# 2018 Topic Papers

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**Topic one: Inflation**

**Inflation below target range**

Over the past decade, inflationary pressures within the Australian economy have generally been modest, with the underlying rate of inflation being held predominately within the Reserve Bank’s 2% to 3% target band. However, over the past three years, inflation has fallen and is currently just below this target range at 1.9%. Measures of underlying inflation, which remove some of the more volatile or outlier movements from the inflation calculation, are very close to the current standard CPI measure, with the underlying measures showing an average inflation rate for the year to March 2018 of 1.95%.

A period of relatively soft demand in the domestic economy since the Global Financial Crisis is likely to be one factor that has contributed to inflation being somewhat subdued over recent years. Typically, in periods of soft demand, there will be less upward pressure on inflation as weak demand makes it more difficult for producers to raise prices.

There has been some volatility in the actual official or “headline rate” of inflation over recent years. Lower petrol prices contributed to the CPI falling to historic lows throughout 2015 and 2016. However, more recently there has been a bounce back in petrol prices as the OPEC cartel have had some success at managing oil supply levels.

<table>
<thead>
<tr>
<th>Growth Rate %</th>
<th>March 2018 Quarter</th>
<th>Year to March 2018</th>
<th>Year to Mar 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI</td>
<td>0.4%</td>
<td>1.9%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

**Policy response to inflation**

Largely in response to concerns over the likelihood of increased inflation in the future, the Reserve Bank embarked on a program of gradually raising interest rates following a period of loose policy in the aftermath of the Global Financial Crisis (GFC). This saw the overnight cash interest rate jump from 3.0% in October 2009 to 4.75% in November 2010. Policy was then loosened again a year later, with the cash rate dropping to 1.5% following 12 reductions between November 2011 and August 2016.

At 1.5%, the overnight cash interest rate is at its lowest level since published records are available in the 1950s. The Reserve Bank is able to implement such expansionary monetary policy because of the lack of any significant inflationary pressure.

**The outlook for inflation**

Both “cost push” and “demand pull” inflationary forces within the Australian economy have been weak for an extended period. This is despite the past presence of a mining boom and very buoyant conditions in the residential housing construction industry over recent years.
Wages growth has been particularly benign in recent years. Over the year to March 2018, the Wage Price Index suggests wages growth has been only 2.1%; which is close to the historic low and only marginally above the underlying rate of inflation.

In addition to the low level of cost related drivers of inflation, there doesn’t appear to be significant demand pressures currently in the Australian economy. Over the year to March, real private household consumption grew by 2.9%. Although above the 2.3% growth rate recorded one year ago, the current expenditure growth represents relatively modest demand in comparison to the 4.5% annual growth average recorded over the 5 years to December 2007.

On balance, therefore, there does not appear to be any significant upward pressure on inflation currently, with the demand for labour and goods and services generally subdued. None-the-less, the Reserve Bank is anticipating some increase in underlying inflation and for it to be back within its target range. As indicated in the extract below from the central bank’s May “Statement on Monetary Policy”, a gradual lift in inflation is anticipated:

“Inflation remains low but has troughed and is expected to increase gradually over the next few years. Subdued growth in labour costs and ongoing competition in retailing are weighing on inflation. Prices of durable goods and many other consumer staples have accordingly been little changed or have fallen over recent quarters. Some of this downward pressure should ease as the labour market tightens and wages growth picks up. The Bank’s forecasts are for CPI inflation to be a bit above 2 per cent in both 2018 and 2019. Underlying inflation is also expected to increase from close to 2 per cent currently, to be above 2 per cent by the end of the forecast period.”

**Longer-term comparisons**

The “low” inflation now prevailing is in significant contrast to that which characterised the 1970s and 1980s. As shown on the chart below, inflation is now more comparable to the prolonged period in the 1950s and 1960s when price growth was maintained at very low levels.

The shift to low inflation over the past 20 years has largely been a global phenomenon but there are also some Australian specific factors that have assisted in the avoidance of high inflation. Provided below are some reasons why Australia has been able to maintain low inflation rates over the past 20 years:

- **Cheap imports** - The growth in the manufacturing base of China, which is a low cost producer, has led to a lowering in the growth of import prices.

- **Reform in wage determination** - There is now a closer link between the granting of wage increases and productivity improvement. As such, wage growth is less likely to directly lead to pressure on prices.

- **Inflation targeting** – Monetary policy settings in recent times have been determined largely by the need to influence the rate of inflation. Inflation targeting has demonstrated a commitment to achieving low inflation and has resulted in the lowering of inflation expectations.

- **Microeconomic reform** - Reforms have driven costs down. Tariffs on imports have been cut and some non-competitive industries have been opened to competition e.g. telecommunications.

**International comparison**

Despite the maintenance of loose monetary policy, inflation in most overseas developed economies has remained low, although some key overseas economies now have inflation rates higher than those existing in in Australia.
Topic two: External stability

As Australia has continued to experience positive economic growth, and has benefited from the previous mining boom, there has been improvement across measures of external stability. A summary of recent trends in these measures is provided below.

1. Current Account deficit

Whilst Australia’s Current Account has consistently been in deficit, the size of the deficit has fluctuated significantly with economic cycles. Typically, the deficit has expanded during times of strong economic growth. This is because in times of growth, high overall spending causes import levels to increase by more than exports. The reverse is true when growth is weak.

Over the past decade, however, dramatic movements in commodity prices have tended to outweigh domestic influences on the trade accounts. Growing global demand for items that Australia exports has seen export receipts increase strongly. Initially, rising commodity prices pushed export receipts higher. In more recent years, it has been increased volumes of mining output that have supported export receipts.

Current Account Items $B

<table>
<thead>
<tr>
<th>Year to March 2018</th>
<th>Year to March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>$305.7</td>
</tr>
<tr>
<td>Imports</td>
<td>$(293.9)</td>
</tr>
<tr>
<td>Balance of Trade</td>
<td>$11.9</td>
</tr>
<tr>
<td>Services Balance</td>
<td>$(4.0)</td>
</tr>
<tr>
<td>Balance of Trade in Goods &amp; Services</td>
<td>$7.9</td>
</tr>
<tr>
<td>Net Income</td>
<td>$(55.4)</td>
</tr>
<tr>
<td>Current Account Balance</td>
<td>$(47.6)</td>
</tr>
</tbody>
</table>


Unlike the Net Incomes account, the Balance of Trade has fluctuated between surplus and deficit in recent years. Exports have increased over the past year due to strong volumes from past investment in mining infrastructure. As a result, the surplus on the Balance of Trade has widened.

