The Federal Government can use fiscal policy to achieve its economic objectives such as sustained economic growth, equality in the distribution of income and external stability. Fiscal policy is the use of government revenue, obtained from taxes and profit of government owned businesses, and government expenditure to achieve a nation's economic objectives. The main instrument in fiscal policy is a budget which is brought down by the Treasury annually. A budget outlines the government's projected expenditures and revenue and determines the fiscal stance which the economy like to achieve.

There are three types of budget outcomes. The budget can be in a deficit. This means that government expenditure exceeds government revenue. If an economy wants to run a deficit than the fiscal stance is said to be expansionary. Another budget outcome is surplus. This occurs when government expenditure is less that government revenue. If an economy wants to run a surplus than the fiscal stance is said to be contractionary. The budget can also be balanced where government expenditure equals government revenue.

Economic growth is the increasing capacity of a nation to satisfy its citizens wants. That is improving the economic problem where there are unlimited wants but not enough goods / services to satisfy all ~~these~~ wants. There are many benefits to economic growth which influences all economies around the world to achieve this important economic objective. The benefits of economic growth include increasing employment & reducing unemployment, increasing production, increasing investment and improvement in the standard of living. Economic growth is measured by the change in the level of Gross Domestic Product (GDP). GDP measures the amount of finished goods and services produced in an economy. Australia's current GDP is US$359 billion.

Australia has achieved its economic objective of economic growth despite a backdrop of weakening world economic conditions. GDP has increased at an annualised rate of 4% over the three quarters to September 2001. Australia's current economic growth is 3.8% and it is projected to increase in 2003 despite the drought which is projected to reduce growth by 0.7%.

Fiscal policy has been used to effectively promote economic growth, by increasing government expenditure. Australia's strong growth over the course of 2001 has been influenced by many factors. One factor is government expenditure in the First Home Buyers Grant. This has boosted the construction industry and as property prices rise it created a "wealth effect", influencing households to consume more. Therefore, fiscal policy has effectively achieved economic growth.

Another economic objective is income equality. Reasons for income inequality include different levels of skills involved in different jobs, the poverty trap, migrants who are disadvantaged by lack of English language skills, new entrants to the workforce who aren't experienced and have less skill, etc. Income inequality can be seen as negative because it leaves the lowest income earners living in poverty. But it can also be seen as beneficial as it has an incentive effect. People would be influenced to be more productive so they can earn a higher income. An increase in productivity is an economic benefit.

Fiscal policy can be used to promote redistribution of income. The government can use its revenue and spend it on social security payments. Unemployment benefits can be paid out to those who are unemployed. These payments can help the lower income earners gain more income therefor reducing the gap between the rich and the poor. Also social security payments to the elderly, who are part of the lower-income earners, would reduce this gap.

The Australian government also uses a progressive tax system to redistribute income. A progressive tax systems forces high income earners to pay a larger percentage of tax than low income earners. This system reduces the inequality of income. Automatic stabilisers also make this system as well as unemployment benefits successful. Automatic stabilisers ensure that the economy doesn't grow too fast or go into a recession. Therefore it cushions the effect of the business cycle.

External stability is also an economic objective in which the government tries to achieve. External stability includes stabilising the exchange rate, reducing the current account deficit and reducing foreign debt. Fiscal policy can be used to achieve external stability by the governmen using its revenue to pay its foreign debt. From 1998 to 2001, the government has been experiencing a declining budget surplus from $5630 million to $4793 million. The government can use this surplus to pay its overseas debt, hence achieving external stability.