

## YEAR 10 Unit 1

### Enterprising behaviours and capabilities

# Living standards

Meet Australian twins, Sam and Anna, born 1 May 2016. According to the latest life expectancy figures, Sam will live until he is 80.1 years of age and Anna will live until she is 84.3 years of age. Because Sam and Anna are Australians, statistics show that they are likely to enjoy a high **living standard**. They are unlikely to experience extreme poverty.

Despite these statistics, Sam and Anna's prosperity isn't guaranteed. Will the **economy** stay strong and offer them good job opportunities throughout their lives? Will their quality of life be affected by climate change?

Nothing is certain with regards to the economy, but the government must manage economic factors to ensure we continue to enjoy high living standards as a nation.



chapter

# 6

**Source 1** Newborn twins Sam and Anna are Australians. Based on current statistics, they are likely to enjoy a high living standard compared to babies born in many other countries around the world.

## 6A

Why do living standards vary around the world?

- 1 Brainstorm a list of all the things you need to have a good life.
- 2 Why are non-material factors such as having adequate leisure time or living in a clean environment important when considering living standards?
- 3 Why might some people enjoy a higher standard of living than others?

## 6B

What is the connection between economic performance and living standards?

- 1 Jen is a casual worker in a supermarket and has had her work hours reduced. How might this reduced income affect her spending?
- 2 If the government decides to increase taxes how might this affect consumer spending?

# 6.1 Defining and measuring living standards

A standard is a certain level of attainment or achievement. For example, you either pass year 10 or you don't. When we talk about a country's living standards, we are specifically looking at what it's like to live in that country in terms of the material and non-material wellbeing of its citizens.

The living standard of a population can be measured into two different ways: **material living standards** and **non-material living standards**.

## Material living standards

Material living standards refer to our access to physical goods and services. The car we drive, the house we live in and the food we eat are all examples of physical possessions that contribute to our material living standards. The material living standards of a nation are usually assessed or measured by the quantity of goods and services available each year as measured by **Gross Domestic Product (GDP)**, (as discussed in Unit 5.1).

Many would agree that if the citizens of a country have access to more goods and services to satisfy their needs and wants, life is generally better. Producing goods and services provides citizens with employment, and therefore an income to buy goods and services that improve their lives.



Source 1 Physical possessions such as cars and houses contribute to our material living standards.

## Non-material living standards

Non-material living standards must also be considered when assessing the quality of life. Non-material living standards cannot be measured in dollar terms, and are intangible (cannot be touched), but affect our enjoyment of life.

The following factors affect our non-material living standards:

- freedom of speech – such as being able to peacefully protest against the government of the day
- free elections – that provide the right to choose and dismiss parliamentary representatives (see Chapter 9)
- low levels of crime and **discrimination** – where citizens can live without fear of constant crime or being treated differently because of factors such as race, disability or age
- preservation of the environment – allowing citizens to enjoy nature, breathe clean air and drink clean water
- adequate leisure time – so that employees have adequate rest periods away from work and time to spend with family.

Non-material living standards are not as easily measured as material living standards. Some indicators, however, do attempt to include non-material living standards to assess overall wellbeing. For example, the **OECD** (Organisation for Economic Co-operation and Development) **Better Life Index**, which is explained below.

## The OECD Better Life Index

Gross Domestic Product is an indicator of economic wellbeing that does not take into consideration the environmental costs of producing goods and services. The OECD Better Life Index seeks to provide a more holistic picture of the true living standards of 40 different countries by measuring progress based on 11 criteria, one of which is the environment. Source 1 provides a snapshot of five of the 11 criteria used to assess wellbeing in just two nations: Australia and Chile.

### What are living standards like in Chile?



**Jobs:** Over 62 per cent of people aged 15 to 64 in Chile have a paid job.

OECD average: 66 per cent

**Income:** The average household income is \$15 094 USD per annum.

OECD average: \$29 016

**Education:** The average student scored 436 in reading literacy, maths and science in the OECD's Programme for International Student Assessment (PISA).

OECD average score: 497

**Health:** Life expectancy at birth is 79 years.

OECD average: 80 years

**Environment:**

**Level of atmospheric PM10:** (air pollutants that can cause damage to the lungs) is 46.2 micrograms per cubic metre.

OECD average: 20.1

**Water quality:** 73 per cent of people say they are satisfied with the quality.

OECD average: 81 per cent

### What are living standards like in Australia?



**Jobs:** Over 72 per cent of people aged 15 to 64 have a paid job.

OECD average: 66 per cent

**Income:** the average household income per capita is \$33 138 USD per annum.

OECD average: \$29 016

**Education:** The average student scored 512 in reading literacy, maths and science in the OECD's Programme for International Student Assessment (PISA).