Australia has previously run large deficits on the Services Account. However, growth in income from industries such as tourism and education to overseas students, has helped keep the Services Account to a small deficit in recent years.

2. Foreign debt

Australia has experienced significant growth in foreign debt over the past 3 decades. In June 1980, the net external debt of Australia was only $6.9 billion or 5.8% of GDP. Following a period of high trade deficits, foreign debt levels increased markedly over the 1980s before stabilising in the mid 1990s. Debt then accelerated again over much of the past decade, before reducing slightly in over the past two years.
In March 2018, the value of the net foreign debt was equivalent to 56.5% of annual GDP. This represents a pull-back from the cyclical high of 62.4% reached in June 2016.

As Australia maintains a deficit on the Current Account, there has been an ongoing need to borrow funds to finance the gap between what is earned and spent between Australia and overseas. However, with the lowering of the size of the Current Account Deficit, the growth in the size of Australia’s foreign debt has been slower than the growth in the size of the overall economy. Therefore, as a percentage of GDP, debt has declined over the past 2 years.

External stability outlook
Since the 1990s, Australia’s external stability has not been a matter of significant concern. In contrast to many other developed nations, the economy has experienced consistent growth, Government debt has been relatively low and the currency relatively strong. However, discussed below are some factors that could potentially cause future disruption to external stability.

(i) The vicious trade deficit – debt circle
Even if Australia experiences improvement in its Balance of Trade, the high foreign debt means any further significant improvement in the Current Account deficit will be difficult. This is because the high debt creates interest servicing costs which drive the net income outflow on the Current Account. A “vicious circle” can therefore be created whereby high debt leads to higher interest payments, which leads to a higher Current Account deficit, requiring more debt. A rise in interest rates, or a fall in the value of the $A, could exacerbate this vicious circle.

(ii) A correction in the terms of trade
Over recent years Australia’s Terms of Trade has been at relatively high levels. None-the-less, the Australian economy is vulnerable to downward shifts in the Terms of Trade, with commodity prices historically quite volatile. The chart below highlights the cyclical nature of the Terms of Trade.

(iii) Weak non-mineral exports
A relative decline in non-mining related exports has made Australia’s external position more vulnerable to a downturn in the mining sector. Between the year to March 1998 and 2018, rural items have dropped from representing 25% of goods exports to 14%. Over the same period, manufacturing exports have fallen from being 23% of the total to 11%.

<table>
<thead>
<tr>
<th>Foreign Liabilities</th>
<th>$ Billion in March 2018</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Foreign Debt</td>
<td>$1,026</td>
<td>108%</td>
</tr>
<tr>
<td>Net Foreign Equity Owing</td>
<td>-$71</td>
<td>-8%</td>
</tr>
<tr>
<td>Total Net Foreign Liabilities</td>
<td>$955</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics 5302
Topic three: Unemployment

Australia’s prolonged period of uninterrupted economic growth has kept unemployment at low to moderate levels for the majority of the past two decades. However, although having fallen over the past three years, unemployment is still only just in line with the average level experienced over the past decade.

After reaching a low of 4.0% in February 2008, Australia’s unemployment rate gradually increased following the GFC, reaching 5.9% in mid 2009. The unemployment rate then declined back to 4.9% in December 2010 before rising again to over 6% in 2015. A decline over the past 3 years sees the current rate of unemployment at 5.4%. The table below shows that over the past decade there has been a solid rise in the both the number of workers employed and the number of unemployed workers.

Unemployment and age

Unemployment remains considerably higher for younger members of the workforce than for the general population. Of those in the workforce and aged between 15 and 24, some 11.3% were unemployed during June 2018. Although this rate of unemployment is below a cyclical peak of 14.4% in late 2014, it is significantly higher than the pre GFC level of approximately 9%.

Unemployment and location

As the table below shows, unemployment is at similar levels across most of the states of Australia, with the two territories enjoying the lowest rate and Western Australia having the highest.

Unemployment by state

<table>
<thead>
<tr>
<th>State</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>4.8%</td>
</tr>
<tr>
<td>VIC</td>
<td>5.3%</td>
</tr>
<tr>
<td>QLD</td>
<td>6.1%</td>
</tr>
<tr>
<td>WA</td>
<td>6.2%</td>
</tr>
<tr>
<td>SA</td>
<td>5.6%</td>
</tr>
<tr>
<td>TAS</td>
<td>6.0%</td>
</tr>
<tr>
<td>ACT</td>
<td>3.5%</td>
</tr>
<tr>
<td>NT</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

Unemployment and location

Generally, unemployment is lower in the capital cities than in regional areas. The increased metropolitan employment opportunities have been one factor driving a long-term population shift to Australian cities. The mining boom did lead to a surge in employment in many of the non-metropolitan regions in Western Australia and Queensland. However, this trend has reversed over the past 5 years.

Long term unemployment

Long term unemployment, covering those out of work for more than one year, is less responsive to shorter term fluctuations in economic cycles. Trends in long term unemployment tend to lag movements in total unemployment. The long-term unemployment ratio (i.e. long term unemployed as a percentage of all unemployed) has increased over the year to May 2018, rising from 23.2% to 25.5%. This rate is well above the cyclical low of 12.2% recorded in April 2009.
**Underemployment**

Excluded from the unemployment numbers are those workers who work part-time hours but have a desire to work more hours than is offered by their employer. These workers are referred to as being “underemployed”. In May 2018, the percentage of the workforce reported as underemployed was 8.5%. This rate has marginally decreased over the past year.

**Cyclical influences on employment**

Much of the movement in the rate of unemployment can be explained by changes in the rate of economic growth. For most of the past 5 years, a below average rate of economic growth has been accompanied by a low rate of growth in employment. The chart below shows that GDP and employment growth tend to be correlated over time.

