

## Unit 1 Economic performance and living standards

# 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.



**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.

## 13A

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?

## 13B

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?

# 13.1 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 13.1

### Remember and understand

What does the term 'living standard' mean?

Give three examples of non-material living standards.

Refer to Source 2.

- b Based on the criteria presented, which country has the highest living standard?
- c Does Australia compare well in all criteria compared to the OECD average?

### Apply and analyse

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.

- d Primary and secondary school education is available.
- e The air is clean.
- f You can drink the water because it is clean.
- g You have the right to vote.
- h You are expected to live a long life.
- i You are happy.

j You feel safe in your community.

k You have enough leisure time.

l You are likely to get a job.

m You can earn a decent income.

n You have enough to eat.

o You have shelter.

Compare your ratings in Question 4 with another classmate and explain why assessment of living standard can be subjective.

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

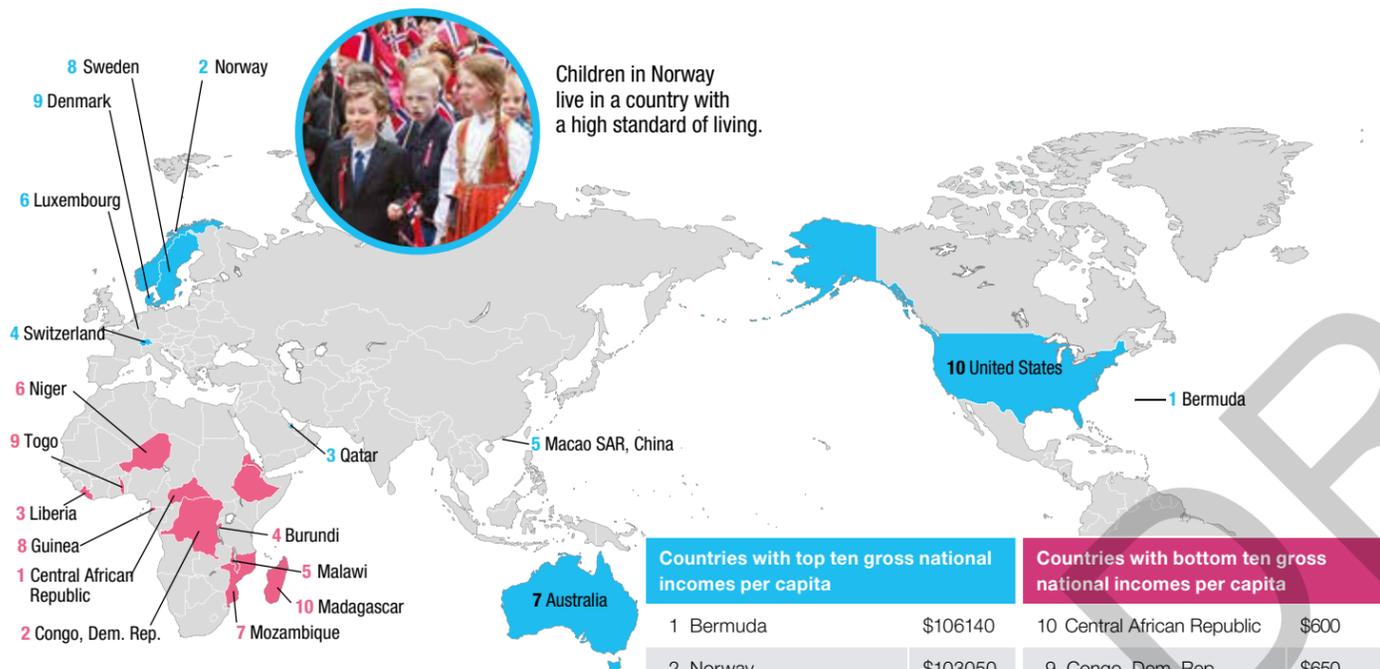
Create a similar table to Source 2 but choose another country to compare Australia's living standard with. Go to the OECD Better Life Index website for your research.

# 13.2 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 13.2

#### 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.

# 13.3 Factors that influence major consumer and financial decisions

At many different times in our lives, we will need to make major consumer decisions such as buying a car or home. We will also need to make financial decisions, such as borrowing money or saving for retirement. These decisions can sometimes involve large amounts of money, as shown in Source 1.