OECD average score: 497

**Health:** Life expectancy at birth is 82 years.

OECD average: 80 years

**Environment:**

**Level of atmospheric PM10:** (air pollutants that can cause damage to the lungs) is 13.1 micrograms per cubic metre.

OECD average: 20.1

**Water quality:** 91 per cent of people say they are satisfied with the quality.

OECD average: 81 per cent

Source: OECD Better Life Index, 2015

Source 2 How is life in your country?

## Check your learning 6.1

### Remember and understand

- 1 What does the term 'living standard' mean?
- 2 Give three examples of non-material living standards.
- 3 Refer to Source 2.
  - a Based on the criteria presented, which country has the highest living standard?
  - b Does Australia compare well in all criteria compared to the OECD average?

### Apply and analyse

- 4 Rate the following living standard criteria from 1 to 5 according to its importance to you. If you don't consider this criteria to be all that important when assessing living standards, rate it as 1, and rating it as 5 indicates you think it is extremely important.
  - a Primary and secondary school education is available.
  - b The air is clean.
  - c You can drink the water because it is clean.
  - d You have the right to vote.
  - e You are expected to live a long life.
  - f You are happy.

- g You feel safe in your community.
- h You have enough leisure time.
- i You are likely to get a job.
- j You can earn a decent income.
- k You have enough to eat.
- l You have shelter.

- 5 Compare your ratings in Question 4 with another classmate and explain why assessment of living standard can be subjective.
- 6 Consider a country that is relatively wealthy, producing an abundance of goods and services, but where the majority of the population is close to poverty and only a minority are wealthy. Would you consider the living standard in that country to be high or low? Why or why not?

### Evaluate and create

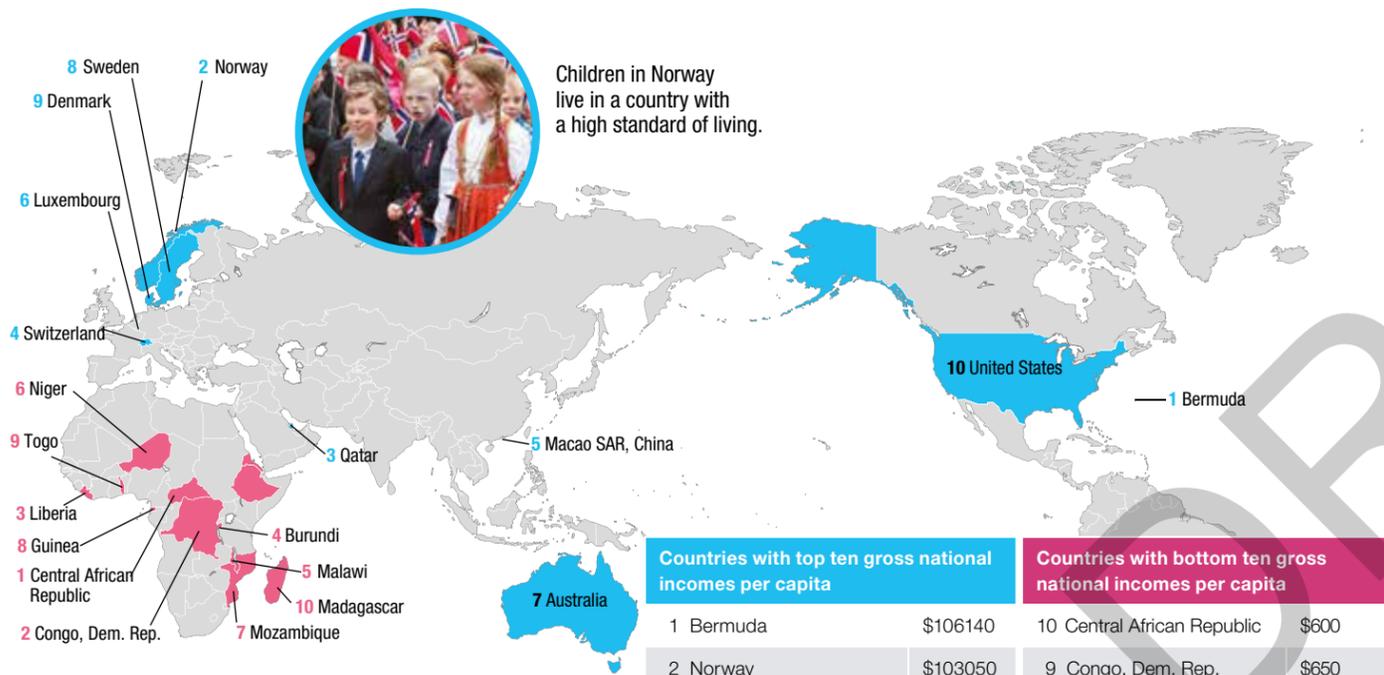
- 7 Create a similar table to Source 2 but choose another country to compare Australia's living standard with. Go to the OECD Better Life Index website for your research.