A reduction in hours worked per employee can reflect a rise in “underemployment.” It may also reflect longer term structural (rather than cyclical) changes, with a shift from full-time to part-time employment. As indicated on the above chart, hours worked per employee has been on a declining longer-term trend.

**Policies to manage unemployment**

As unemployment is heavily influenced by economic cycles, it is indirectly managed via the Government’s macro-economic policies. The recent maintenance of loose monetary policy has been at least partially aimed at reducing unemployment.

In addition to macro-economic policies designed to manage cyclical unemployment, various Government policies are also aimed at reducing frictional and structural unemployment. Policies addressing frictional unemployment are centred on an improvement in the flow of information in the labour market and matching job seekers with vacancies. Structural unemployment is targeted largely via training schemes.

Across the whole Australian economy in May 2018, there was an estimated 236,000 vacant positions. This highlights the possible extent of frictional unemployment; with the number of vacancies being some 33% of the overall number of unemployed workers.

The Federal Government’s initiatives around reducing frictional and structural unemployment have been centred on the “Job Services Australia” program. This employment service program contains elements of both jobs matching and providing various forms of training and vocational assistance for those not able to move directly into employed positions.

Additionally, in the 2016/17 Budget Statement, the Federal Government announced its intention to commence a Youth Employment Package. This scheme provides financial incentives for businesses to engage younger workers in training and internship programs. As such, the scheme seeks to address aspects of both frictional unemployment as well as the trend toward higher youth unemployment in recent years.
**Topic four: Labour markets**

The way in which the labour market operates has changed significantly over time. Structural changes have been brought about by government policy, technology and social patterns. Variations in the economic climate have also impacted on recent trends in various parts of the labour market. These trends are discussed below.

1. **Labour force participation**

The movement in the participation rate (i.e. the percentage of the adult population employed or seeking employment) over time is shown in the chart below.

![Participation Rate Chart](chart.png)

Source: Australian Bureau of Statistics 6202

After a significant rise in workforce participation in the second half of the 1980s, another strong increase took place between 2004 and 2008. There was then some reduction in participation between 2008 and 2013. Over the past 2 years the participation rate has once again returned to an upward trend. The most recent increase could reflect improved job prospects encouraging non-workers back into the workforce.

As the table below suggests, much of the increase in participation since the mid 1980s appears to be a result of higher female participation, which has jumped from 46% to 59%. Male participation has actually declined by 5.2% over the same period; but at 71%, remains well above the female percentage.

<table>
<thead>
<tr>
<th>Participation Rate</th>
<th>1985</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Males</td>
<td>75.8%</td>
<td>70.9%</td>
</tr>
<tr>
<td>Females</td>
<td>46.1%</td>
<td>60.6%</td>
</tr>
<tr>
<td>Total</td>
<td>60.6%</td>
<td>65.7%</td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics 6202. As at May.

The Government has placed greater focus in recent times on increasing the rate of workforce participation as a response to the potential shortage of labour brought about by the ageing of Australia’s population. Policies aimed at encouraging participation include attempts to make it more difficult for single parents to remain on welfare once children reach school age; as well as increases made to the age pension retirement age from 65 to 67 (for those born after 1957, with plans for further increases announced by the Government). In addition, it was announced in the 2015 Budget Statement that childcare funding would be increased with a new means tested subsidy providing parents with up to 85% of childcare costs.

2. **The growth of part time work**

The composition of employment changed significantly from the 1990’s. There was a shift away from full-time employment with most job creation being casual and part-time. This may be at least partially explained by the growth in certain service industries, such as hospitality and tourism, where part-time and casual work is sometimes more suitable. It may also reflect changes in worker and employer preference towards more flexible working arrangements.

![% Employed Part Time Chart](chart.png)

Source: Australian Bureau of Statistics 6202
Between the years 2000 and 2018, the increase in part time employment has been 73%, compared with only 30% in full time employment. Part time workers currently make up 32% of all employees. Some 47% of employed females work part time, compared with just 19% of males.

3. Moderate real wage growth

As can be seen on the chart below, wages growth (as measured by movements in the Wage Price Index) has averaged a slightly higher growth rate than inflation. Some of this gap can be explained by improvements in productivity providing scope for wages to grow by more than prices.

![Price and Wage Movements (%pa)](chart)

For most of the past 4 years, however, there has been minimal difference between wages growth and underlying inflation. This lack of real wages growth is unusual and may reflect the weak state of demand for labour in a relatively subdued economy. In the year to March 2018, the increase in the Wage Price Index was near a record low rate at 2.1%. Wage growth has declined from a cyclical peak of 4.3% in 2008, when rising demand for labour in some mining related industries was putting upward pressure on wages.

4. Falling trade union membership

Unions are formed to protect the interests of employees in relation to issues such as occupational health and safety, employee entitlements and pay. Unions have the role of representing and aiding employees in the enterprise bargaining process and acting as the employee representative before the Fair Work Commission.

In August 2016, 14.5% of employees were trade union members. This ratio declined by 0.6% from two years previous. Over the longer term there has been a large decline, with the rate of union membership in 1992 being 40%.

5. Falling industrial disputes

There has been a significant longer-term improvement in the number of work days lost due to industrial disputes (strikes). Compared with the 1980s, there has been more than a 90% drop in days lost due to industrial disputes. The fact that industrial disputes are now a less popular way to resolve disagreements between employees and their employers has positive implications for productivity and business confidence. Notwithstanding the longer term downward trend, there has been an increase in days lost due to industrial disputes recently, with the 137,700 days lost in the year to March 2018 being 55% higher than two years previous.

![Working Days Lost ('000s - 12 month rolling)](chart)

In July 2009, new industrial relations laws came into effect. Known as the Fair Work Bill, the new legislation effectively dismantled the previous Work Choices system.

**Workplace system supervision**

Included in the new workplace system was the formation of a new single workplace regulator named the “Fair Work Commission” (FWC). This body (which was referred to as Fair Work Australia until 2013) is responsible for approving changes in workplace agreements and awards between employers and employees or unions; setting minimum wage levels; as well as dispute resolution and arbitration. The FWC body replaced the Australian Industrial Relations Commission and the Australian Fair Pay Commission.
Financial market structure

Central to the structure of the Australian financial system is 4 large banks. It is widely believed that mergers between any of the 4 large banks would be deemed to be anti-competitive by regulators. The approach of maintaining these 4 institutions, which have activities across banking, insurance and funds management, is sometimes referred to as the 4 pillars policy.