Decisions made earlier in life can affect our long-term prosperity. Forgoing spending on some items in order to save for future purchases can be beneficial, especially if those purchases (such as a house) are likely to increase in value over time. Contributing to superannuation is one way of saving for retirement that also has some tax advantages. Carefully assessing the risk of major purchases and investment decisions is wise and seeking a second opinion on financial matters can be beneficial.

## Factors that influence a consumer's decision to buy

### Price

It may seem difficult to understand, but not all consumers are interested in paying the lowest price for an item. This is because price is sometimes associated with the quality of the product. Research suggests that consumers have lower and upper price limits for products: if the price is too low the consumer becomes suspicious of its quality and if it is too high the product is viewed as not worth the price. A consumer may also be influenced to buy the highest-priced item in the market because of prestige; the item becomes a status symbol of wealth and power.

### Availability of credit

Credit is an agreement where money (or something of value) is lent to a borrower and must be repaid (usually with interest) at a later date. Credit availability refers to how easy it is to borrow; in other words, whether you are able to obtain a loan. Credit cards are an example of credit that is

Major consumer and financial decisions	Cost
Buying a car 	New cars can be purchased for as little as \$11,000.
Moving out of home (renting) 	Median weekly rent householders pay in Australia was \$285 according to recent ABS statistics. Rent is much likely to be much higher in certain parts of Western Australia.
Going to university 	An undergraduate bachelor degree can cost between \$15 000 and \$33 000. This does not include high-value courses such as veterinary science and medicine (Future Unlimited Study in Australia).
Travelling 	Australians spend an average of \$3962 on each overseas trip (Visa's latest Global Travel Intentions Study).
Getting married (the wedding) 	The average cost of an Australian wedding is \$36 200 (IBISWorld, 'IBISWorld Industry Report X002 Weddings in Australia', April 2012).  The mean price of a residential home in Australia was \$612 200 (ABS 2015).
Having children 	The cost of bringing up two children for a typical middle-income family is \$812 000.
Saving for retirement 	For a couple to live a comfortable retirement it is estimated that a \$744 000 lump sum is needed based on a person working to 65 and having a life expectancy of 85 years old.

Source 1 Some major consumer and financial decisions the consumer might be faced with in a lifetime

relatively easy to obtain and use which can influence a person's decision to purchase goods and services. Spending too much on credit can lead to debt that is difficult to repay. One of the common reasons for bankruptcy is excessive use of a credit card.

### Marketing

A company's marketing methods can influence a consumer's decision to buy a product. Marketing is conveying the value of a good or service to a customer in order to sell that product to them. Marketers divide the market into groups or subsets of consumers with common needs and characteristics in order to target and increase the likelihood of selling a product or service. For example, it is usually older people who are targeted to buy funeral insurance so that in the event of their death the person's family is paid a lump sum to cover funeral expenses. See page XX for more information about market segmentation

### Age and gender of consumers

Age and gender may also play a role in purchasing decisions. As Source 1 shows, as we age we have different needs. At a younger age consumers may focus on paying university fees or buying a car, and those who have just become parents may focus on paying for childcare or education.

Gender may also play a role in purchasing decisions as marketers may specifically target men or women to buy their products. When you are next watching television or shopping, observe advertisements and how they might target a specific gender.

### Convenience

Convenience may be one factor that sways our decision to purchase items. Items that save the consumer time and are easier to use can provide a huge advantage to those marketing a product. Readymade meals are a convenience product that has experienced 3.6 percent annual growth over the last five years with revenue from the readymade meal sector worth around \$900 million each year in Australia.

### Ethical and environmental considerations

Ethics are standards that provide guidance on what is considered right and wrong. Many consumers wish to purchase products that have been produced in a way that is consistent with their beliefs of what is right. Consumers may boycott products that have been produced unethically. The following issues are taken into consideration when purchasing products:

- animal rights: for example, no cruelty to animals during product testing
- the environment: for example, recyclable packaging, purchase of energy-efficient products, ensuring that certain chemicals and pesticides have not been used in the production process
- human rights: for example, the workers who make the product receive a fair wage and have not been exploited



Source 2 Fairtrade chocolate is popular among many consumers as country farmers and producers are assured of getting a fair price for their produce.

