The purpose of the Economics Update is to provide teachers and their students with contemporary examples which can be applied to the relevant key knowledge points from Areas of Study 1 of the VCE Unit 4 Economics Study Design.

Focus on Unit 4 AOS 1 – Aggregate demand policies and domestic economic stability

VCE Economics Unit 4 is titled “Managing the economy”, and its focus is on the policies the Australian government uses to influence the domestic macroeconomic goals and to positively affect living standards. Area of study 1 of Unit 4 focuses on the role of aggregate demand policies in stabilising the business cycle to achieve the Australian Government’s domestic macroeconomic goals. These policies work by influencing the level and composition of Aggregate Demand (AD=C+I+G+X-M). You will study two key macroeconomic demand management policies – budgetary policy (sometimes called fiscal policy) and monetary policy.

This Update examines how budgetary and monetary policies have been used over the last two years. It will also consider the strengths and weaknesses of using each policy - monetary and budgetary - to achieve the Australian Government’s domestic macroeconomic goals and how these goals may affect living standards.

In class, you will learn the government uses macroeconomic demand policies to ‘manage’ the economy by adjusting policies to smooth out fluctuations in economic activity. However, it is important to remember that, in a market capitalist system like Australia, ‘government’ is not the same thing as ‘the economy’. Governments set the policy levers, but they do not control the outcomes, and as such, economic performance of the Australian economy is not wholly within the government’s control. There are many other players in the Australian economy – households, businesses, trade unions, lobby groups, the not-for-profit sector and, of course, the overseas sector. While government policy settings can influence the behaviour of Australia’s other economic players and performance of the Australian economy, they cannot control them. It is therefore important to remember that there are limits to what government policy can achieve in the economy, and that not all economic outcomes in Australia are attributable to government actions or policies.

Budgetary Policy

In studying budgetary policy, you will need a good understanding of the theory of how government budgets influence aggregate demand and the business cycle, plus knowledge of recent budgetary policy and how it will affect the achievement of the goals and living standards.

The 2018-19 Australian Federal budget was handed down, as is tradition, on the second Tuesday in May – which this year was Tuesday 8th May, 2018. Governments sometimes also release interim ‘mini-budgets’ or updates if economic or political conditions require a major adjustment to budgetary policy.

At the time of release, the 2018-19 Budget was a forecast of the levels of Federal government receipts (revenue, money in) and outlays (expenditure, money out) for the coming financial year (also called a ‘fiscal year’), which covers the period July 1st 2018 to June 30th 2019. The Australian government’s budget website – www.budget.gov.au – is an excellent source of information about the current budget, including pie charts and tables such as those used throughout this Update. The Budget Overview on this website is the most succinct of the budget documents. It is relatively accessible for students and can be downloaded at https://www.budget.gov.au/2018-19/content/overview.html.

Revenue and expenditure

Chart 1 below presents in graphic form the relative share of various sources of government revenue for this year’s budget. Overall, the government expects to collect $486.1B in revenue, a 6.6% increase on revenue estimated to be collected in 2017-18. The pie chart shows that most government revenue comes from taxation. ‘Individuals income tax’ (personal income tax) is forecast to be the main source of revenue for the government, making up close to half of all government revenue. Other large sources of government revenue are company and resource rent taxes, which include the company tax on profits, and the Petroleum Resource Rent Tax on profits from the sale of petroleum commodities like LPG.

As you will have learned in class, the government differentiates between ‘direct’ and ‘indirect’ taxation. Those taxes levied directly on income are ‘direct’ taxes – and in Chart 1 these include individuals income tax, fringe benefits tax and company tax, whereas excises and sales taxes are ‘indirect’ taxes – taxes levied on spending. As the chart shows, most government revenue comes from direct taxation.
In addition, a small proportion of revenue (about 7%) is received from non-tax sources such as the profits of government-owned enterprises/businesses (e.g. Australia Post) and the dividends from the RBA. The government can also earn revenue from the sale of government assets — such as selling licenses to TV or radio companies that allow them to broadcast.

Chart 2 – ‘where taxpayers’ money is spent’ – shows the major expenditure categories for this year’s budget. Overall, the government expenses for 2018-19 are expected to be $488.6, an increase of 4.2% on estimated expenses in 2017-18. The largest outlay is on social security and welfare, including all pensions and unemployment benefits. These are, in aggregate, referred to as transfer payments – money (funded by tax collections) that is transferred from the government to those in need of income support. Health spending is also a very large expenditure item.

Chart 3 shows the changing relationship between budget receipts (revenue) and payments (expenditure / outlays) over the year under consideration.

The estimated (underlying) outcome of the 2018-19 Budget is a deficit of $14.5 billion, or -0.8% of GDP. This figure means that government outlays (spending) are expected to exceed government receipts by $14.5 billion over the 2018-19 financial year. The table below shows figures for budget outcomes from the 2016-17 to 2021-22 financial years. The figures for the current budget – 2018-19 financial year – are in the highlighted column.

Looking closely at the table, you will see that it shows two different measures of the budget outcome — the underlying cash balance and the net operating balance. These two budget outcomes reflect a change in how the government has chosen to report its budget outcome in recent years.

The underlying cash balance starts with the total cash received by the federal government from all sources, minus the total cash paid out, and it then removes any one-off figures such as asset sales (e.g. sale of Medibank Private in the past), asset purchases (e.g. the NBN Co), or earnings from the Future Fund (which must be reinvested and are not available for current spending). Therefore, the underlying cash balance gives a more accurate indicator of the impact budgetary policy is likely to have on the economy over the short term because it only shows what revenues are actually available for the government to spend in the current budget period. As noted above, for the current budget (2018-19), it’s estimated to be a deficit of $14.5B.

The second way of reporting the budget outcome shown is the net operating balance. This budget outcome reflects a change in the way the government is currently reporting the budget, instituted last year. This outcome excludes capital spending (the ‘G2’ referred to earlier) from the overall budget outcome. As a consequence, the net operating balance is a significantly smaller deficit compared to the underlying cash

Included in several of the types of spending are payments that are current in nature and those that are capital expenditure. When studying the AD equation, you would have learned that government spending can be divided between G1 and G2. G1 refers to government ‘current spending’ – spending on ‘day-to-day’ items such as paying the salaries of public servants and buying office supplies and paying bills for government offices. G2 refers to government ‘capital spending’ – spending on physical assets that will continue to provide benefits in the future, such as infrastructure, including the building of new hospitals, roads, submarines, ships and energy-generation.