# 6.2 Factors that affect a country's living standard

If you had a choice, what country would you most like to live in? Many might choose Australia, because our living standard is high by world standards.

The income that citizens earn on average is an important indicator of living standard, as it means that consumers can buy basic goods and services such as

food, shelter and clothing, but also afford additional goods and services that make life easier. These additional goods – such as cars, refrigerators, washing machines and computer equipment – provide an additional level of convenience and enjoyment.



Source: Gross National Income per capita 2013 (Data derived from the World Bank)

Source 1 Why are there such huge variations in the living standard between countries?

## Why living standards vary from one country to another

During his lifetime, the economist Adam Smith (1723–1790) spent a lot of time pondering why some countries were rich while others were poor. In the end, he concluded that the economies of countries that gave people the freedom to work and benefit directly from their labour were more likely to be wealthy. He thought the motivation of each citizen to generate profit would create prosperity for the population as a whole. As a result, Smith recommended that the government of all countries should only play a limited role in the economy.

Other economists believe factors such as a nation's **natural resources** have a bearing on the wealth that can be created and the living standard. As mentioned in Chapter 2, Australia has large supplies of natural resources such as coal, iron, copper, gold, natural gas, uranium, and renewable energy sources that have allowed us to trade with other nations, earn income and improve our living standard.

The stability of government is another factor that is also cited as having an impact on living standards.

In countries where there is political instability and civil war, the focus on producing more goods and services for the population becomes secondary, making it difficult for a nation to raise its living standard.

Many believe the main reason some countries enjoy a better living standard is due to labour productivity. Labour productivity is the amount of goods and services that a worker produces in a given amount of time. Labour productivity can be increased by providing workers with machines that can help them produce better quality goods and services faster. Improving the skill of the labour force through education and training can also improve labour productivity.

How a country utilises its labour resources also impacts upon living standards. The proportion of those in the labour force who are employed rather than unemployed is important. An increase in employment means a country is better off using one of its most important resources – people. Employment provides people with a means to earn an income and income tax paid to the government allows it to improve infrastructure such as roads, ports, water and power, which in turn allows firms to operate more efficiently.

### Check your learning 6.2

Remember and understand

- How does earning a higher income lead to a better material living standard?
- How do a country's natural resources affect its living standard?
- How might political instability such as a civil war affect a country's ability to raise the living standard?

Apply and analyse

- Imagine your class is told to make as many paper planes as they can in a lesson.
  - If each student was paid for each plane, what might happen to the level of production of planes in the classroom?
  - Explain the link between the profit motive and a country's living standard.
- Decide which of the following factors might lead to increased labour productivity and then explain why it would be the case.
  - Staff are not given a wage rise.
  - Staff are trained to give better customer service.
  - A library uses 'robocall' to remind borrowers books are overdue.
  - A business refused to adopt new technology.
  - A high proportion of a country's population now completes year 12.
  - Staff are given regular performance reviews.

Evaluate and create

- Select one of the lowest income earning countries from Source 1 and conduct some research about that country on the Internet. Explain the possible causes for the country's low comparative material living standard and the effects of having such a poor standard.

## 6A rich task

## Poverty in Australia

Many of us think of poverty in terms of not having basic human necessities such as enough food, water, shelter and clothing. This type of poverty, called absolute poverty, is often found in developing countries such as Malawi. However, absolute poverty can be found in some remote Indigenous communities in Australia. In Australia, we tend to think of poverty in terms of people who do not have the amount of income they need to sustain the average living standard that we expect. There are many ways of measuring poverty, such as setting a poverty line where anyone who falls below a certain amount of income is considered to be in poverty.