## Check your learning 13.3

### Remember and understand

- Explain why a consumer may be reluctant to buy a lower-priced item.
- What are the consequences of spending too much on credit?
- Analyse three purchases you have made in the last week or month. What factors may have affected your decision to buy these products?
- What are the long-term consequences of spending more than you earn and not saving?

### Apply and analyse

- Use a timeline to list some of the major consumer and financial decisions you are likely to make in your lifetime. What factors are likely to influence the type of major purchases you make? For example, if you buy a car, how will price, credit availability, marketing and ethics influence the type of car you buy?
- Choose any one of the following topics to research or choose your own ethical consumer topic to investigate. The 'Shop ethical' website provides some useful information. Research topics: factory farming, overfishing, palm oil and packaging products, animal testing, packaging and waste, bottled water, chemicals in cosmetics.
  - an explanation of the ethical issue
  - the solution to the issue.

## 13A 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.

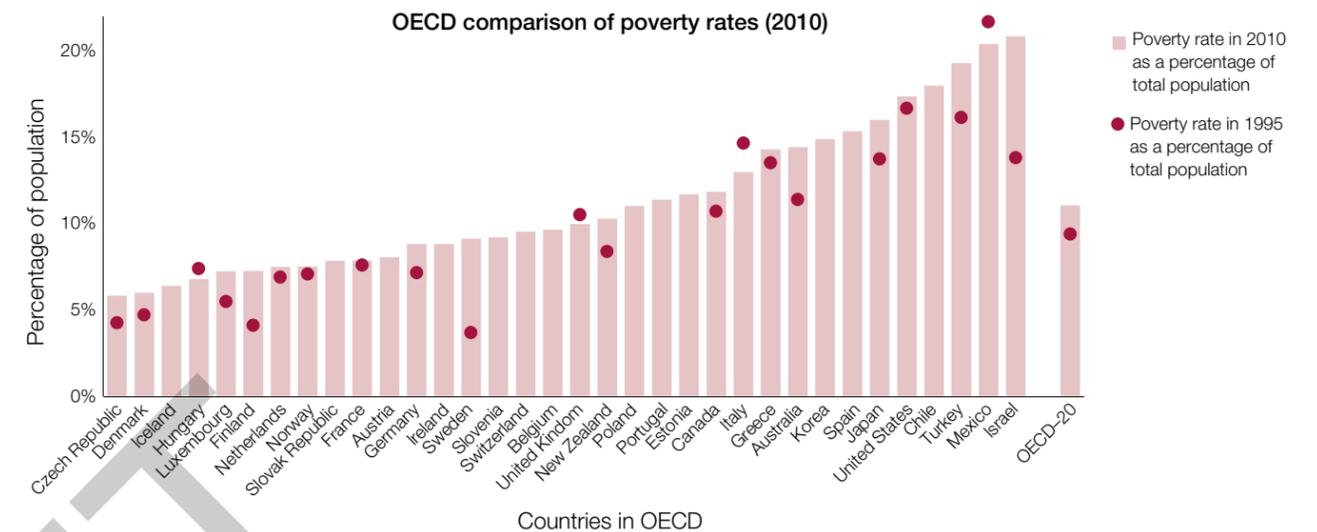
According to the Organisation for Economic Cooperation and Development's method of measuring poverty, 14.4 per cent of Australians live on an income that is less than half the median (middle) household income in Australia and are therefore said to live in poverty.

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

## 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.

## 13.4 Policies to improve living standards

The government uses macroeconomic policy such as budgetary and monetary policy to improve the standard of living. A range of other policies can also be used in order to lift Australia's standard of living.

### Productivity policy

Productivity measures how efficiently resources are used to produce a given level of output. Greater productivity not only leads to increased production, it also ensures Australia remains competitive with other trading nations and our standard of living is improved. The level of productivity can be measured by individual firms, industries and economies.

Productivity can be increased by improving labour resources so that workers are able to produce more goods and services per hour. Productivity can also be increased by improvements to capital such as machinery, computers, mines, tools and buildings so that more can be produced per unit of capital in a given amount of time.