Chart 2 does not differentiate between G1 and G2. For example, some of the health spending included in the $78.8B Health piece of the spending pie will be building health infrastructure (G2), while much of it will be on funding everyday healthcare services (G1). Similarly, some of the Education and Defence spending ‘pie’ will be capital in nature, while much will be current spending. The ‘other purposes’ item ($98B) includes the transfer of GST revenues to state governments (who in turn use the money to provide goods and services to their populations), along with interest paid on government (public) debt.

The 2018-19 Budget outcome

The budget outcome is the relationship between the money collected by the government in ‘receipts’ (revenue) and the money to be spent by the government in ‘payments’ (expenditure / outlays) over the year under consideration.

Chart 3 shows the changing relationship between budget receipts (revenue) and payments (expenditure) over time. Following a period of growth in payments in recent budgets, since 2011-12, growing receipts (increased revenue) and slight reductions in payments (decreased expenditure) has narrowed the gap between receipts and payments.
balance deficit: -$2.4B compared to the -$14.5B underlying cash balance. This reflects the fact that a significant proportion of the spending in the 2018-19 Budget is of a capital nature, on items that should, according to the government, add to the long-term prosperity of the community by developing infrastructure that will yield future benefits. The important thing to remember is that the operating balance reflects current spending, while the underlying cash balance includes both the current (day-to-day) and capital expenditure in the budget.

Throughout this Update, we will use the most commonly reported figure – the underlying cash balance, since that is the figure most often used by the media and discussed by economists when referring to ‘the budget outcome’, and the figure most likely to indicate the economic impact of the budget.

**Box 1:**
A note on estimates, projections and outcomes

Before we move on to consider the impact of recent budgetary policy on the government’s key economic goals, we should linger a little longer on this table. It’s important to remember that these are estimates, or predictions, of the budget outcome, and do not guarantee that the final budget outcome will be as estimated. Included in each year’s budget documents are the forecasts for the performance of the economy upon which the budget outcome is based. These are included in the second half of Table 1 above. As shown in the table, predictions for key economic parameters for the coming financial year (starting 1st July 2018) include 3% growth in real GDP, an unemployment rate of 5.25% and consumer price inflation of 2.25%. Furthermore, there is an expectation that wages are likely to increase, on average, by 2.75%. If the economy does not perform in line with forecasts (e.g. economic growth is lower or unemployment is higher than forecast), the budget outcome will be impacted significantly (e.g. the actual deficit will be higher than the estimated deficit).

Actual figures for the budget outcome are released in the September following the end of the financial year covered by the budget. For example, you will note that the figures for the 2016-17 Budget in the table above are titled ‘Actual’. This shows that, once final calculations were made, the actual deficit for 2016-17 was -$33.2 billion, which was -1.9% of GDP, and these figures were released in September 2017. To clarify, we can compare these figures with the estimated budget outcome for the 2016-17 Budget at the time when the budget was released in May 2016. It was predicted to be a larger deficit of -$37.1B, and -2.2% of GDP.

The difference between the estimated and actual budget outcome points to the extreme difficulty in making predictions about budget outcomes. In short, when the economy does not perform in line with the economic forecasts used to model the budget, there is likely to be a large difference between the estimate for the budget outcome made when the budget is released, and the actual budget outcome released after the financial year is over and all the spending and taxing has been finalised and accounted for. For example, if economic growth is higher and unemployment is lower, it is likely that expenditures will fall and revenue will rise, resulting in a smaller deficit. Hence, if actual economic conditions are not close to the forecasts, the estimated budget outcome will not be an accurate indicator of the actual budget outcome. We will return to this theme later when we consider the impact of automatic and discretionary changes to the budget.

### Financing the deficit and the link to government (public) debt

It is important to understand the difference between ‘debt’ and ‘deficit’. A deficit refers to the government having spent more than it earned over a given period of time (as per the deficits referred to above, in discussion of recent budgets), while (net) debt refers to the government owing more than it has loaned out at a given point in time. Running a budget deficit does not always result in government (public) debt, since there may have been existing savings that could be used to fund the deficit. However, the recent run of budget deficits has contributed to a rising level of government (public) debt. Chart 4 below shows recent budget deficits while Chart 5 shows (net) government (public) debt as a percentage of GDP for coming years.

![Chart 4: Federal budget underlying cash balance](source)

![Chart 5: Government (public) debt as per cent of GDP](source)

Clearly, a forecast deficit of $14.5B in 2018-19 means the government will need to finance that deficit in some way throughout the year. This will add to the size of the government debt.

The government (via the Department of Treasury) borrows money by selling bonds (formally known as Australian Government Securities) in return for the money required. These AGSs promise to repay the money at a specified date with an agreed rate of return (interest rate). The government can sell the bonds to the RBA, to Australian lenders or to overseas investors. In recent years, the most popular method of financing the budget deficit is selling bonds to Australian lenders – mostly large institutional investors. Government (public) net debt has risen in recent years. Each time the government runs a budget deficit, it is required to finance that deficit, adding to the level of government (public) debt.

According to the estimates in the 2018-19 Budget, the budget will be in surplus for the first time next year (2019-20), following a run of budget deficits. According to the 2018-19 Budget papers, the government’s net debt is expected to be $349.98 (19.5% of GDP) at the time of the budget, but will fall to $344B in 2019-20, due to the small estimated surplus. For the first time in over ten years, the government’s debt, as a percentage of GDP, will stop growing and begin to decline as the government begins to pay off the accrued debt.
Budgetary policy in the last two years: the stabilisers, managing AD and the domestic goals

Demand management policies are used to influence the level of aggregate demand (AD), and budgetary policy is used specifically as a macroeconomic demand management policy. (In AOS 2 of Unit 4 you will consider the role of budgetary policy in influencing aggregate supply, but our focus in this Update will be on its role in managing aggregate demand.)

Economic theory predicts that budget surpluses should be used to slow the economy by reducing AD during periods of high economic activity, while budget deficits should be used to speed up the economy by stimulating AD during periods of low or weak economic activity. In this way, the budget should work ‘counter-cyclically’ to stimulate the economy when it is weak, and help slow it down when it is strong.

In recognition of the fact that the budget outcome should adjust in response to changing economic conditions, the government has set itself a goal of achieving surpluses, on average over the medium term, such that any deficits that are operated to stimulate the economy during periods of weak economic activity will be at least offset by future surpluses – in order to avoid developing a structural deficit. Over the course of the business cycle this should be possible. Persistent budget deficits should be avoided, as these will incur interest payments and limit future borrowings, along with reducing the ability of governments to respond to crises should they occur.

