The Fedral Government can use Fiscal policy in order to achieve their objectives. These objectives include achieving strong & sustainable economic growth, redistributing income & reducing income inequality, as well as achieving external stability relating to the Current Account Deficit, foreign liabilities and the exchange rate.

The Federal government can use Fiscal Policy to promote economic Growth in Australia. Achieving economic growth is one of the government's main objectives as stronger growth leads to higher living standards, reduced unemployment & extra revenue for the government. The government has used expansionary fiscal policy to stimulate growth & demand in the economy. Expansionary fiscal policy involves increased government spending & reduced taxes in order to reduce the budget surplus or increase the deficit. This policy is usually used when it is necessary for the government to stimulate the economy in order to help it out of a recession. However, since 1996, the Howard Government announced that it planned to have balanced budgets. This was in the hope of achieving a sustainable level of growth, as budget deficits contribute to the economy's structural problems such as higher foreign liabilities & ~~reduce~~ increased the deficit on the Net Income part of the Current Account. The government also can help to achieve a longer period of economic growth through using contractionary fiscal policy. This is when the economy is experiencing strong growth, possibly a boom & therefore increasing inflationary pressures. At this time the government may decide to use contractionary fiscal policy to prevent inflation rising or of the 2-3% target range. This was used in the 2002-3 budget in order to ~~work out~~ reduce the necessity of monetary policy to higher interest rates in order to reduce the inflation level which was becoming a threat. Because monetary policy is a blunt instrument it can have negative effects on areas of the economy & therefore the budget was made contractionary in order to reduce the necessity of the need to use monetary policy. In this way a contractionary budget can be used to slow growth & deal with inflation but it ~~does~~ is done so to ensure a longer period of sustainable growth. Growth has been strong over the past decade as a result of successful government management & cyclical factors. Growth was in 2002 at 3.75% & one of the top ~~of~~ OECD growth rates.

The Government can use Fiscal Policy in order to redistribute income in the economy. The main way the budget does this is to redistribute the revenue gained from the wealthy group in society to welfare benifits & other government paid fascilities. This has the effect of reducing the gap of income inequality. The redistribution of income is an important part of the budget because in the current era of globalisation the gap between the top 20% of income earners in society with the bottom 20% of income earners is widening. In fact the bottom 20% earn less than 1% of the income whilst the top 20% earns around 60% of the income. This is an alarming figure & therefore places an important role for the governments Fiscal policy to redistribute income. The government redistributes income in the economy through taxes & its expenditure. The main element of the Fiscal Budget was welfare which includes such things as unemployment benefits, pensions, education allowances & disability pensions. Through the progressive tax system the Federal government earns money and then pays for amongst some things welfare. The government can also redistribute income in less direct ways, this is through proving government funded projects, this has the effect of creating employment and therefore redistributing income. There ~~are~~ is also a number of PTE's which employ workers who earn income & this can also effect the distribution of income. However, the main way the budget affects the distribution of income is through taxes & government expenditure on welfare benefits.

The Federal Government can use fiscal policy to assist external stability. External stability involves the external indicators such as the current Account deficit, foreign liabilities & the exchange rate & stabalising these indicators at a point where they will not have ~~nemp~~ negative effects on the economy. Through balanced or surplus budgets, which the Howard Government has achieved in the three consecutive years, demonstrated in the Reserve Bank Bulletin of January 1992, the ~~Fe~~ Federal Government, is not contributing to Australia's lack of savings or the "crowding out effect". This is where the government has run a fiscal deficit & therefore needs to borrow from the domestic private sector. This in turn leads to negative private savings & in times of strong growth can have the crowding out effect. This in turn means that the private sector needs to borrow from overseas in order to fund investment or pay for the ~~[illegible]~~ deficit on the Current Account. This will in turn increase Australia's foreign liabilities which are at a very high level of 60% of GDP. Foreign liabilities require servicing costs which constitute an outflow of funds on the Current Account - this increases the Net Income deficit. The Net Income Deficit is the largest contributor to the Current Account. Many economists feel that the Current Account is not sustainable and is a reflection of Australia's deep structural problems. Australia's Current Account Deficit was on average over the 1990's 4.5% of GDP & reached a peak of 6% almost every 5 years.

these levels are viewed by many economists to be harmful to Australia's long term growth prospects & also external confidence in Australia. Therefore, in order to help assist Australia's external stability, in particularly the CAD & foreign liabilities, the governments needs to run fiscal surpluses or ~~[illegible]~~ balanced outcomes. This will mean that the crowding out effect is reduced, & the level of national savings is not reduced further. It cannot be overlooked that the low level of national savings, exacerbated by budget deficits, is a major reason for high CAD's & the need for an inflow of foreign funds. Over the past 2 years the Howard govt has run buget deficits, leading to criticisms from economists that they have eased on their original

original stance to run budget surpluses or deficits.

An important aspect of external stability is outside or foreign confidence in Australia. The government's management of the economy, reflected largely in their fiscal outcomes, has a large impact on this. Therefore, through good economic management, balanced or surplus budgets, this can help to retain or increase confidence in Australia & lead to increased stability in Australia's currency. Speculators often view the government's fiscal policy ~~outcomes~~ outcome as an important indicator of whether they should invest in Australia or take their funds elsewhere. Therefore, balanced/surplus outcomes have a positive effect on external stability

It can be seen that the Federal Government's budget has an important impact on promoting economic growth, redistributing income & assisting external stability.

(1) economic growth :-
- expansionary.

(2) Income Inequality
- welfare
- tax

(3) External Stability :-
- ~~tax~~ savings
- reducing pub sector debt.
- good management for e.r.