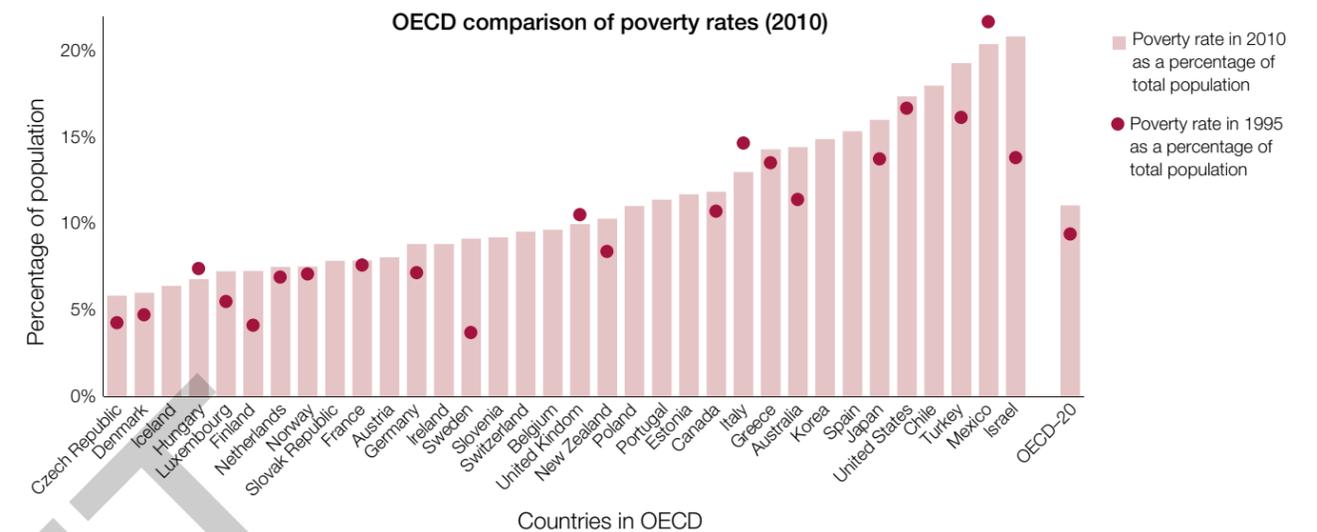
According to the Organisation for Economic Cooperation and Development's method of measuring poverty, 14.4 per cent of Australians live on an income that is less than half the median (middle) household income in Australia and are therefore said to live in poverty.

Some of the general reasons why some Australians fall below the poverty line include:

- not having paid employment – Indigenous Australians are three times more likely to be unemployed than non-indigenous Australians
- low levels of income – those relying on social security payments as the main form of income experience higher rates of poverty
- low levels of education which ultimately affect a person's ability to gain employment and earn income
- difficulty finding affordable and suitable housing
- a person's family and health situation. Families with sole parents often struggle economically as do those suffering physical and mental illness
- lack of access to affordable community services to assist the economically disadvantaged.



Source 1 According to ABS census data from 2011, there are 105 237 homeless people in Australia.



Source 2 This column graph shows that out of 34 developed nations, Australia ranked 26th in terms of its poverty rate in 2010. Australia has a lower poverty rate than the United States but a much higher poverty rate than some of the Scandinavian countries such as Denmark, with a 6 per cent poverty rate.

## skilldrill: Reasoning and interpretation

## Identifying causes and effects in economics

A cause is the reason an event, problem or success actually occurred – the 'why'. An effect is what actually happened as a result of the cause. We learn about cause and effect from an early age. If we touch something that is too hot (the cause) we might burn ourselves (the effect) and if we run on a wet floor we may slip and hurt ourselves. In simple terms, cause and effect is identifying why 'this leads to that'. Identifying causes can help us take steps to make changes so that effects or outcomes are more suitable.

It may be difficult to make a distinction between cause and effect. Here are some simple steps to help you.

- Step 1** Ask yourself what event, problem or success has occurred so you can isolate the effect.
- Step 2** Note who or what has been affected as a result of what has taken place. There may be several effects. Words associated with 'effect' include: situation, ramification, outcome, result, and consequence.

## Extend your understanding

- 1 Gain a better understanding of what it is like to live in extreme poverty. Access the link in your *obook* and go to the *Live below the line* website. Try living on \$2 a

**Step 3** To help identify 'cause' ask 'why' the event, problem or success occurred. Look for reasons that provide a good explanation.

**Step 4** Remember there can be several causes, so it may be useful to prioritise what the major and minor causes are. Words associated with 'cause' include: reasons for, due to, since, and because.

## Apply the skill

- 1 Read the information provided about poverty in Australia. Use the above steps to help you identify the causes of poverty and then describe the effects of poverty. When describing the effects of poverty you will need to think more broadly than the information provided here. Think about the human or social cost of living below the poverty line and also the economic impact of having such a disadvantaged section of the community.