The changes to the budget’s outcome and impact on the economy result from both automatic changes that occur because of changes in economic conditions (‘automatic stabilisers’) and deliberate policy changes to the budget, undertaken by the government, that alter the structure of the budget (structural changes to the budget, referred to as the ‘discretionary stabilisers’). Automatic stabilisers (cyclical components of the budget) operate in a counter-cyclical manner without direct intervention from the government. They are the components of the budget that are affected by the level of economic activity, and that result in changes to the levels of budget receipts and outlays as a result of fluctuations in the level of economic activity, without any deliberate changes to government policy. Generally speaking, the recent improvement to the actual and estimated budget outcome is occurring as a result of both cyclical and structural improvements to the budget. This means that the reduction in the (estimated) budget deficit is occurring both because of better economic conditions as well as some tightening of expenditure/revenue items in the budget.

As VCE Economics students, you are required to be familiar with the use of budgetary policy, including initiatives and their impact on the goals, over the last two years. The discussion of the last two budgets that follows will consider the likely impact of the budget on aggregate demand (including the automatic and discretionary effects), along with the impact of the budget on each of the three domestic macroeconomic goals – strong and sustainable economic growth, full employment and low inflation (price stability).

2017-18 Budget

At the time of release, the estimated outcome for the 2017-18 Budget was deficit of $29.4 billion. Compared to the estimated 2016-17 Budget outcome of a $37.1 deficit (which ultimately became an actual deficit of $33.2 billion), this reflected a contractionary impact for the 2017-18 Budget. This is because the government sector was expected to inject a smaller level of funds into the economy, relative to leakages collected from taxation and other revenue sources, compared to the previous year.

What this means is that, if all other spending in the economy (i.e. non-government spending) remained the same between 2016-17 and 2017-18, the change to the budget outcome would have resulted in the size of Australia’s economy contracting over that period. However, the $29.4 billion deficit has since been revised to $18.2B due largely to cyclical improvements to the budget over the course of 2017-18. This means that the budget deficit is expected to fall from $33.2 billion to $18.2B over the course of 2017-18.

A reduction in the level of stimulus to the Australian economy as a result of the smaller budget deficit (overall budget outcome) could have been expected to reduce the net addition to demand in the economy. The government was, at the time, mindful of Australia’s below-trend economic growth rate and relatively high, though steady, unemployment rate (above the NAIRU), and avoided a more drastic reduction in the deficit that would have further reduced economic growth activity and placed economic growth and employment growth in jeopardy. However, on its own, it might have been expected that the reduction in the budget deficit would have a contractionary effect – reducing AD overall, and leading to a reduction in the rate of economic growth. Furthermore, it is likely that any reduction in the rate of economic growth would likely have contributed to a rise in unemployment (moving further away from the full employment goal) and falling inflationary pressure. Australia’s inflation rate has been towards the bottom of (and sometimes below) the RBA’s inflation target band in recent years and any further fall in inflation would be likely to compromise the achievement of low inflation (price stability).

2018-19 Budget

As noted above, the estimated outcome for the 2018-19 Budget is a deficit of $14.5 billion. Despite the fact that government continues to run a budget deficit, this outcome reflects an expected contractionary impact for the 2018-19 Budget given that the deficit is expected to fall from $18.2 billion to $14.5 billion. The gradual reduction in budgetary stimulus to the economy over recent years was clearly illustrated in Chart 4 above (reproduced below) – which showed the Federal budget actual and estimated underlying cash balances from 2011-12 to 2021-22.

Chart 4: Federal budget underlying cash balance

The gradual reduction in the size of the budget deficit in recent years represents a desire for ‘fiscal consolidation’ – tighten budgetary policy to return the budget to surplus in the future. As can be seen in Chart 4 and as was discussed briefly above, the ultimate target year for the return to surplus is now next fiscal year - 2019-20. The current government projection is in that, in that year, the budget will achieve a surplus of 0.1% of GDP.

In addition to the fact that the 2018-19 Budget is likely to have a mildly contractionary impact on the economy, the budgetary policy stance for the 2018-19 Budget is actually mildly expansionary.

If you look again at the table of Australian Government budget aggregates
provided earlier in this Update, you will see that each annual budget includes estimates and projections for the budget outcome stretching several years into the future. When the estimate for the 2018-19 Budget outcome was included in the 2017-18 Budget papers, it was predicted that the budget outcome would be a deficit of -$21.4B. However, as you already know, when the 2018-19 Budget was released in May this year, it estimated that the outcome of the budget for 2018-19 would be a much smaller deficit of $14.5B. That deficit is almost $7 billion smaller than the deficit that the government had previously estimated for the current budget. Between the release of the 2017-18 Budget and the 2018-19 Budget, the budget outcome has been influenced by both discretionary policy changes and automatic changes.

Over the period between the release of the 2017-18 Budget and the 2018-19 Budget, the government made a series of policy decisions (discretionary stabilisers, also known as structural components of the budget) that worsened the budget outcome by $1.2B more than it would have been if they had not acted. These discretionary policy changes included the first step in the government’s seven-year Personal Income Tax Plan (outlined in more detail below), and the decision to reverse the increase to the Medicare Levy (which had been announced as part of the 2017-18 Budget.)

On the other hand, improving economic conditions (the automatic stabilisers in action) have resulted in higher tax collections. In particular, improving commodity prices have increased company tax collections (as mining companies became more profitable) and employment growth increased income tax collections. Overall, automatic stabilisers added just over $8B to the budget outcome, through increased tax receipts. Without the discretionary changes outlined in the previous paragraph, the deficit would have been even smaller than the $14.5B estimate. In this sense, the 2018-19 Budget can be considered to be taking a relatively ‘expansory stance’, even though the size of the budget deficit is expected that the reduction in the size of the budget deficit will have a contractionary effect – reducing AD overall, and leading to a reduction in the rate of economic growth. Furthermore, it is likely that any reduction in the rate of economic growth is likely to contribute to a rise in unemployment (moving further away from the full employment goal) and falling inflationary pressure. Given that Australia’s inflation rate is currently below the RBA’s inflation target band, any further fall in inflation is likely to compromise the achievement of low inflation (which can, as you will have learned, be too low).

On the other hand, one of the strengths of budgetary policy is that it can target particular areas of need and economic goals better than monetary policy, and there have been discretionary policy changes that are expected to have a positive impact on some goals.

### Strong and sustainable economic growth

In terms of discretionary policy changes to the budget that will affect the achievement of strong and sustainable economic growth, the government has been keen to promote its budget as ‘sticking to our plan for a strong economy.’

A centrepiece of this year’s budget is a seven-year Personal Income Tax Plan. The plan passed the parliament in June this year, and the tax cuts will begin as of the 1st July 2018. As the government has noted, it will begin with permanent tax relief to lower and middle income earners by providing the Low and Middle Income Tax Offset – a tax rebate of up to $530 a year (and up to $1060 for a working couple.) The rebate will be paid each year until 2021-22, and received as a lump sum when individuals lodge their tax return. For low income earners with a taxable income of $37,000, the benefit will be around $200.