Productivity can be increased by firms at an individual level. The government can also influence productivity by providing an environment where businesses can thrive. Government policy that can influence productivity in Australia includes:

- Privatisation of government-owned businesses such as Telstra. Privatisation can lead to greater productivity as some argue the incentive to cut costs, innovate and increase profits is stronger in privately-run businesses.
- Government policy committed to education and research and development.
- Innovation policy. For example, the 'national innovation and science agenda', or, put simply, an 'ideas boom', is a set of federal government policies targeting new businesses and entrepreneurs to secure funding to make their business ideas a reality. The agenda also encourages enrolment in science, technology, engineering and mathematics and devotes funds to develop ICT literacy such as computer coding.
- Labour market reform, trade liberalisation and deregulation (see page XX).



**Source 1** A code-cracking computing competition for students in years 4 to 12 is part of a strategy to boost the study of science, technology, engineering and mathematics in schools.

### Training and workforce development policy

The workforce refers to the people who work or are available to work in a particular area, which could be a region, state, nation or in a particular industry. Workforce development focuses on improving the workforce so that more can be produced. Development of the workforce may focus on helping low-skilled workers access training programs to improve the knowledge and skills of these types of workers. Workforce development may also focus on solutions to address a shortage of workers in a particular industry (see Source 3).

Training and workforce development policies aim to provide the necessary labour resources to produce more goods and services to increase economic growth and the standard of living. There is a national agreement for skills and workforce development where both the states and the Commonwealth work together to focus on broadening and improving workforce skills required in the twenty-first century. Each state shapes workforce development policies to suit its labour force needs.

One Western Australian workforce development initiative is called Future Skills WA.

### casestudy

#### Future Skills WA project

Jobs in demand constantly change as the Western Australian economy grows and changes. The mining boom brought with it economic prosperity, but with the price of iron ore falling, government and business leaders are looking to the future and hope to develop growth and opportunities for the state outside the mining sector. Western Australia's close proximity to Asian markets provides an opportunity for the state to supply Asia's agricultural needs and some believe Western Australia could play a greater role in becoming a world-class state for education and research.

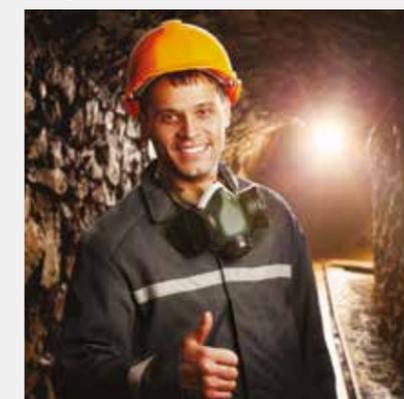
A workforce development policy implemented by the state government called Future Skills WA is expected to

help people gain skills leading to employment in areas required by industry in the future. To encourage this, the government has provided guaranteed subsidised training places for students enrolled in courses where qualifications are considered to be of high priority to Western Australia. There are more than 600 priority qualification courses available, from apprenticeships to advanced diplomas. The Department of Training and Workforce development compiles a priority industry qualification list that names the courses that are considered high priority under the Future Skills WA program. There are 16 broad categories considered to be high priority for the Western Australian economy. Source 2 highlights some of these categories where subsidised courses are offered.

Community services, health and education



Mining and minerals



Food and meat processing



Food and hospitality



Agriculture, aquaculture, horticulture and conservation Management, finance and administration



**Source 2** It is hoped that the WA economy can diversify into other areas instead of being reliant on the resource sector for its economic prosperity.

## Migration policy

Human **migration** is the movement of people from one place in the world to another to live permanently or temporarily. We refer to people who have moved to Australia from another country as **immigrants**. The government's migration policy deals with people who apply to the Australian government to enter the country as well as those who flee their country seeking asylum in Australia.

The Australian government decides who is eligible to come to Australia each year based on criteria such as