The table below shows the share of assets held by each category of financial institution. As can be seen, banks have become increasingly dominant over the past 25 years, with most other categories of institutions (with the exception of superannuation funds) declining in relative terms. Throughout the last two decades, there have been numerous mergers between financial institutions in response to increased competition.

<table>
<thead>
<tr>
<th>Institution Type</th>
<th>% of Industry Assets</th>
<th>1993</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>49%</td>
<td>56%</td>
<td></td>
</tr>
<tr>
<td>Building Societies</td>
<td>2%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Credit Unions</td>
<td>1%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Money Market Corporations</td>
<td>6%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Finance Companies</td>
<td>5%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Life &amp; General Insurance</td>
<td>17%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Super Funds</td>
<td>13%</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>Other Managed Funds</td>
<td>6%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Securitisation Vehicles</td>
<td>1%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Total Industry</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Reserve Bank of Australia. As at March.

Recent trends in financial markets

Activity in financial markets has a close relationship with trends in the real economy. Recent trends in a few of the key financial market variables are discussed below.

(i) Money supply movements

Money supply growth can play an important role in driving spending and creating demand-pull inflation. According to monetary theory, the growth rate in the money supply (combined with the velocity at which this money supply is circulated) is a determining factor of the level of output and price growth in the economy. The correlation between money supply growth and increases in asset prices (mainly property and shares) can also be strong.

The chart below shows money supply growth fluctuating significantly. Growth reached very high levels just prior to the GFC in 2008 before falling sharply. In the year to May 2018, the rate of growth in the Broad Money measure was just 2.5%. This growth rate has fallen sharply over the past year. The slowdown in money supply growth over the past decade is consistent with a lower rate of inflation and economic growth, and a more conservative attitude to borrowing by businesses and consumers following the GFC.

Source: RBA. Year ended June (except May in 2017).

(ii) Interest rate movements

With low inflation in place for many years, Australia has been able to maintain low and stable interest rates. This was not the case in the 1980s, however, when high inflation and periods of weak currency meant that interest rates were consistently above 10%. Rates peaked at around
17% in 1989 following a period of monetary policy tightening, which was aimed at slowing economic activity in order to bring about stability in the Current Account and inflation.

From a cyclical peak of 7.25% in September 2008, the Reserve Bank progressively lowered cash interest rates to 3.0% immediately following the GFC. As was the case with central banks around the globe, the Reserve Bank eased policy quickly over this period in an attempt to protect economic growth and avoid any deflationary pressures stemming from the GFC. Interest rates were then lifted to a peak of 4.75% at the end of 2010 as the economy recovered, before being reduced again to a low of 1.5% in August 2016, which remains the current cash interest rate. The existing record low interest rates have been put in place to help stimulate economic activity at a time of below average economic growth and inflation.

(iii) Exchange rate movements

Following the floating of the Australian dollar in 1983, the value of the exchange rate has been determined by the supply and demand for $As on international currency markets. The RBA will still very occasionally buy and sell $As in foreign exchange markets to help stabilise the $A in certain periods. Despite this, the $A has experienced several periods of instability since deregulation.

As shown on the chart below, the 1980s was a period of sharp decline for the Australian currency. For much this period, Australia had higher inflation rates than its trading partners. This meant there was a natural devaluation occurring to adjust for changes in the purchasing power of the currency. In addition, periods of concern over the nation’s trade deficit acted as a catalyst for some sudden loss of market support for the dollar, causing it to fall in value rapidly.

Source: Reserve Bank of Australia

In contrast, from 2001 onwards, the $A moved generally higher, benefiting from a rise in the Terms of Trade and positive interest rate differentials between Australia and overseas. These trends have softened somewhat over the past 5 years and the $A has subsequently declined. At the end of June 2018, the $A was valued at 62.6 points on the Trade Weighted Index. This represents a decline from the peak level of 79.2 points reached in early 2012.

Pressure for re-regulation

With the activities of financial institutions being central to the events surrounding the Global Financial Crisis, and with many financial institutions facing substantial losses, there have been new regulations introduced for financial institutions around the globe. This contrasts with the period over the 1980s and 1990s, when there was significant deregulation of the financial sector. A component of this recent renewed focus on regulation has been a global requirement for banks to increase their level of capital reserves.

Over the past 3 years, Australian banks have been under some pressure from the Australian Prudential Regulation Authority (APRA) to tighten lending standards in relation to loans for residential property. Of significant focus over the past year has been ensuring that borrowers have the affordability to repay both interest and principal on mortgages. This has resulted in a significant decline in the proportion of loans being approved on an interest only basis.
Economic growth rates have proven to be highly cyclical and far from steady over time. Since the early 1960s, real economic growth in Australia has averaged 3.4% per annum. The latest growth rate for the year to March 2018 is just below this longer-term average at 3.1%. The value of GDP over the year to March was $1.7 trillion.

The chart below shows the annual growth rate of GDP (Gross Domestic Product) recorded for the Australian economy each year since 1961. Growth rates shown are real rates i.e. adjusted for inflation.

Outside of the downturns and the abnormally high rate of expansion in 1960s, growth in other periods has tended to hover between 2% and 4%. The decade between the mid 1990s and mid 2000s was notable for the consistency of economic growth, which generally prevailed at higher and steadier rates in Australia than occurred globally.

Recently, external influences have been highly variable with events such as the Asian economic crisis in 1998, generally weak global economic growth between 2002 and 2004, a commodities boom between 2004 and 2012, and the GFC in 2008 all providing a source of external instability. However, growth in Australia has been relatively well insulated from these external shocks. The floating Australian dollar has helped “cushion” the impact of variations in global economic growth; whilst relatively stable inflation and low government debt have also assisted.

Components of aggregate demand

Of the items making up aggregate demand, consumption expenditure by households is by far the largest item. The table below provides an overview of the size of the components of aggregate demand in Australia.