In addition, the upper threshold for the 32.5% tax bracket will rise from $87,000 to $90,000 from 1st July this year. According to the government’s data, this will prevent approximately 200,000 taxpayers from moving into the bracket that is taxed at a 37% marginal rate.

Under later steps of the plan, from 1st July 2022, the government plans to increase the Low Income Tax Offset and extend the 19% tax bracket from $37,000 to $41,000. It will also increase the top threshold of the 32.5% tax bracket to $120,000.

Then in 2024, the plan will remove the 37% tax bracket entirely. This will mean that the 32.5% income tax bracket will extend from incomes of $41,001 to $200,000 from 1st July 2024. Incomes over $200,000 will be taxed at the top marginal tax rate of 45%.

As you will note, the final stage of this tax plan will not be implemented for another six years. Nevertheless, there is no doubt that the early elements of this package (those beginning from 1st July this year) will increase disposable income across a wide range of income groups. Increased disposable income should increase Household Consumption, increasing AD, and stimulating economic growth. The budget papers also highlight the government’s belief that the tax cuts will improve the rewards from work and increase the level of effort by reducing bracket creep.

Another component of the budget is continued investment in infrastructure projects, with a major focus on transportation. They are part of a $75 billion transport infrastructure investment over the next decade that has been announced over a number of recent budgets. Some infrastructure announcements include:

- $1.9 billion over 12 years in national research infrastructure (to help Australians deliver high impact research that can be used across our economy)
- $41 million to establish a national space agency and grow the Australian space industry
- Roads of Strategic Importance package of $3.5 billion for projects that will benefit people and businesses in every State and Territory (including a $1 billion Urban Congestion Fund)
- Continued funding of the Western Sydney Airport and Melbourne to Brisbane Inland Rail

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**The 2018-19 Budget and the domestic macro-economic goals**

As explained already, a reduction in the level of stimulus to the Australian economy as a result of the smaller budget deficit (overall budget outcome) can be expected to reduce the net addition to demand in the economy. On its own, it might be expected that the reduction in the size of the budget deficit would have a contractionary effect – reducing AD overall, and leading to a reduction in the rate of economic growth. Furthermore, it is likely that any reduction in the rate of economic growth is likely to contribute to a rise in unemployment (moving further away from the full employment goal) and falling inflationary pressure. Given that Australia’s inflation rate is currently below the RBA’s inflation target band, any...
Infrastructure has a positive effect on the achievement of strong and sustainable economic growth in two ways. Firstly, it improves AD through the immediate promotion of spending (both Private Investment and G2). This is because construction of infrastructure entails spending that injects money into the circular flow of income via spending on labour and capital. Secondly, as the infrastructure is finished and is able to yield benefits, it can contribute to improved productivity through reduced costs of production and increased efficiency, as both workers and output can be transported much more efficiently around the country. Rail is a particularly cost-effective and efficient way to transport large volumes of products and people.

In addition, the government continues to work for its Ten Year Enterprise Tax Plan. Companies with a turnover of less than $10 million already face a lower tax rate of 27.5% of their profits and this will be extended to include companies with annual turnover up to $50 million and the corporate tax rate will eventually fall to 25% for these companies. The government intends for these lower corporate tax rates to be enjoyed by all companies, but they continue to face opposition from the Senate, and as such the changes have yet to be implemented, despite being announced in successive budgets.

The budget also extended the $20,000 instant asset write-off for small businesses for a further 12 months until 30th June 2019. This policy allows businesses with an annual turnover of less than $10 million to claim an instant expense the full cost of all assets that cost less than $20,000. This will improve business cash flow (as businesses pay less tax because of their higher expense claims), and also increase their willingness and ability to reinvest in their business and replace or upgrade their assets. This should lead to an increase in Private Investment (I in AD), increasing AD and resulting in increased economic growth and in turn increasing employment.

The government also announced it had reversed its plan to increase Medicare levy from 2% to 2.5% of taxable income from 1st July 2019. The money had been earmarked to contribute to funding the National Disability Insurance Scheme.

As you will have learned, any increase in taxation rates on income (regardless of whether they are called a tax or a levy) leads to a decrease in disposable income for households. The reversal of the decision removed the potential for a decrease in disposable income, reduced C and AD, and a negative impact on economic growth.

The budget included a number of measures designed to increase tax compliance and welfare compliance. These include further tightening welfare eligibility and monitoring payments to welfare recipients. The government has also tightened the net on multinational companies, by closing tax loopholes for large firms and enforcing the requirement that all income earned by companies in Australia (including profits) should be taxed in Australia. The government will extend the GST to Australian online hotel bookings made through offshore digital businesses, and require GST to be paid on all imported goods from 1st July this year. To the extent that these measures counteract the stimulatory policies described earlier (by collecting more tax and reducing disposable incomes) they may act as a dampener on economic growth over the coming year.

Low inflation

The 2018-19 Budget papers indicate inflation is expected to remain well contained at 2.25% over the budget period. Unemployment is expected to remain slightly above the NAIRU at around 5.25%, and this is not expected to create significant wage inflation. This is in part because many of the jobs being created in Australia are part-time or casual, and underemployment (those wanting to work more hours) has been rising. With this spare capacity in the labour market, it is unlikely that nominal wages will rise rapidly over the coming year. On the other hand, the increase in disposable income (as a result of the Personal Income Tax Plan) and the flow-on effects of earlier reductions in the company tax rate for small to medium sized businesses may contribute to increases in C and I and Aggregate Demand. Should capacity constraints begin to emerge in the economy as unemployment declines slightly, some inflationary pressures may emerge. However, overall, the decreased stimulus resulting from the smaller deficit in this year’s budget should also take pressure off demand inflation by reducing the increase in overall spending in the economy.

In the longer term, the major infrastructure investments outlined in the budget will help to reduce costs across the economy and contain cost inflationary pressures. The roads, rail, and airport are designed to improve traffic flows for freight and commuters, and help to improve productivity and contain cost inflationary pressures into the future. In addition, some of the initiatives around training and skill development (outlined below) should also assist with increasing the availability of skilled labour and containing wage pressures and hence inflationary pressures. However, it is the case that, in the current low inflationary environment, short term containment of inflation has not been a focus of this year’s budget.

Full employment

The budget papers predict unemployment will decline slightly to around 5.25% over the coming year. To the extent that the smaller deficit has a contractionary effect on demand and economic growth, overall the budget may cause rising unemployment as a consequence, as the derived demand for labour falls in line with falling demand and production.

