Evaluate the effectiveness of fiscal policy in achieving Australia's economic objectives.

Fiscal policy can be used to effectively achieve Australia's economic objectives of economic growth, resource allocation, distribution of income and external stability, however it may be faced with limitations. Discretionary changes in fiscal budget are deliberate changes to the structure of the government whereas non-discretionary changes are cyclical responses to the economy, automatic stabilisers. To achieve economic objectives, the government will employ both tools, in the form of spending on Jobkeeper or Jobseeker, the JobTrain Program and environmental policies (infrastructure packages). +political restraints + implementation lag

In an economic downturn, the government will increase spending in order to achieve objectives of economic growth and distribution of income as low economic activity indicates high cyclical unemployment which tends to be lower income earners, worsening income inequality. To do so, direct injections in the economy in the form of $1500 cash handouts to low-middle income earners through the JobKeeper and JobSeeker programs can be used to increase the level of disposable income in the economy, which incentivises consumption and investment, increasing the level of aggregate demand and thus effectively driving short term economic growth.

This can be seen with the onset of the COVID-19 pandemic causing the economy to contract -1.1% in 2020, the Australian government employed JobKeeper and JobSeeker which represented a $291 billion dollar injection into the economy, leading to increased consumption and investment as stated by the Australian Treasurer, "Consumer sentiment is at its highest in 11 years" and "Business conditions reached all-time highs", which would induce the multiplier effect leading to increased aggregate demand and economic growth, which increased to 3.5% in the March quarter of 2021. This would reduce cyclical unemployment, as labour is a derived demand, seen in the decrease from 7.4% in 2020 to 5.6% in 2021, increasing incomes for lower income individuals and thus improving the distribution of income.

However, increased government expenditure, especially with this magnitude, would lead to a worsened government budget deficit, which grew to 11% of GDP. This deficit would also cause the government to borrow from private sector to finance their debts, known as the 'crowding out effect', leading to decrease in the supply of domestic savings, 'crowding out' private investors and forcing them to borrow from overseas, which induces overseas servicing costs, decreasing the current account surplus and further increase net foreign debt. The government records NFD as % of GDP in 2020 as 30% in 2020 but expects it to increase to 40.9% by 2025, worsening external stability, lowering the overall effectiveness of the policy.

Although not deliberate changes in the federal budget, automatic stabilisers can contribute to the smoothening of fluctuations in the business cycle. During an economic boom, such as the Second Mining Boom, as economic growth is high, unemployment will be low and thus disposable income is increased, leading to increase in marginal rate of tax receipts and lower transfer payments. Economic growth was 4.3% in 2011-12 leading to taxation revenue increasing by $29 billion compared to lower increase of $11 billion in government expenditure, showing the counter-cyclical effect of automatic stabilisers, slightly contributing to the objective achievement of economic growth.

Another way for the government to achieve its economic objectives is through spending on training and education for disadvantaged communities. Increased government expenditure on education programs will equip individuals with in-demand skills, increasing their occupational mobility and thus increasing their technical efficiency and productivity, leading to a higher level of aggregate supply, allowing for economic growth in the long term. The government spent $2.7 billion on the JobTrainer program in its 2020-21 budget, creating 170,000 new apprenticeship spots; however this program is limited by its impact time lag, thus only effective in achieving its objective of economic growth in the long run. Aggregate supply driven economic growth will lead to lower cost-push inflation in the future, achieving price stability.

The program also targeted specifically women, particularly in STEM, opening 5,000 new places in non-traditional trades while also targeting Indigenous women, opening up 2,700 spots in Indigenous girls academies to help them finish school and enter the workforce. Previous spending on the Indigenous workforce successfully increased their participation rate to 51.5% in 2018, up 5% from its previous year. By spending on disadvantaged communities, the government can increase their skills and thus increase their employment opportunities, leading to increased wages and thus improving distribution of income.

Lastly, the government can choose between allocating its resources to achieve short term economic growth however this will compromise ecological sustainable development and worsen environmental equality as there is increased pollution and depletion of resources. According to the Garnaut Report (2008), a "Business like Usual approach" will see a 4.8% contraction in Australia's GDP. Reducing pollution will also improve the quality of labour, leading to increased efficiency and productivity as well as investment into ESDs will lead to improved resource allocation and increased aggregate supply, leading to long term economic growth.

Examples of ESDs are the National Energy Productivity plan which is a direct approach from the government as it is a public good. The NEPP's aim is to innovate new technologies so that businesses can reduce their production costs and reduce carbon emissions through utilising renewable energy allowing for greater environmental quality and future economic growth. The government allocated $1.6 billion dollars in this program in its 2020-21 budget however since the establishment of NEPP in 2016, more than 90% of Australia's energy is still sourced from fossil fuels. This is because goods provided by the public sector tend to be inefficient and lower quality, rendering the policy less effective in achieving its economic objectives of environmental sustainability.

Private firms are profit driven and are accountable for their decisions, thus making them more productive than the public sector. A more effective policy the government uses is the subsidisation of solar panels which are a form of renewable energy with positive externalities. Since the government started subsidising solar panels firms in 2011, sales have increased from 200,000 each year to 2.6 million sales in 2020, successfully achieving goals towards environmental sustainability. Increases subsidies lead to reduced production costs for firms and thus allow them to invest into R & D or deepen their capital, increasing their productive capacity and thus increasing the amount of merit goods in the economy, benefitting the whole economy and thus effectively achieving the economic objective of environmental sustainability.

Thus, the use of the fiscal budget in the form of JobKeeper/Jobseeker, automatic stabilisers, JobTrainer program and various environmental policies allow for the government to achieve its economic objectives of economic growth, unemployment, price stability, external stability, environmental sustainability and income equality.