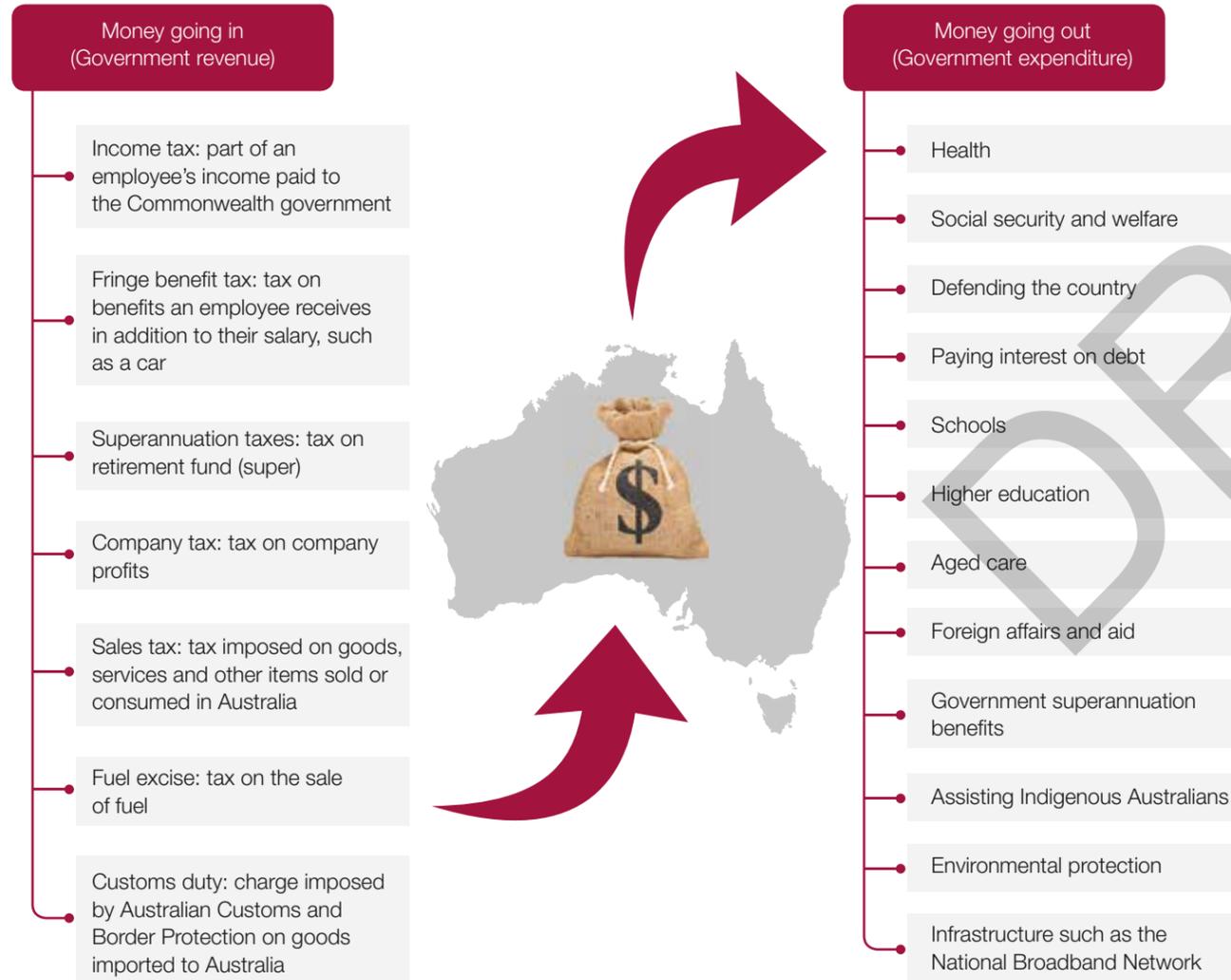
day for five days. Describe what you ate and what the experience has taught you.

## 6.3 Policies to improve living standards

Improving living standards is a key economic goal of many countries. This is mainly because a higher living standard leads to a stronger and more prosperous nation – and a stronger and more prosperous nation in turn maintains a higher living standard. When the citizens of a country are employed and earning an income, more goods and services can be purchased. Government **revenue** earned from taxes paid by workers (from the money they earn and the products they buy) can then

be used for services such as education and healthcare. These government services benefit us all.

The government of any country is constantly making economic policy decisions – outlining actions that need to be taken in order to manage different aspects of the economy. Let's first look at **macroeconomic policy** – economic policy that affects the whole of the nation – such as budgetary policy and monetary policy.



**Source 1** The federal, or Commonwealth, budget is like any other budget that itemises money coming in from and money going out.

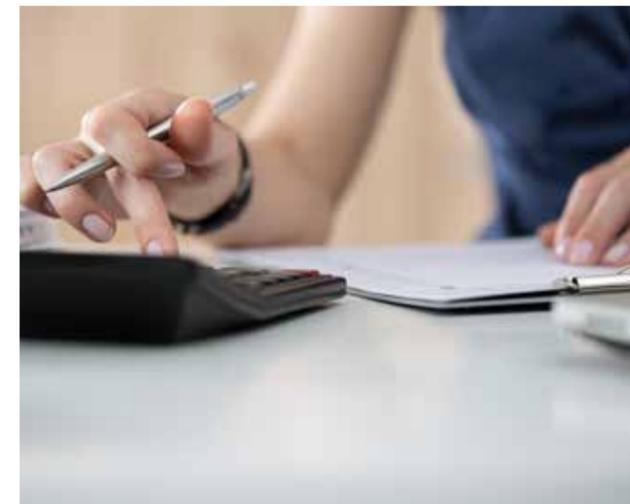
### Budgetary policy

You or your family may use a budget to track revenue and **expenditure**. The Australian Government has the role of managing the budget for the whole of Australia and therefore sets budgetary policy (also referred to as **fiscal policy**). Each year the government delivers or hands down the budget (usually in the month of May) which provides a plan of the government's revenue and spending. Source 1 outlines the revenue that the government receives and the areas in which it spends this revenue.