Nevertheless, there are numerous discretionary policies designed to improve employment in the coming year. The government has identified the job creation potential of specific infrastructure projects outlined in the budget. For example, the Western Sydney Airport is predicted to create 20,000 jobs by 2026 (when the airport should be operational). In general, other initiatives that are expected to increase AD (such as the Personal Income Tax Plan and company tax cuts outlined above) should also lead to increased employment, and help achieve full employment. This is because, as demand throughout the economy increases, businesses are likely to experience widespread shortages, requiring them to increase output. In order to increase output, they are likely to need more workers (hence the derived demand for labour will increase), increasing employment and likely reducing unemployment.

One of the strengths of budgetary policy is that it can target particular areas of concern in the economy, by focusing on particular groups in the community, specific sectors, or industries. This is evident in some of the policies targeting employment in this year’s budget. These include:

- Providing an additional $250 million for the Skilling Australians Fund to deliver business with the people and skills required. This should assist in reducing levels of structural unemployment, where those seeking work lack the skills required in the jobs that are available.
$24.5 billion Quality Schools package, to ensure genuine needs-based funding for Australian schools to achieve the best outcomes for all students. Improved skill levels help to improve the quality of labour over time, and enable more potential workers to gain suitable employment.

**MONETARY POLICY**

In addition to budgetary policy, the government uses a second key policy – monetary policy – to manage the level of aggregate demand. Monetary policy involves the manipulation of key financial variables in the economy – primarily interest rates – by the Reserve Bank of Australia (RBA) on behalf of the federal government.

As you will know from your studies, the RBA maintains operational independence from the government, as its behaviour is governed by a Charter. The RBA’s Charter requires it to use monetary policy in a way that will best contribute to ‘the economic prosperity and welfare of the people of Australia’, as well as maintaining ‘full employment’ in Australia. As a student of VCE Economics, you need to understand how monetary policy has operated to influence AD over the last two years, and its influence on the goals of low inflation, strong and sustainable economic growth and full employment.

The key focus of the RBA is to achieve low inflation, or ‘stability of the currency’ – which it defines as consumer price inflation between 2 and 3 per cent, on average, over time. (N.B. It is very important to understand that the RBA’s reference to ‘stability of the currency’ refers not to the value of the Australian dollar exchange rate, but the ongoing maintenance of the value of our currency’s purchasing power through achieving low inflation.)

It is crucial for students to understand that, for the RBA, achieving low inflation is a pre-condition to the achievement of the other key economic goals. Once inflation is sufficiently under control, the RBA will consider making changes to monetary policy to stimulate AD and help reduce unemployment and support economic growth, should the economic conditions indicate it is required. However, it is also important to note that the RBA is less likely to raise the cash rate to try to reduce inflation if they think that would push up unemployment significantly or push the economy into a downturn.

The RBA Board meets monthly (excluding January), and decides whether to raise the cash rate (‘tighten’ monetary policy), lower the cash rate (‘loosen’ monetary policy) or leave the cash rate unchanged.

A close reading of the monthly statements released by the RBA Governor after each Board meeting, explaining monetary policy decisions, reveals the reason behind every decision. For example, the RBA last changed the cash rate in August last year (2016). In announcing the decision to reduce the cash rate from 1.75% to 1.5%, the Governor stated:

> Inflation remains quite low. Given very subdued growth in labour costs and very low cost pressures elsewhere in the world, this is expected to remain the case for some time. Low interest rates have been supporting domestic demand and the lower exchange rate since 2013 is helping the traded sector. … Supervisory measures have strengthened lending standards in the housing market. Separately, a number of lenders are also taking a more cautious attitude to lending in certain segments. … All this suggests that the likelihood of lower interest rates exacerbating risks in the housing market has diminished. Taking all these considerations into account, the Board judged that prospects for sustainable growth in the economy, with inflation returning to target over time, would be improved by easing monetary policy at this meeting.

As is clear from the quote, the Board pays very close attention to whether or not the current inflation outlook suggests inflation will remain within the target band in the coming period. Once satisfied inflation is likely to be consistent with the ‘target’, it turns its attention to ‘supporting demand’ as required. Although sometimes referred to as ‘secondary goals’, these other goals are in fact very important, and the RBA sees them as best being achievable once inflation is under control. In simpler language, the RBA is stating that, given that pressures on inflation are low, the cash rate should be lowered (a more accommodative/expansionary stance) to continue to support spending (demand) and help return inflation to the target range.

The RBA does not ‘control’ broader market interest rates in Australia, but changes to the ‘cash rate target’ set by the RBA (the price of money on the overnight money market) flow on to affect all interest rates across the Australian economy.

**Monetary policy in recent years**

The table below shows the changes to the cash rate in the last three years. As a student of VCE Economics, you are required to be aware of not only the level of the cash rate, but the reasons for setting of the cash rate, and the stance of monetary policy – whether it was being used to stimulate or dampen growth in AD. You will note that the most recent change in the cash rate was in August 2016. Since then, the RBA has held the cash rate steady at 1.50%.

**TABLE 2: Interest rate decisions**

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Change % points</th>
<th>Cash rate target %</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Aug 2016</td>
<td>-0.25</td>
<td>1.50</td>
</tr>
<tr>
<td>4 May 2016</td>
<td>-0.25</td>
<td>1.75</td>
</tr>
<tr>
<td>6 May 2015</td>
<td>-0.25</td>
<td>2.00</td>
</tr>
<tr>
<td>4 Feb 2015</td>
<td>-0.25</td>
<td>2.25</td>
</tr>
</tbody>
</table>

Monetary policy is used in a counter-cyclical way. It is used to stimulate economic activity when inflation is low and economic growth needs a boost (when spending is lower than our potential output). It does this by operating an accommodative or expansionary stance, with a cash rate low enough to result in interest rates that will encourage borrowing and investment, and thus encourage spending. It is used to restrain economic activity when inflation is high and economic growth is also high (when spending is higher than potential output). It does this by operating a restrictive or contractionary stance, with a cash rate high enough to result in interest rates that will discourage borrowing and investment, and thus reduce spending.

The Table 2 begins in February 2015, when the RBA judged it was time to support demand and jobs by reducing the cash rate to 2.25%. In the global arena, weaker than expected growth in the euro area and Japan, continuing lower growth in China, and continued falls in commodity prices (including a crash in the oil price) all contributed to the RBA’s decision. Domestically, the RBA expressed a concern that domestic demand (spending) growth was ‘overall quite weak’, that output growth would remain below trend and unemployment would rise higher than previously predicted. In addition, the CPI was lower in 2014 than it had been for some time, and underlying inflation was also well within the target band. In other words, there was plenty of spare capacity in the economy, and it was time for the RBA to act to further stimulate the economy with even more accommodative (expansionary) monetary policy.