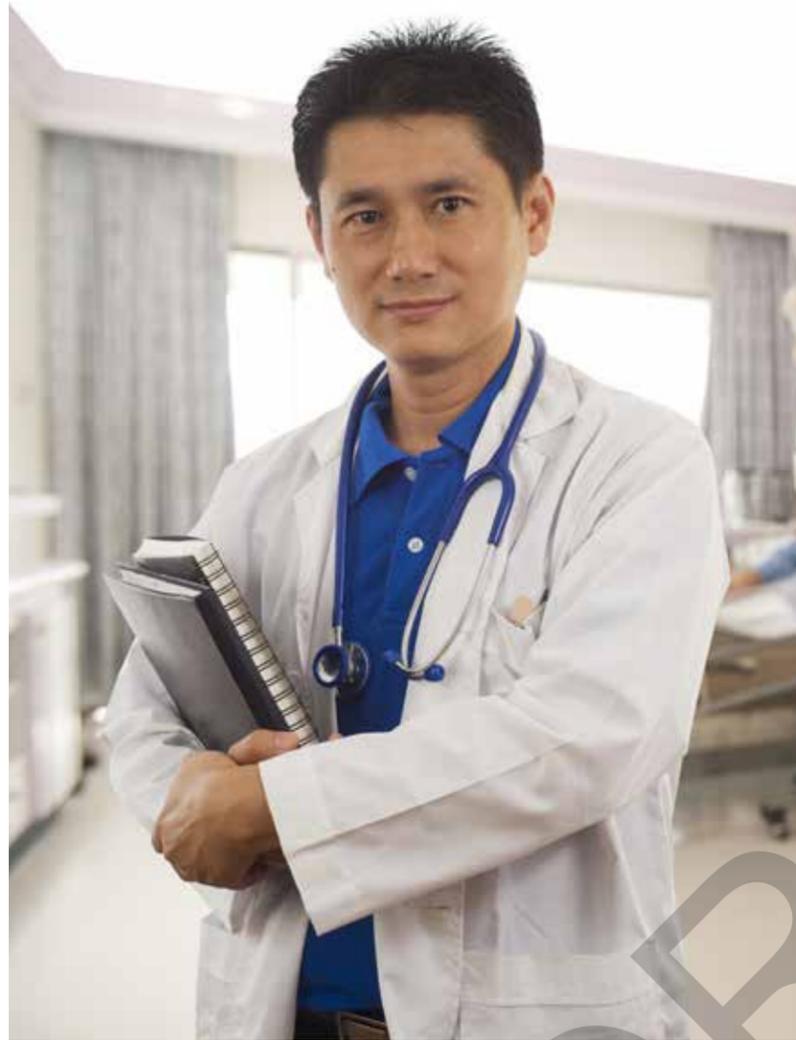
- security
- health
- skills, English and education
- age
- family connections
- humanitarian need.

In recent years the focus of Australia's migration program has been on migrants to provide skilled labour in areas of need in the economy. Migrants coming to Australia in recent years are mainly young (aged under 40 years) and of prime working age to contribute to the country's production.

Some economists believe that immigration boosts economic growth and therefore the standard of living as immigrants consume goods and services, which in turn leads to greater spending and therefore employment and growth.

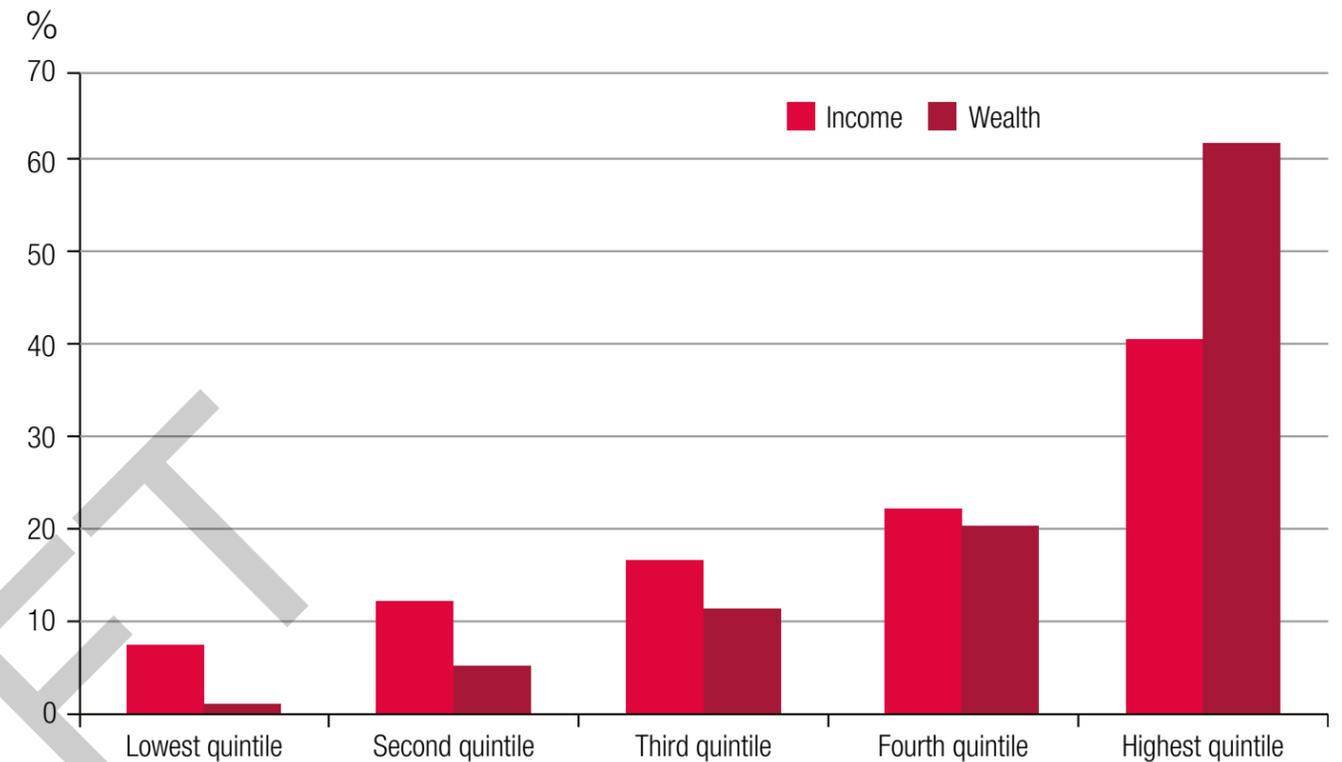
With the emphasis on taking more skilled migrants it is believed that migrants make a great contribution to the quality of the labour force. Other commentators believe immigration, particularly in periods of higher unemployment, can hinder employment prospects for those at home and place pressure on the infrastructure such as housing, roads, hospitals and schools required to service an increase in population.