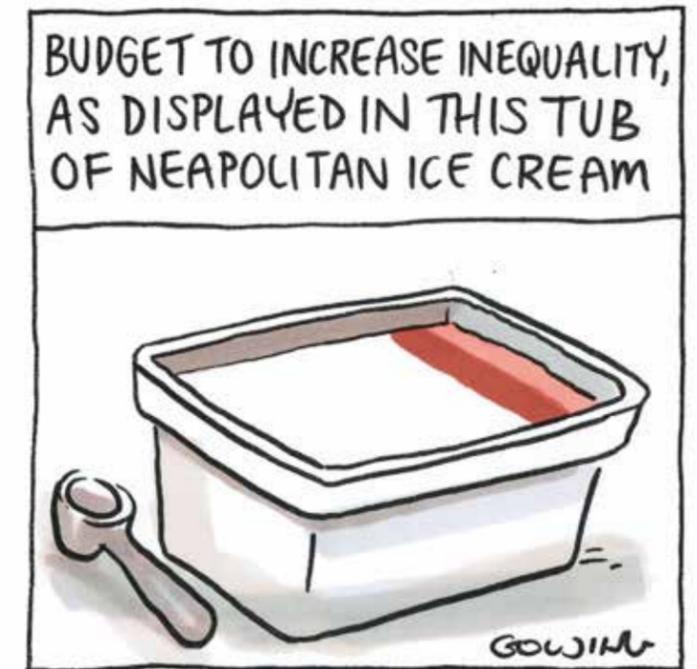
The federal budget affects the living standards of all Australians. If taxes increase or spending on services and welfare are changed, it can affect each person's personal budget. There are three different budgets the government may hand down depending on the economic circumstances.

- 1 A **balanced budget**: government revenue is exactly equal to expenditure.
- 2 A **deficit budget**: government revenue is less than government expenditure. In simple terms it means the government has spent more than the revenue it has received.
- 3 A **surplus budget**: government revenue is greater than government expenditure. This means the government has more revenue than it has spent.

The type of budget chosen depends on the economic conditions being experienced. When a deficit budget is used, more money is being 'pumped in' to the economy than is taken out. This tends to increase consumer and business spending, and therefore production of goods and services. This in turn can lead to increased



**Source 2** The federal budget can affect your personal household budget, depending on the government's revenue and spending plans.



**Source 3** Cuts to spending have to be made in order to reduce a budget deficit or return a balanced or surplus budget. Spending cuts, particularly in relation to unemployment benefits and the disability support pension, can disproportionately hurt poorer Australians.

employment as companies need more labour to produce more goods and services. Greater demand may, however, lead to inflation as stronger demand may lead to shortages of goods and services. This causes prices to rise. At the time of the global financial crisis of 2007–2008 many governments around the world (including our own) tried to 'kick start' their economies through spending more than they received in revenue in the hope of reversing the economic downturn.

When a surplus budget is used, more money is being 'pumped out' of the economy. This tends to decrease consumer and business demand and can restrict production and employment while inflation is unlikely to rise substantially. Since 2008, Australian federal budgets have been in deficit. When the Liberal-National Party (LNP) Coalition was elected they vowed to reduce the budget deficit and repay debt, believing the country should live within its means. The LNP Government plans to return the budget to surplus in future. If there is an economic downturn the government believes reducing the budget deficit will put them in a better position to increase spending to stimulate the economy.

Returning the budget to surplus means some areas of expenditure have to be cut. This may include cutting expenditure on welfare payments for the unemployed.

## casestudy

### Why should the government support small business?

Ninety-six per cent of all businesses in Australia are small businesses. The Fair Work Commission defines a small business as one that has fewer than 15 employees. Small businesses are important to the overall health of the economy, employing over 4.5 million Australians. We probably all know someone who runs a small business. Recent budget measures are good news for small business owners who have been offered tax cuts and a promise to reduce unnecessary administration (often referred to as 'red tape'). Small businesses have also been offered government incentives to take on unemployed job seekers.

One specific tax measure many small businesses are excited about is the opportunity to get a tax deduction on any asset costing less than \$20000

(available until mid 2017). It is hoped that this will stimulate the economy as small business owners buy equipment such as printers, computers and cars.