In May 2015, the RBA acted to once again lower the cash rate – to 2.0%.
Economic growth had Australia’s terms of trade remain high (which increases incomes
Household debt levels remain high and the RBA is a little uncertain
The global economy has strengthened over the past year.
The Australian dollar exchange rate has stayed steady
open market operations’
Globally tightening of finance markets led to slight increases in
Overall Australia’s economy seems to be on the improve as
There has been relatively strong employment growth (although
The most recent change in monetary policy took place in August 2016,
the RBA concluded that:
Monetary policy is considered to be expansionary when the cash rate is below approximately 3.5%. Therefore, the current cash rate of 1.50% is highly accommodative, or highly expansionary. In fact, as can be seen from Chart 6 below, the cash rate has been well below the rate considered to represent monetary policy neutrality (i.e. 3.5%) for more than the last two years.
Chart 6: The cash rate since January 2015
Source: RBA
How expansionary monetary policy supports the goals – and the limits of its success
By reducing the cost of credit and increasing the availability of credit, as well as increasing the cash flow of those who already have existing debt borrowed at flexible interest rates, expansionary monetary policy should work to encourage households and business to borrow and consume or invest, thus increasing C and I and increasing AD to stimulate the Australian economy.
The main focus of monetary policy is, as noted above, the achievement of the goal of low inflation. While it is tempting to assume this means keeping inflation as low as possible, it is important to remember that there is a target band for low inflation, and that is between 2 and 3.

Monetary Policy in the last 2 years ... and into the future
Towards the end of 2015 and into early 2016, the economic indicators for Australia were looking better. Economic growth picked up slightly, with annual GDP growth for 2015 at 3.0%, and unemployment moderated and hovered between 5.7% and 5.8%. Lower oil prices and lower savings rates were also stimulating spending. However, at the same time, the RBA was observing continued instability overseas, continued very slow wages growth and rising underemployment (indicating ‘spare capacity’ in the labour market) and a still higher-than-desired AUD. All of these signs, along with deflation in the March Quarter and continued very low inflation (annual CPI increase of 1.3%, and quarterly of -0.2%), signalled to the RBA that it was time to act to decrease the cash rate to 1.75%.
It observed that ‘prospects for sustainable growth in the economy, with inflation returning to target over time, would be improved by further easing of monetary policy.’ (SOMP, May 2016)
The most recent change in monetary policy took place in August 2016, when the RBA decreased the cash rate to 1.50%. Economic growth had picked up, and unemployment had dropped slightly and could potentially have encouraged a tightening of monetary policy. However, at the same time, the decline in mining investment continued to place a ‘drag’ (slowing effect) on the economy, and very slow wages growth showed that, despite lower unemployment, there was indeed still spare capacity in the labour market. And finally, inflation had loitered at or below the bottom of the target band for some time. The RBA decided that, on balance it made sense to further ease monetary policy (reduce the cash rate further) to provide more support for jobs and growth.

Since August 2016, the RBA has held the setting of monetary policy steady. Key factors that have (or are) impacting on recent monetary policy settings include:

- The global economy has strengthened over the past year.
- Globally tightening of finance markets led to slight increases in short term retail interest rates in Australia, event without the RBA acting
- Australia’s terms of trade remain high (which increases incomes and AD in Australia), but are expected to decline over the next few years
- Overall Australia’s economy seems to be on the improve as economic growth is picking up and non-mining investment has recovered somewhat
- There has been relatively strong employment growth (although there has been little wage growth and there is still ‘spare capacity’ in the labour market)
- The Australian dollar exchange rate has stayed steady
- Household debt levels remain high and the RBA is a little uncertain about household consumption growth
- Earlier concerns about rapid housing price growth (and the risks of a housing bubble) have abated as housing prices have fallen in some capital cities. The RBA does still note that the level of household debt is very high.
- The RBA expects inflation to remain towards the low end of the target band until the economy picks up further

Overall, it has been a ‘mixed picture’ for the Australian economy in the last year. In its most recent announcement on its interest rate decision

The low level of interest rates is continuing to support the Australian economy. Further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual. Taking account of the available information, the Board judged that holding the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time.

As you will have learned in class, when the RBA Board decides to change the cash rate, it undertakes open market operations’ (also referred to as ‘domestic market operations’) to change the level of liquidity in the overnight money market, and thus influence the cash rate (which is the price of money on the overnight money market.) Given the RBA Board’s decision to reduce the cash rate by 25 basis points in August 2016, the RBA would have operated in the market to buy commonwealth government securities and repurchase agreements at that time. This meant they were injecting money into the overnight money market, increasing liquidity (availability of cash) on the market, and bringing down the price – the cash rate. This reduction in the cash rate then flowed onto the structure of other interest rates across the economy.
per cent inflation. There is such a thing as inflation being ‘too low’, and persistent inflation outcomes below the bottom of the band would be concerning to the RBA. In other words, the RBA would be concerned if inflation were too low for too long.

In recent years, inflation pressures have been very low, and so the RBA has been satisfied that, with inflation under control, it should turn its attention to stimulating economic growth to support employment. By encouraging increased AD, there should be an increase in demand for labour, reducing unemployment (or increasing the hours worked by existing employees) and raising incomes. This in turn can exert some upward pressure on prices over time, raising inflation back to within the target band.

**Is the monetary policy transmission mechanism working?**

In recent years, in spite of the very accommodative stance of current monetary policy, and the historically low interest rates throughout the economy, there has been speculation that the ‘transmission mechanism’ of monetary policy that operates via a series of ‘channels’ to influence spending and output in the economy, may not be working as effectively as previously. Although there is definite evidence that the channels of monetary policy work, the degree of effectiveness of each channel can vary over time.

In recent years, the RBA has observed that, in the face of high (and growing) levels of household indebtedness, reducing interest rates may not result in a proportionate increase in the willingness to borrow and spend. Despite the fact that the cash rate is at an historic low, and retail interest rates are ‘very low’, there is no way for the RBA to force household or businesses to borrow or spend in response to these low rates. Consumers and businesses may simply choose to use the increased cash flow from looser monetary policy to pay down existing debt (deleverage), or save it. This can be considered as a weakness of monetary policy in its management of aggregate demand and achievement of the goals.

In a speech to the Economic Society of Australia in May last year (2017), RBA Governor, Philip Lowe, observed that higher levels of indebtedness relative to income (primarily as a result of very high housing prices and low income growth), have meant people have less appetite to incur more debt for current consumption. Consequently, the cost of credit and cash flow channels of monetary policy seem to be weaker than they once were. (He did also note the asymmetry – that monetary policy is generally weaker at stimulating economic growth by lowering the cash rate than it is at slowing spending by raising it. Hence, it could be concluded that one strength of monetary policy is its potency (or relative effectiveness) at reducing inflationary pressures when rates of economic growth and inflation are excessive.)