The different policies of the government will ultimately mean that there are 'winners' and 'losers' as money is allocated towards some issues and not others. This may include cutting expenditure on welfare payments for the unemployed, further creating a divide between rich and poor Australians.



**Source 3** Immigration can be used to provide labour in occupations that may be in demand in Australia. There is a shortage of doctors in rural areas of Australia. There are a number of programs available to attract overseas doctors to Australia to work in these areas of high demand.

Source 4 shows how income and wealth are currently distributed among Australian households as a histogram. Households are ranked according to their income or wealth and then divided into five equal groups or quintiles. Households in the highest group received over 40 per cent of income and the lowest group received 7.3 per cent of income. This pattern of income distribution in Australia has been relatively the same over the past 20 years. As you can see, the distribution of wealth is more unequal with the top 20 per cent of households owning 62 per cent of total household wealth and the lowest 20 per cent of households owning less than 1 per cent of the total wealth.



**Source 4** Income distribution and wealth across Australian households

### Check your learning 13.4

#### Remember and understand

- 1 How can the government influence productivity in Australia?
- 2 What is workforce development?
- 3 Given an example of a workforce development policy that aims to ensure skilled workers are available to fill jobs in the future.

#### Apply and analyse

- 4
  - a List some of the things you do or don't do in class that would hinder your own productivity.
  - b Suggest ways you could improve your own productivity at school.
  - c Why do you think the educational standards attained by students in Australia are important to Australia's future economic growth and living standards?
- 5
  - a Explain how migration might have the effect of increasing economic growth and living standards in Australia.
  - b How might migration hinder economic growth and living standards?

#### Evaluate and create

- 6 Why do you think the government's migration policy has focused on skilled migrants coming to Australia?
- 7 Write a list of words and phrases that are associated with improving our standard of living in Australia and then create a word cloud to display your work.

# 13.5 Governments manage living standards

Governments have a role to play in improving the living standards of all Australians. This at its most basic level means improving the material and non-material wellbeing of its citizens (see page XX). One way to improve living standards is to ensure citizens have adequate income so that goods and services can be purchased to satisfy needs and wants.

## The government redistributes income to improve living standards

Those who work earn an income by offering their knowledge, skills and sometimes physical labour to produce goods and/or services in return for wages and salaries. Income may also be earned from other sources such as rent from property or payments such as interest and dividends from investing.

Income earners pay tax to the government which is then used to provide services such as free education in public schools and Medicare, which gives citizens access

to medical and hospital services. The government also uses taxation revenue to provide public goods such as roads and street lighting. In addition, the government provides welfare payments such as unemployment benefits and the aged pension.