<table>
<thead>
<tr>
<th>Aggregate Demand</th>
<th>$ Billions</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Consumption</td>
<td>1,015</td>
<td>59%</td>
</tr>
<tr>
<td>Government Demand</td>
<td>417</td>
<td>24%</td>
</tr>
<tr>
<td>Bus. Investment</td>
<td>226</td>
<td>13%</td>
</tr>
<tr>
<td>Dwelling Construction</td>
<td>99</td>
<td>6%</td>
</tr>
<tr>
<td>Inventories</td>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>Exports</td>
<td>345</td>
<td>20%</td>
</tr>
<tr>
<td>Imports</td>
<td>(393)</td>
<td>-23%</td>
</tr>
<tr>
<td>GDP</td>
<td>1,709</td>
<td>100%</td>
</tr>
</tbody>
</table>

In addition to being the largest item, consumption spending tends to be the most stable item over time. Despite being smaller in aggregate size, variations in the other more volatile items, such as exports and investment spending, can still have a significant impact on the rate of economic growth.
Consumption has become a less important driver of economic growth over the past decade. After increasing by an average real rate of 4.6% p.a. in the 5 years to March 2008, consumption growth has only averaged 2.6% p.a. over the last 5 years.

The mining boom was responsible for business investment taking on a much larger share of the contribution to economic growth in recent years. However, with the mining boom now past its peak, business investment is making less of a contribution. During the March quarter, business investment was 23% below the peak level recorded late in 2012.

The chart below shows the relative contribution that has come from each component of aggregate demand to make up the 3.1% expansion that has taken place in the Australian economy in the 12 months to March 2018.

Hence in the most recent period, it has been net consumption making the largest contribution to growth, closely followed by government spending. Export volumes are still benefitting from the recent expansion in mining sector productive capacity facilitating increased mining output; although much of the recent contribution from exports has been matched by similar sized growth in the volume of imports.

Growth in profits

The production of goods and services generates income for the factors of that production. Therefore, the overall level of income is equivalent to the value of production in the economy (which is also equal to the level of aggregate demand).

Wages/salaries and private sector profits are by far the largest components of income. In recent years there has been an increase in the size of profits relative to wages. Over the past three decades, profits have increased in their share of total factor income from 24% to 28%.

Source: Australian Bureau of Statistics 5206

Household savings remain positive

Some of the recent consumption expansion by households has been funded by a lower propensity to save. The household savings ratio represents the percentage of household disposable income that is saved rather than spent. As at March 2018, the savings ratio was 2.1%. This represents a significantly lower propensity to save than the cyclical peak in December 2008, when the ratio was 10.4%. Savings ratios have progressively declined since this peak and have returned to be close to the low levels that prevailed between 2002 and 2006. The more cautious attitude to spending and saving that was evident in the aftermath of the GFC has gradually dissipated over time.

Productivity growth

For real economic growth to be sustainable, there needs to be an improvement in the level of productivity i.e. an increase in the level of output from a given set of inputs (factors of production). A common measure of productivity is calculated by dividing the level of output by the number of hours worked by the labour force.

In the year to March 2018, labour productivity increased by 0.6%, with production rising faster than hours worked. Over the past decade though, productivity growth has not matched the 10-year period ending June 2005, when productivity averaged an improvement of 2.2% per annum.
Topic seven: Ecologically sustainable development

In the last two decades, there has been a growing recognition by Governments around the globe that economic progress must be ecologically sustainable. Reflecting this recognition, various initiatives have been put in place, both locally and abroad, to support sustainable development. Some recent initiatives are discussed below.

A global focus

In June 2012, the United Nations (U.N.) held its largest conference ever when 30,000 people met in Rio de Janeiro for the “Rio+20” Sustainable Development Conference. Attendees at the conference included Australia’s Prime Minister and around 100 other world leaders. The Rio+20 Conference continued a series of attempts by governments to make economic development more sustainable, following on from the initial “Earth Summit” held in 1992.

Amongst the outcomes of the Rio+20 Conference was an agreement to develop a set of global sustainable development goals. In addition, it was agreed that measures would be pursued that promote corporate sustainability reporting, as well as attempts to go beyond GDP as a way to measure the well-being of a country.

Much of the focus of global concern in recent years has been on global warming as a result of the emission of “greenhouse” gases. Efforts to slow global warming culminated in the Kyoto Protocol coming into force in February 2005. The protocol set targets for greenhouse gas emissions between 2008 and 2012 to be an average of 5% less than the level recorded in each participating nation in 1990. A second commitment period of the Protocol commenced in January 2013 and will end in 2020. Emission targets for this phase of the agreement are for a reduction to 5% below 2000 levels by 2020.

A post Kyoto Protocol was discussed at a U.N. Climate Change Conference in Paris in 2015. The 195 participating nations reached consensus on the “Paris Agreement”, which has as its “main aim to keep a global temperature rise this century well below 2 degrees Celsius and to drive efforts to limit the temperature increase even further to 1.5 degrees above pre-industrial levels.” The agreement also facilitated funding from developed nations to developing nations of USD 100 billion by 2020 to help build capacity in developing countries to address climate change. However, last year, the U.S. announced its withdrawal from the Paris Agreement.

A focus within Australia

In 1999 the “Environment Protection and Biodiversity Conservation Act”, was introduced into Australia. This act aims to encourage sustainable development via conservation and the ecologically sustainable use of resources. A copy of this Act and the National Strategy for Ecologically Sustainable Development can be found at www.environment.gov.au.

In 2014, the Australian Bureau of Statistics (ABS) published the first set of annual environmental accounts. According to the ABS, “environmental accounts provide the information to support a consistent analysis of the contribution of the environment to the economy and of the impact of the economy on the environment.” This document can be found at abs.gov.au (catalogue no. 4655). A summary of the main findings in the 2018 accounts was described as follows:

“Australia’s measure of economic production (Gross Value Added) in chain volume terms, rose 28% over the period 2006-07 to 2015-16. Over the same period, Australia’s population increased 16%; energy consumption increased 6%; and waste generation increased 23% (to 2014-15). Relative to 2006-07, Australian greenhouse gas emissions decreased by 13%, and water consumption decreased by 2%. Since 2006-07, the economy has been growing at a faster rate than both the population, and all the presented environmental consumption indicators. More recently, between 2014-15 and 2015-16, the economy grew by 3%. At the same time, the population increased 2%; greenhouse gas emissions were up just under 1%; and Australian energy consumption increased less than 1%. Water consumption decreased 7% between these years.”
Much sustainable development related political and community activity within Australia is focused on greenhouse gas management and water conservation initiatives. These are discussed below.