**Source 4** As the mining boom comes to an end, it is hoped that small business will strengthen the economy.

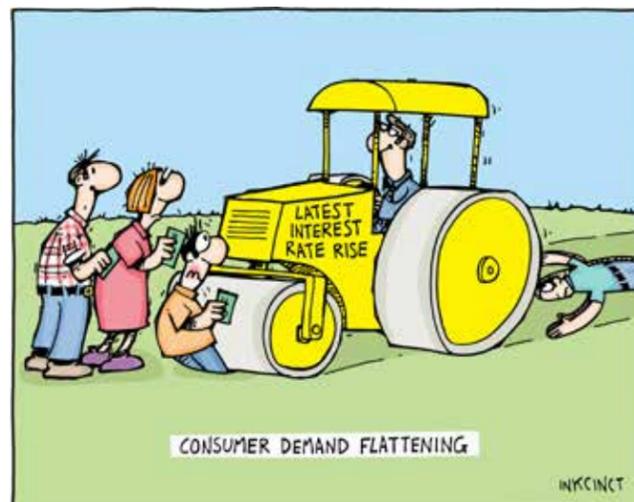
## Monetary policy

The Reserve Bank of Australia (RBA) provides banking services to the government and other banks in Australia. It also implements **monetary policy**. The main focus of monetary policy by the RBA is changing the official **interest rate**, which ultimately changes the rate of interest paid on a bank loan. Interest is the cost of **borrowing** money or the return on lending money.

Changes in interest rates affect living standards. If interest rates rise, demand for goods and services may be curbed, as consumers and businesses who

have borrowed money devote more of their money to paying higher interest rates on their loans rather than spending. Some may defer borrowing entirely because of higher interest rates. The opposite occurs when interest rates fall. The RBA uses interest rates as a 'lever' to adjust the level of spending, or demand, depending on the economic circumstances (see Source 5).

Higher demand or spending in the economy may lead to inflation, which may prompt the RBA to increase interest rates to curb spending and reduce inflation. Unfortunately, this reduced spending in the economy may reduce inflation but possibly lead to higher unemployment.



**Source 5** When the RBA raises interest rates, spending in the economy will be affected.

## Microeconomic policy

**Microeconomic policy** is policy that affects a particular company (such as Qantas), an **industry** (such as the car industry) or a market (such as the export market). It often focuses on promoting competition, productivity and efficiency. The following are examples of some government microeconomic policies.

### Trade liberalisation

**Trade liberalisation** involves opening up markets for free trade so that countries can trade without restrictions. Trade restrictions include **tariffs** (a tax on an imported goods), **subsidies** (payment by the government to producers to support their business)

and **import quotas** (restriction on the quantity of imported items). It is thought that the removal of these trade restrictions will promote efficiency, as Australian producers must find ways to compete on the world market by cutting costs and becoming more innovative. There will be some producers, however, that will not survive.

### Deregulation

**Deregulation** is the removal of government regulation (rules) in a certain area of the economy. For example, wool growers were once guaranteed a minimum price for their wool by the government but this policy was abandoned over twenty years ago. Another example is the deregulation of the telecommunications industry which saw Optus, Vodafone, AAPT and other small providers enter the market in the 1990s, resulting in price decreases and growth in mobile phone and Internet markets.

**Source 6** Enterprise agreements are negotiated between employers and employees in many workplaces. This gives both sides the chance to gain improvements in conditions.

## Labour market reform

**Labour market reform** has seen a movement away from government institutions determining wages and working conditions to a system where wages and working conditions are determined directly at the enterprise level between employers and employees. Through negotiating what is called an **enterprise agreement** (refer to Unit 4.3) the employer may gain improvements in work efficiency and the employee might gain better benefits and more flexibility.



## Check your learning 6.3

### Remember and understand

- 1 What is the difference between a budget surplus and a budget deficit?
- 2 Explain what trade liberalisation is and how it may be beneficial to Australians.
- 3 Why are small businesses important for the Australian economy?

### Apply and analyse

- 4 Is the RBA likely to increase or decrease official interest rates in the following situation? Economic growth is negative, the unemployment rate continues to increase while inflation remains low.
- 5 What type of budget would be appropriate if a severe economic downturn is predicted, spending has slumped and growth in the economy has declined?
- 6 Inequality results when resources are unevenly distributed amongst people. Why might returning the budget to a surplus in the long-term cause some groups in society to suffer?
- 7 Why do you think the government wants to encourage small business in Australia?

### Evaluate and create

- 8 Refer to Source 4 and examine the cartoon. What point is the cartoonist trying to make about the effects of budget cuts?
- 9 Conduct some research about areas where expenditure in the latest budget has been cut. Draw a cartoon, create a photographic image or a word cloud that illustrates the effects these recent budget cuts may have.

## 6B rich task

## Climate change and living standards

Climate change refers to the long-term trend or shift in climate over many decades. The long-term climate trend shows that the world's atmosphere and oceans are getting warmer; that is called global warming. Since 1910, Australia's average air and ocean temperatures are almost a degree warmer, and most of this increase has occurred since 1950.