Citizens in Australia do not all earn the same level of income. As we saw on page XX, the highest 20 per cent of households earn more 40 per cent of the available income and the lowest group receive 7.3 percent of the available income. The government plays a role in redistributing income by providing welfare payment for those who cannot earn an income and allocating revenue to provide goods and services such as education and health to those who may be unable to afford them. Source 2 shows the various ways governments seek to redistribute income.

## Reducing negative externalities

The government promotes policies that will increase economic growth in Australia. If there is an increase in the level of goods and services it means that there



**Source 1** Spending on infrastructure such as roadworks assists all Australians because it provides employment opportunities for a large number of workers.



**Source 2** The ways in which the government seeks to promote a more equitable distribution of income

is likely to be more employment and more income, leading to a better standard of living. However, one of the negative side effects or externalities of producing more and more goods and services is that some of the costs associated with production are passed on to a third party (such as the community).

The production of cigarettes is an example of a negative externality because the true cost of producing cigarettes is not paid for by the producer. Smoking is the largest preventable cause of death and disease in

Australia, causing human suffering and a drain on our healthcare system. The government has taken steps to curb cigarette smoking by increasing taxes on cigarettes as a deterrent to purchasing them. The increase in taxes will be implemented progressively, ultimately leading to a packet of cigarettes costing in excess of \$40 by 2020. The increased cost of cigarettes may adversely affect those low-income earners who smoke, but costs in terms of human suffering and healthcare are expected to decline, ultimately raising the standard of living.

**casestudy**

**The environmental costs of mining in Western Australia**

While mining is a major contributor to Western Australia's economy, providing jobs and therefore improving the standard of living, there are negative externalities caused by mining. The government sometimes has to pay for the environmental mess that is left behind. The President of the Conservation Council of Western Australia, Philip Jennings, said, 'Previous mining booms often left major problems behind.' Radioactive waste or tailings from mining mineral sands resulted in some mines having to be decontaminated at the government's expense. Closure of some gold mines also left disused pits and equipment that could become unsafe. There is now better environmental management in the mining industry with mining companies not only requiring government approval for their operations but also considering their social licence to operate. This means that mining companies consider the impact of their operations on local communities and other stakeholders.

Despite better management, mining brings with it other issues that may reduce the standard of living in Western Australia. Damage from exploration across the state affects the beauty of the landscape. Clearing of



**Source 1** The long-term impact of mining should be taken into consideration.

land and mining ultimately affects the number of plants growing and animals living in an area. Some of these plants and animals are unique species that should be protected. Other environmental problems include soil and water pollution.

Many mining companies are now applying more sustainable principles to their operations, but some experts still believe that mining approval needs to consider the long-lasting environmental impact and what will happen when the mine is closed down.

**The government promotes economic growth in our region to improve living standards**

The government not only promotes policies to encourage growth in Australia but also actively seeks to support growth in the Asia region as this growth can be

beneficial to Australia's trade. Trade with other nations boosts economic growth and improves living standards at home. Australia is a member of the Asia-Pacific Economic Cooperation (APEC) forum, whose main purpose is to pursue policies that will create economic growth and prosperity in the Asia region. For example, Australia has worked with APEC members to promote free trade within the region (see page XX).



**Source 4** Australia belongs to APEC, working with 20 other countries such as Indonesia, Japan and Malaysia to facilitate trade and therefore growth in the Asia region.

**Check your learning 13.5**

**Remember and understand**

- 1 Why does a person's level of income ultimately affect their standard of living?
- 2 Explain, using examples, how the government seeks to assist those in the community who are unable to earn an income.
- 3 Describe the consequences if we lived in a country where there was no government assistance to those in need.
- 4 Describe why providing free public primary and secondary schooling in Australia is beneficial.

**Apply and analyse**

- 5 Why is the production of cigarettes an example of a negative externality? Do you think it is fair that the price of cigarettes will increase due to higher taxes?

- 6 Why might increased trade lead to a higher standard of living in Australia?

**Evaluate and create**

- 7 Search the Internet and use this textbook to find the costs and benefits of mining. Create a table like the one below, filling out the costs and benefits of mining.

Costs of mining	Benefits of mining

## 13B 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

## 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?