(i) **Greenhouse gas management**

Australia signed onto the “Kyoto Protocol” in December 2007. The then Prime Minister, Mr. Rudd, described the Kyoto Protocol as “the most far-reaching agreement on environment and sustainable development ever adopted.”

Subsequently in late 2012, the Australian Government committed to reduce emissions to be 5% below 2000 levels by 2020 as part of the second phase of the Kyoto Protocol. More recently, the Australian Government took a commitment to the UN Paris Conference in 2015 to reduce Australia’s greenhouse gas emissions to 26%–28% below 2005 levels by 2030.

In addition, a “Direct Action Plan” has been put in place by the Commonwealth Government to meet Australia’s emissions reduction target. The Direct Action Plan replaced policies of the previous Government; the most notable of which was the Carbon Pricing Scheme, which was removed on 1st July 2014.

The Emissions Reduction Fund (ERF) is a key component of the Direct Action Plan. Under the ERF, businesses and other organisations are able to submit bids with the Clean Energy Regulator to receive funding for carbon emission reduction projects (e.g. capturing landfill gas). Funding is then allocated to those projects offering the lowest cost for emission reduction.

The first ERF auctions were held in April 2015 and are planned to be held twice yearly.

As shown on the chart below, Australian greenhouse gas emissions dropped in 2012 & 2013 but have picked up over the past 3 years. On a per person basis, however, emissions have declined 23% in the 10 years to 2017. Higher electricity prices over recent years may have contributed to the fall. Despite this reduction, Australia’s rate of emissions still remains high on an international scale. This reflects, in part, a high proportion of power being generated from burning fossil fuels.

![Greenhouse Gas Emissions (MtCO2-e per Qtr)](chart)

To reduce the reliance on fossil fuels, a Renewable Energy Target (RET) Scheme commenced in 2010 and required that 20% of electricity be generated from renewable sources by 2020. Expressed in gigawatt hours (GWh), this target was legislated to be 41,000 GWh in 2020. However, following a review of the RET Scheme in 2015, and considering the overall reduction in electricity usage, the Government reduced the target to 33,000 gigawatt hours.

(ii) **Water initiatives**

Perhaps of a higher importance to Australia’s environmental agenda than in many other nations, water management has received considerable focus in Australia.

In 2004, the Commonwealth Government agreed with the majority of States on a new “National Water Initiative” agreement. The initiative aims to increase the “productivity and efficiency of Australia’s water use and the health of the river and ground water systems.” The National Water Initiative includes the development of a system of water access entitlements, which provide entitlement owners with a tradable right to use a specified share of water.

By strengthening the system of water entitlements for heavy users, it is expected that a more efficient allocation of water will be created. If a robust and efficient market is in place for heavy users, those users who have the most productive use for water will be in a position to pay the highest price for the water entitlements. This should ensure that water entitlements accrue to those users who are in a position to create the most value from water.
Topic eight: Globalisation

Notwithstanding the fact that economies around the globe have always been linked in some form, it is apparent now, more than ever before, that the nature and process of production is not confined within national boundaries. Increasingly, firms operate with a global perspective, not only in selling products to multiple nations, but also in shifting production to locations around the globe that offer the best prospects for cost minimisation and productivity. The growing dominance of multi-national corporations and the corresponding decline of locally based firms is one of the most observable impacts of globalisation.

Undoubtedly technology has played a strong role in the acceleration of globalisation. Enhanced communication and travel have made it possible for economic agents to be managed regardless of physical location. The same technology has facilitated a convergence of consumer preferences and trends; and has made the quick replication of worldwide best practice production techniques between firms possible.

The global shift to free trade

In addition to the role played by technology, another significant driver of globalisation has been the ongoing shift towards free trade. The economic rationale for free trade is well documented and has support from Governments around the globe. However, there is not necessarily a benefit if a nation removes trade protection measures itself without reciprocal removal of trade barriers by others. Therefore, the shift to free trade is often performed under agreements that are bi-lateral (between two nations) or multi lateral (between many nations).

The body that co-ordinates and enforces multi-lateral agreements is the World Trade Organisation (WTO). Any country having full autonomy in the conduct of its trade policies may become a member of the WTO, subject to the agreement of the member nations. The inclusion of communist ruled China as a member in 2001 was significant not only due to the size of the Chinese economy, but also because it is indicative of the widespread support for free trade principles across the political spectrum. There are currently 164 nations being members of the WTO.

Members of the WTO have been negotiating the “Doha” agenda of free trade initiatives since 2001. The Doha agenda covers agreements in agriculture, manufacturing (where there is a zero tariff target) and for the first time there is a significant focus on trade in services. Progress on the agreement has been slow with negotiations taking place in stages. None-the-less, there remains a commitment by the G20 Group of Nations to complete the negotiations. The WTO described this initiative as “one of the biggest reforms of the WTO since its establishment in 1995” with potential cost reductions in trade of between 10% and 15%.

Free trade has encouraged the growth of trade volumes between nations. The WTO reports that in 2017, some $US 17,730 billion in merchandise exports were sold across the globe. However, although this was 10.8% above the previous year’s volume, there has been some slowing in the pace of trade growth in recent years. As the chart below shows, over the past decade, trade growth rates have been close to global economic growth rates. This contrasts with previous periods when trade was growing significantly faster than economic growth (GDP).

![World Merchandise Trade vs GDP - % Change pa chart]

Source: WTO & IMF
Recent growth rates are well down on the 6% annual average recorded in the decade prior to the GFC. Over the 5-years to 2017, export volumes have declined by an average of 0.8% per annum. Periods of low rates of economic growth, which have prevailed in many developed economies since the GFC, may have made it more difficult for governments to reach new trade agreements, whilst there has been an increase in trade protection measures in some areas. In recent times, the United States has withdrawn from the Trans Pacific Partnership trade agreement. The U.S. has also implemented tariffs on steel, aluminum and US$34bn of imports from China. China has subsequently responded with tariffs on some car and agriculture imports from the US.