Nevertheless, recent statements on monetary policy decisions have emphasised the importance of the policy in supporting economic growth and jobs and getting the inflation rate back within the target band, and the intention of the RBA to maintain expansionary setting in order to continue to provide that support.

The RBA, the cash rate and the Australian dollar

One area of Australia’s economy that has provided a particular challenge for several years has been our persistently high exchange rate. The negative impacts of the high dollar on the Australian economy (along with the positive effects) have been discussed in earlier updates. Because Australia has a floating currency, its value is determined by the interaction of demand for and supply of the Australian dollar on foreign exchange markets.

Students who regularly watch the news will be aware that any speculation about possible changes to monetary policy (a raising or lowering of the cash rate) often has an effect on the Australian dollar exchange rate (AUD). When Australia’s cash rate is reduced, Australia’s lower domestic interest rates will become less appealing for foreign investors, thus reducing the capital inflow of foreign funds in search of higher rates of return and encourage capital outflow as Australian investors chase relatively higher returns abroad. This should reduce demand for and/or increase the supply of the Australian dollar on foreign exchange markets, leading to depreciation of the Australian dollar. As the Australian dollar depreciates, this will improve the competitiveness of our exports, and imports will become relatively more expensive, leading to an increase in Net Exports, and an improvement in AD.

The RBA has made it clear in recent statements that it wants to avoid an appreciation in the value of the Australian dollar. Indeed, each recent announcement of the monetary policy decision has included a statement to the effect that ‘an appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast.’ (Statement on MP decision, June 2018)

While a lower AUD could cause inflation, because it causes increases in the prices of imported goods, services and inputs, it should also help to support our domestic sector by making both locally-produced import-substitutes (such as domestic tourism) and our exports more price competitive. In fact, it has been suggested that a key reason why the RBA has maintained such a low cash rate over the last couple of years is the fear that raising the cash rate may push up the AUD.

For students who have studied the monetary policy tool of a ‘dirty float’ (where the RBA occasionally intervenes in the foreign exchange market if it believes the dollar is fundamentally undervalued or overvalued) it can be tempting to think that the RBA would actively intervene to influence the value of the dollar, and may base its decisions about monetary policy settings largely on concerns about the value of the dollar. However, there is no evidence to show that the RBA has recently tried to intervene in the markets to restrain the value of the dollar.

It is important to remember that, while it is true that a lower cash rate should result in a depreciation of the Australian dollar for the reasons discussed earlier, the RBA does not target the value of the Australian dollar in its monetary policy decisions. It will not act to reduce the cash rate simply to bring about a reduction in the value of the dollar. Rather, its recent decisions have clearly been explained as designed to provide support to AD and encourage sustainable economic growth, and getting inflation back within the target band. Any positive effect that loosening monetary policy has in terms of depreciating the dollar is certainly a benefit, but it is extremely unlikely that the RBA would choose to reduce the cash rate, or choose not to raise the cash rate, simply to have an effect on the value of the Australian dollar exchange rate.
REVIEW QUESTIONS

1. (a) Identify the two largest sources of government receipts (revenue) in the 2018-19 Budget.
   (b) Calculate the percentage of total government revenue collected from (i) direct taxes, (ii) indirect taxes and (iii) non-tax sources.
   (c) Calculate the percentage of government outlays (expenditure) spent on (i) health, and (ii) social security and welfare in the 2018-19 Budget.

2. Explain what is meant by the ‘budget outcome’. What was the forecast 2018-19 Budget outcome announced in May 2018?

3. Briefly explain why the underlying cash balance is a good indicator of the impact of the budget on the economy.

4. (a) Describe the difference between ‘current’ and ‘capital’ spending in the budget, and explain why capital spending can be a valuable form of expenditure for the government.
   (b) Explain the difference between the underlying cash balance and the net operating balance in terms of what they measure in the budget.

5. Explain why the actual budget outcome figures often differ from the estimated budget outcome figures released at the time of the budget in May.


7. Explain reasons for the trend described in the answer to question 6.

8. Explain the effect on the level of government (public) debt as the budget deficit is reduced and then returns to a surplus over time.

9. Explain the likely impact on the economy of the trend in government spending described in the answer to question 6, if non-government spending were to remain unchanged over the same period.

10. Explain the difference between automatic and discretionary stabilisers. Illustrate your answer by describing the effect of each of the stabilisers on the Budget outcome announced in 2018-19 Budget.

11. (a) Explain how the 2018-19 Budget outcome may affect the achievement of the goals of low inflation, strong and sustainable economic growth and full employment.
   (b) Identify and describe one discretionary budgetary policy from the 2018-19 Budget that could contribute to the achievement of strong and sustainable economic growth.
   (c) Identify and describe one discretionary budgetary policy from the 2018-19 Budget that could contribute to the achievement of the goal of low inflation.
   (d) Identify and describe one discretionary budgetary policy from the 2018-19 Budget that could contribute to the achievement of the goal of full employment.

12. Describe the movement in the cash rate over the past two years, identifying periods where monetary policy stance has been expansionary, contractionary or neutral.

13. Describe the current stance of monetary policy, and explain two reasons for this stance.

14. Explain how the current stance of monetary policy is likely to influence aggregate demand and help support economic growth and full employment. (Refer to two transmission mechanisms/channels in your response)

15. Explain why high levels of household indebtedness has exposed a relative weakness of monetary policy in stimulating economic growth.

16. Explain the likely effect on the value of the Australian dollar of any decision by the RBA to raise the cash rate in the coming months and examine the implications for economic growth and inflation.

17. Explain why it is inaccurate to claim that, were inflationary pressure to emerge, the RBA is likely to avoid raising the cash rate during 2018, in order expressly to influence the value of the Australian dollar.

APPLICATION EXERCISES

1. Why the ACTUAL Budget outcome is always different to the PREDICTED Budget outcome

   In 2018-19, the budget outcome predicted in May is a deficit of $14.5B. State whether the following economic event/factor will cause the actual budget outcome to be higher or lower than the budget outcome that was predicted at the time of the budget being announced in May. Also, identify which of the main sources of budget revenue or main items of expenditure (company tax, GST, income tax, excises, welfare payments, health spending) will be impacted and how. The first one has been done for you.

