sustainable target band of 3-4%, displaying the limitations of the two policies.

The onset of COVID-19 led the government to forego fiscal consolidation, instead enacting major expenditure and tax cuts. This expansionary fiscal budget included a $291 billion dollar injection in the form of $1500 per fortnight income substitutes to low-middle income individuals, the Jobkeeper program, incentivising consumption and economic activity through increasing disposable income. This injection would have a greater than proportional effect on the economy, inducing the simple multiplier, further increasing aggregate demand and economic growth. The Australian economy only contracted 1.1% during 2020 as a result of expansionary fiscal policy whereas predictions projected a 10% contraction.

Furthermore, the JobKeeper program aimed to support businesses in order to retain workers. The government estimates that 3.8 million jobs were kept as a result. This curbed the expected 15% unemployment rate to only 7.4% in August of 2020. Continued expenditure would lead to unemployment further decreasing to 5.6% as well as economic growth increasing to 3.4% in the March quarter of 2021. This is because as disposable incomes increase, consumption and investment in the economy will also increase, and as labour is a derived demand, unemployment will decrease and aggregate demand will increase, leading to short term economic growth.

The initial response to COVID-19 from the RBA was to cut the cash from 0.5% to 0.25% in March 2020. This was an attempt to stimulate economic growth via the transmission mechanism, through decreasing interest rates, the cost of borrowing is reduced, incentivising consumption and investment, slowing the fall of aggregate demand and increasing economic activity. The RBA further cut the cash to 0.1% in November 2020 however as the cash rate reaches the zero lower bound, monetary policy's effectiveness decreases. The RBA would then implement unconventional monetary policy in the form of quantitative easing, which is when the RBA outright purchases private assets using Exchange Settlements, with the objective of increasing the price and thus flattening the yield curve. The use of this unconventional monetary policy would support Australia's recovery in economic growth to 3.4% as well as avoiding deflation as inflation was recorded at 0.87% in 2020, achieving goals of economic growth and working towards price stability.

Hence, Australia's trends in economic growth, price stability, unemployment, external stability and distribution of income were influenced by the government's use of macroeconomic policies, monetary and fiscal policy.