Potentially further adding to a slowdown in future global trade volumes was the referendum outcome in the United Kingdom (U.K) in June 2016. U.K. citizens voted for the U.K. to leave the European Union, thereby exiting the European free trade zone.

**Growth in Australian free trade**

Australia has long been an active supporter of free trade. Over the past 3 decades, Australia has removed many forms of industry protection as well as being a key participant in bilateral and multi lateral trade agreements. In particular, significant reductions in protection have taken place in manufacturing. In the early 1970s, tariffs imposed on manufacturing imports were typically 22%. These tariffs have progressively declined and in many cases have been removed. Small tariffs of 5% remain in some sectors such as the Textile, Clothing and Footwear (TCF) and Motor Vehicle industries. In the Motor Vehicle industry, tariffs were previously more than 50%. All major motor vehicle manufacturers have now ceased production in Australia.

Consistent with the longer-term trend overseas, Australian international trade has risen at a faster rate than the economy generally. The chart below shows how the ratio of exports and imports of goods to GDP has increased over the past 50 years. Both trade variables have significantly increased since the 1980s.

![Trade as a % of Aust GDP](chart.png)

Source: Australian Bureau of Statistics 5206 (March quarters)

**Bilateral & Regional Arrangements**

In addition to its involvement in the WTO, Australia has been active in negotiating bilateral and regionally based trade arrangements. A summary of key initiatives is provided below:

- **APEC**: is a regional trade and economic development initiative and stands for Asia-Pacific Economic Co-operation (APEC) forum. This agreement, amongst 21 countries, aims to “collaborate to promote regional economic cooperation and to build on the growing interdependence of Asia-Pacific economies.”

- **ASEAN Australia-New Zealand Free Trade Area**: The Association of South East Asian Nations (ASEAN) and New Zealand together account for 18% of Australia’s total merchandise trade. The trade agreement between these nations came into force in January 2010.

- **CERTA**: Is a bilateral trade agreement with New Zealand. Known as the Closer Economic Relations Trade Agreement (CERTA), it was formed in 1983 to promote free trade between the two countries.

- **FTA**: The Free Trade Agreement between Australia and the United States came into effect in January 2005. The deal aims to give both nations greater access to each other’s markets. For Australia, the largest benefit is likely to have been increased exports of agricultural goods. In return, Australia removed various restrictions and tariffs on imports from the U.S.A. and also removed some of the Government screening on proposed takeovers of Australian companies by U.S. interests.

- **Others**: Free trade agreements have also been made with Singapore, Chile, Malaysia, Thailand, Japan, South Korea and China. Negotiations are currently taking place with India and Indonesia, whilst the scoping of an agreement with the European Union is underway.

- **Trans Pacific Partnership (TPP)**: TPP negotiations were finalised in October 2015. This agreement was to become the world’s biggest regional trade deal involving countries located around the Pacific Ocean. However, the significance of the agreement has been reduced following the withdrawal by the U.S. in early 2017.

**Offshoring**

One feature of the increasingly globalised economy has been the trend by firms to shift production to locations where labour is cheaper than in Australia. This has been particularly common in the information technology industry and in telephone call centre support.
**Topic nine: Income distribution**

Over time, the average level of material well being in Australia has gradually improved as economic growth has delivered higher and higher levels of real income and wealth per household. However, it is the appropriateness of the distribution of this wealth that often creates debate and policy consideration.

**Changes in income distribution**

Over the past decade there has been a slight decline in equality of income distribution according to some measures. One way to measure the distribution of income is via the Gini Coefficient, which is shown on the chart below. This Coefficient measures the extent to which actual income distribution varies from a situation of perfect equality (where a coefficient of zero implies all households have the same income. A coefficient of one implies all the income is with one household). In 2016, Australia’s Gini Coefficient for income distribution was 0.32.

![Gini Coefficient Chart]

As is the case with the two other measures of income distribution, there has been a longer term increase in the ratio of high to low income across households – although this has partially reversed since 2008.

Hence the top 20% of income earners account for 39.8% of total income in the Australian economy. As the table suggests, there has been minimal change in the share of income going to the top earners over the past 10 years.

A third way in which income distribution can be measured is to compare the earnings of high income earners to low income earners. In 2016, households in the top 10% of income earners generated 3.9 times more income than those in the bottom 10%. The chart below traces this ratio over time.

![Ratio Chart]

Due to ease of measurement, indicators of inequality are typically focused on income distribution. However, wealth levels can have a significant impact on inequality. It is possible for very wealthy households to have low, or zero, income; whilst it is also possible for high income earners to hold little net wealth.

### Table: Selected Quintile Income Distribution

<table>
<thead>
<tr>
<th>Quintile Description</th>
<th>2006</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest (top 20%)</td>
<td>39.2%</td>
<td>39.8%</td>
</tr>
<tr>
<td>Fourth (60% to 80%)</td>
<td>23.0%</td>
<td>23.0%</td>
</tr>
<tr>
<td>Middle (40% to 60%)</td>
<td>17.4%</td>
<td>17.0%</td>
</tr>
<tr>
<td>Second (20% to 40%)</td>
<td>12.7%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Low (0% to 20%)</td>
<td>7.8%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

*Source: Australian Bureau of Statistics 6523*
An important influence on wealth is the price of housing. Housing represents approximately 57% of total household assets. Not only do higher housing prices increase the wealth of home owners, a rise in housing values may lead to higher rents being paid by non-home owners. This exacerbates the size of inequality between home owners and non-home owners. Recent increases in the price of housing may have therefore increased wealth inequality.

Data on wealth distribution highlights a strong correlation between home ownership and wealth. However, home ownership is often associated with high debt levels. The Australian Bureau of Statistics (cat. 6523) recently made reference to rising household “over-indebtedness” in the following statement:

“Growth in debt has outpaced income and asset growth since 2003-04. Rising property values, low interest rates and a growing appetite for larger debts have all contributed to increased over-indebtedness. The proportion of over-indebted households has climbed to 29 per cent of all households with debt in 2015-16, up from 21 per cent in 2003-04....This makes them particularly susceptible if market change.”

Another factor impacting on the distribution of wealth has been a shift in the share of income across the economy from wages to profits (see Topic Paper number 6). Over time, this change could lead to shareholders gaining a greater share of wealth than non-shareholders.