   Event/ factor | Budget revenue or expenditure item affected | Effect on actual budget outcome compared to predicted budget outcome
   ---------------|-------------------------------------------|---------------------------------------------------------------
   More people act to minimise their tax | Income tax collections | Larger deficit
   Economic growth is 0.25% high than predictions at the time of the budget | | |
   The Australian dollar appreciates | | |
   Wages growth is slower than predicted | | |
   The iron ore price rises sharply | | |
   Several large Australian companies announce larger profits | | |
   A large cyclone impacts on Queensland and the Northern Territory | | |
   The unemployment rate is lower than the rate predicted in the Budget papers | | |
   Increased tensions between the US and China lead to worries that a global trade war is looming | | |
   A tuberculosis epidemic scare in nearby Pacific Islands forces the government to introduce mass free immunisation | | |
   Improving economic conditions causes many service firms to increase operating hours, decreasing underemployment | | |
   The government is unable to pass its Company Tax legislation through the Senate | | |

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2. Examine the table of data provided below (taken from the 2018-19 Budget papers). Using your knowledge of budgetary and monetary policy and the information in this Update, complete the tasks that follow.

<table>
<thead>
<tr>
<th>Economic parameter</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018-19</td>
</tr>
<tr>
<td></td>
<td>2019-20</td>
</tr>
<tr>
<td>Real GDP growth</td>
<td>3.0%</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>5.25%</td>
</tr>
<tr>
<td>CPI</td>
<td>2.25%</td>
</tr>
<tr>
<td>Terms of trade growth</td>
<td>-5.25%</td>
</tr>
<tr>
<td>Budget Underlying cash balance</td>
<td>-$14.5 billion (-0.8% of GDP)</td>
</tr>
</tbody>
</table>

A. Describe the forecast performance of the Australian economy over the coming two years. Refer to the data provided in the table.

B. Explain the likely impact of an improvement in business and consumer confidence on the budget outcome (underlying cash balance) in 2018-19 and 2019-20. Refer to automatic stabilisers in your answer.

C. Explain the likely impact on the budget outcome of a fall in the growth in real GDP – such that it is below the forecast level of 3.0% in both 2018-19 and 2019-20.

D. The budget papers reveal that in calculating budget estimates, the government assumed the iron ore price will remain at its current price of US$55 per tonne. Explain the likely impact on the terms of trade and the budget outcome in 2018-19 if the iron ore price falls to below US$50 per tonne over the coming 12 months.

E. Explain the likely impact of a further fall in the rate of growth in China during 2018-19 on each of the variables highlighted in the table (i.e. real GDP growth, the U/E rate, CPI, TOT growth and the Budget outcome).

F. Imagine you are a member of the RBA Board. Based on the other data outlined in the table, explain how you believe the RBA should respond if real GDP growth were to decline. Justify your answer.

**Quotable quotes**

This Budget is about building on (the government’s economic) plan to ensure the benefits of stronger economic growth can continue to be secured and shared. It is a plan that will provide tax relief to encourage and reward working Australians, back businesses to invest and create more jobs, guarantee the essential services that Australians rely on and keep Australians safe, all while ensuring the Government lives within its means.

Budget 2018-19, Budget Overview, p. 4

This year the economy has remained slow, held back by year after year of weak growth in wages and, hence, consumer spending. Even so, there’s been inexplicably strong growth in employment, most of it in full-time jobs. This, plus an improvement in export commodity prices and company tax collections, means that, for once, the budget deficit has fallen by a lot more than expected. The budget-makers seem to have taken this as a sign that it’s all looking up. From now on everything’s back to normal and the economy will just keep steaming on strongly for another decade.

*Budget 2018: This Budget is too good to be true*, Ross Gittins, Sydney Morning Herald, 8th May 2018.

The outlook for the economy in 2018 and 2019 is expected to be a little stronger than occurred in 2017. GDP growth is expected to pick up from around 2½ per cent currently to be around 3½% over the next couple of years.

*The Outlook for the Australian Economy*, speech by Guy Debelle, Deputy Governor, Reserve Bank of Australia, to the CFO Forum, 15th May 2018.
At the moment, there is unease in parts of the community about the future of work, about competition from overseas and about the implications of technology — ..., these concerns are being brought into sharp focus by unusually slow growth in wages.

‘Productivity, Wages and Prosperity’, speech by Philip Lowe, Governor, Reserve Bank of Australia, to the Australian Industry Group, 13th June 2018

‘The Government is living within its means and is no longer borrowing to fund its everyday expenses. Borrowing is instead funding productive investments and long-term infrastructure projects that help grow the economy and create jobs.’

Budget 2018-19, Budget Overview, p. 18

Honest and fair businesses and taxpayers are being ripped off by those who think they are above paying tax. In response we will be implementing the recommendations of our Black Economy Taskforce, targeting sectors where there is higher risk of under reporting of income.

Treasurer Scott Morrison, Budget Speech, 8th May 2018

The Government’s Personal Income Tax Plan will make personal income tax lower, fairer and simpler.

Budget 2018-19, Budget Overview, p. 12

Individuals will be able to take an additional work or advance their careers knowing their extra income will not be taxed more harshly. This plan builds on the company tax cuts and measures to strengthen the integrity of the tax system.

Budget 2018-19, Budget Overview, p. 12

<table>
<thead>
<tr>
<th>Workshop programs (9.15am - 4.00pm)</th>
<th>No.</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>VCE Global Politics (A. Brodie-McKenzie) 24/9 @ 9.15am</td>
<td>X $110</td>
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<tr>
<td>VCE Business Mgt (M. Richardson) 25/9 @ 9.15am</td>
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<tr>
<td>VCE Legal Studies (M. Blake) 26/9 @ 9.15am</td>
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<tr>
<td>VCE Economics (R. Salla) 27/9 @ 9.15am</td>
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<td><strong>Course Revision programs (3 1/2 hours)</strong></td>
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<tr>
<td>VCE Business Mgt (M. Richardson) 13/10 @ 10.00am</td>
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<td>VCE Global Politics (A. Brodie-McKenzie) 13/10 @ 1.00pm</td>
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</tr>
<tr>
<td>VCE Legal Studies (M. Blake) 14/10 @ 10.00am</td>
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<tr>
<td>VCE Economics (R. Salla) 14/10 @ 1.00pm</td>
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<td><strong>Exam Preparation programs (3 1/2 hours)</strong></td>
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<tr>
<td>VCE Economics (R. Salla) 21/10 @ 1.10pm</td>
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<tr>
<td>VCE Global Politics (L. Spanos) 21/10 @ 9.10am</td>
<td>X $50</td>
<td></td>
</tr>
</tbody>
</table>

Lunch and refreshments provided to all Workshop participants.

Total amount = $____

Payment method (circle one):
Cheque / Visa / Mastercard / direct credit (BSB 633-000 A/C 160459681)
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Card No. __________ / __________ / __________ / __________ Exp date __ / __
Signature: ________________________________

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