**Source 1** Finding a solution to climate change has been a challenge for politicians such as US President Barack Obama.

## The effects of global warming

As previously mentioned in Chapter 5, greenhouse gas emissions have serious consequences. The projected effects of the change in climatic conditions for Australia includes an increase in the number of extreme fire weather days in southern and eastern Australia, an increase in the severity of cyclones, more hot days and drought in southern Australia. Those in the midst of cyclones, fires and drought will find their living standard change and future generations may not be able to enjoy our environmental assets such as the Great Barrier Reef. It is also believed that climate change will affect our agricultural productivity and increase bushfire and flood costs.

## Environmental policy

Governments can take action to reduce carbon dioxide (CO<sub>2</sub>) and other greenhouse gas emissions. There are two methods of cutting greenhouse gas emission that involve businesses paying for the emissions they make. It is thought that if businesses have to pay for their emissions they will eventually move to more environmentally friendly production methods.

- 1 An **Emissions Trading Scheme (ETS)** involves the government setting a limit on how much carbon dioxide can be produced by businesses. Some businesses will emit carbon dioxide below this limit and will therefore have 'credits' they can trade with companies that have emitted carbon dioxide above the set limit.
- 2 A **carbon tax** introduced by the Labor government in 2012 and axed by the LNP Coalition government in 2014, involved forcing polluting companies emitting over 25 000 tonnes of CO<sub>2</sub> to purchase emission permits from the Australian government. The companies would have to purchase permits set at \$23 per tonne of carbon with a 2.5 per cent increase each year until the transition to an ETS.

Successive polls between 2006 and 2012 by the Lowy Institute revealed declining concern about climate change. The latest poll taken in 2015 has, however, seen this trend reverse with more Australians concerned about climate change.

Policy in relation to how businesses pay for the pollution they cause has been controversial. Whatever scheme is used, businesses will be paying for their pollution. This extra cost pressure may result in job losses and the possibility of businesses passing the extra costs on to the consumer by raising prices. The carbon tax was scrapped by the LNP Coalition government, as it was thought to cause an unnecessary burden on the cost of living for all Australians. The Australian government aims to reduce emissions by 26–28 per cent below the 2005 levels by 2030. A new global agreement on emissions (referred to as the Paris Agreement) was struck at the Paris UN climate change conference in December 2015, with nearly 200 countries agreeing to take action to reduce greenhouse gas emissions.

## skilldrill: Reasoning and interpretation

## Presenting an oral report to an audience

Presenting an oral presentation is an important skill to master.

- Step 1** Decide on a topic that will interest both you and your audience. Consider your audience and think about what they already know about the topic. What would you like them to understand by listening to your presentation?
- Step 2** Research your topic. You could start with a question that you then seek to answer through your presentation. Collect information from a wide variety of sources and keep a bibliography of these sources. Try to find visual material and perhaps even audio resources that may add variety to your presentation.
- Step 3** Organise your findings into a draft outline of your report. It should have a clear introduction and conclusion. In your introduction it is often a good idea to use something to 'hook' your audience. It may be your overarching question, a personal story or a challenging image. After your introduction, develop your report in a series of clearly defined sections (like paragraphs in a written report). Your conclusion usually summarises your key points. If your report is going to be assessed, make sure you have fulfilled the criteria for assessment.
- Step 4** Support your verbal report with some visual material.
- Step 5** Practise your presentation. Avoid holding a single piece of paper if you are prone to nerves – memory cards are sturdier and won't tremble. If you are worried about being nervous, practice will help.
- Step 6** Deliver your presentation. Make sure that you speak clearly and vary pitch and tone. Stand up

straight, keep your hands out of your pockets and don't lean on a desk.

- Step 7** Invite your audience to ask questions and do your best to answer them. If you are unsure of an answer don't make something up, just answer as best you can.

## Apply the skill

- 1 Prepare and deliver a verbal report on an aspect of climate change and living standards. Your report must be supported by visual material and include responses to questions asked by the audience. Here are some possible topics to choose from, or you may like to develop your own.
  - Australia's greenhouse gas emissions compared to other countries.
  - Why climate change will lead to lower living standards.
  - The UN Paris Agreement 2015 and what it seeks to achieve.
  - How emissions trading schemes and a tax on carbon works in order to reduce greenhouse gas emissions.



**Source 2** Practising and preparing your presentation in your own time can help you feel more confident.

## Extend your understanding

Do some further reading on the Millennium Development Goal target to ensure environmental sustainability beyond 2015 before answering the following questions.

- 1 Research the Millennium Development Goals fact sheets online. List three goals which have been achieved and three which have not reached the targets.
- 2 Which regions of the world seem least likely to reach the Millennium Development Goals? Which seem most likely? Why do you think these differences exist between world regions?