International comparisons

World Bank data suggests that income distribution in Australia is similar to that of the U.K, France and Germany – all of which have Gini Coefficients near 0.32. Australia does have a more equal income distribution than the U.S. (0.42) but is less equal than some Northern European nations such as Denmark (0.28) and Finland (0.27).

User pays for “essential” services

Longer-term solutions to bring about equality of opportunity to earn income (not necessarily bringing about equality of income in itself) require open access to services such as education and health. In the case of higher education, the Australian Government announced that public universities would not accept full fee paying local students from 2009. It is argued that allowing access to university on the basis of fee affordability can lead to higher inequality of opportunity, as those with higher income have superior access to the service.

In the case of medical services, the co-existence of private and public facilities provides greater choice and service levels to those with sufficient income to fund private payment of health expenses. Whilst this too represents an unequal distribution of an essential service, many argue that without the private funding of health it would be impossible to provide sufficient government funding to support reasonable health standards across the community. This would be to the disadvantage of all. Hence, there is often a need to trade-off the desire for equality with overall objectives around living standards and economic growth.

Transfer payments system

The primary method through which income inequality is reduced is the system of taxation and subsequent payment of welfare. Australia has a progressive taxation system, whereby individuals on higher incomes are charged higher tax rates. This system leads to a significant increase in income equality compared to that which would exist if there was a total reliance on private income only. Some 73% of households in the bottom income quintile (the lowest 20% in terms of income) have government transfer payments as their main income source.

The impact of cyclical changes

Cyclical changes in the economy can impact on income inequality, most notably via changes in unemployment and the rate of growth in wages. Changes in interest rates can also result in significant shifts in the disposable incomes of savers and investors.
Topic ten: Developing economies

Despite the continuous process of economic development around the globe since industrialisation, there remains widespread inequality of income and vast regions of economic underdevelopment. The gap that exists between the industrialised and underdeveloped economies presents a stark contrast - both in terms of wealth and general living standards.

Development progress

Over recent years there has been progress in increasing the level of output of developing economies. Despite a short set-back in progress associated with the GFC, ongoing increases in economic output have contributed to a reduction in poverty in many regions of the world, particularly in East Asia.

The United Nations has been a key coordinator of efforts to boost and measure progress towards development and improved living standards in less economically developed counties. A long running program known as the “Millennium Goals” established targets for key development outcomes (e.g. reducing child mortality). The Millennium Goals project was completed in 2015 and replaced by “2030 Agenda for Sustainable Development”. The objectives of this new project are described by the United Nations as follows:

“…we resolve, between now and 2030, to end poverty and hunger everywhere; to combat inequalities within and among countries; to build peaceful, just and inclusive societies; to protect human rights and promote gender equality and the empowerment of women and girls; and to ensure the lasting protection of the planet and its natural resources. We resolve also to create conditions for sustainable, inclusive and sustained economic growth, shared prosperity and decent work for all, taking into account different levels of national development and capacities.”

Development initiatives have had considerable success over the past two decades in particular. The United Nations reports in its “2015 Millennium Goals Report” that the number of people living in extreme poverty has fallen from 1.9 billion in 1990 to 836 million in 2015 – with the bulk of this change occurring in the years since 2000.

Disparate rates of progress

However, development progress has not been uniform across regions. There have been substantial gains made in the East Asian region. One of the main drivers of this region’s performance has been the rapid industrialisation of China. Between 2000 and 2017, per capita income in China rose from $US 959 to $US 8,643 per annum. The growth in China is also benefiting surrounding nations, with other countries in this region also recording impressive improvements.

Progress in the world’s poorest area, being the Sub Saharan African region, has been the slowest. Some indicators actually show deterioration in development progress in this region. The inability to control various diseases, especially HIV/AIDS, continues to impact heavily on health in this region. Showing the extent of underdevelopment, the table below provides various development indicators for this region.
Developing Sub-Saharan Africa

<table>
<thead>
<tr>
<th>Key Indicator 2016</th>
<th>Developing Sub-Saharan Africa</th>
<th>Developed Economies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Expectancy</td>
<td>60</td>
<td>80</td>
</tr>
<tr>
<td>Infant Mortality per 1,000</td>
<td>78</td>
<td>5</td>
</tr>
<tr>
<td>% Access electricity</td>
<td>43</td>
<td>100</td>
</tr>
<tr>
<td>Measles Immunisation (1-2 yrs)</td>
<td>72</td>
<td>93</td>
</tr>
<tr>
<td>Primary School Completion</td>
<td>70</td>
<td>98</td>
</tr>
</tbody>
</table>

Source: World Bank

The chart below shows the overall level of income per person in various countries, highlighting the magnitude of the difference between the developed and developing world.

Gross Domestic Product per Person (US Year 2017)

Australia's overseas aid

In the 2018/19 financial year, Australia plans to provide $4.2 billion in official development assistance. This represents a slight increase on the $3.9 billion forecast for the previous year. The chart below shows past and projected development assistance expressed as a proportion of national income (GNI). As shown, this ratio has been in longer term decline, despite a pick-up in the mid-to-late 2000s.

Development assistance

There is little dispute that many of the characteristics of low income economies such as poor health, malnutrition and high infant death rates are problems that the world needs to address. In addition to improving the health and living standards of fellow human beings, efforts to assist underdeveloped economies may also lead to benefits via higher global trade volumes. Demand to purchase goods and services will increase when an economy develops.

The improvement in the quality of life in underdeveloped economies may also increase overall global political stability. There may be fewer prospects of political uprisings of forces opposing incumbent Governments if living conditions are being improved.

Traditionally, assistance to developing countries has come in the form of grants and donations. However, increasingly the focus of assistance is swinging towards free trade access and debt relief. The Doha round of multi-lateral trade provisions being managed by the World Trade Organisation contains specific measures to remove trade protections imposed by developed economies that make it difficult for developing nations to trade.

Australia’s Aid Distribution 2018/19

In recent years, Australia’s overseas aid has been re-focused on the Indo-Pacific region, which is expected to account for vast bulk of all country specific funding in 2018/19.

“The purpose of the aid program is to promote Australia’s national interests by contributing to sustainable economic growth and poverty reduction. We will pursue this purpose by focusing on two development outcomes: supporting private sector development and strengthening human development.”