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# ECONOMICS, BUSINESS, CIVICS AND CITIZENSHIP

Second Edition



# 10

Julie Cain | Tony Kuc | Gillian Somers

INTERACTIVE TEXTBOOK INCLUDED

# ECONOMICS, BUSINESS, CIVICS AND CITIZENSHIP

Second Edition



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Julie Cain | Tony Kuc | Gillian Somers



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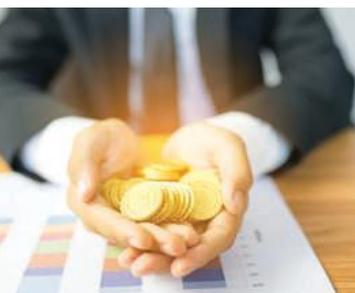
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## Economics and business

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# Foreword

*Economics, Business, Civics and Citizenship 10 Second Edition* is unique as it combines two Australian Curriculums – Economics and Business, and Civics and Citizenship – into one book. While the topics covered are set out in specific chapters relating to these curriculum areas, some topics are also entwined. The chapters are presented in a concise way, with plenty of online supporting materials, interesting facts, relevant primary and secondary sources, creative activities using relevant skills, eye-catching images and illustrations, glossary definitions and many other features, making it an excellent resource for student learning.

A healthy economy is very important for any country. For us to be able to judge the success and market strength of an economy, a number of performance indicators are used such as rate of economic growth, unemployment levels and trends, level of inflation and sustainability. Not only do performance indicators enable us to judge the economic performance of a country, they also allow us to make comparisons between other economies.

The standard of living varies widely between countries. Governments are instrumental in managing their economies with the hope of improving economic performance and the standard of living. They use fiscal and monetary policies to intervene in the economy as a way of redistributing income. Most Australians would say that they have a good standard of living. But is this too much of a generalisation? What could we do to improve the standard of living for all Australians? Measuring standard of living based only on financial and economic indicators is too simplistic, which is why we use indexes, such as the happiness index. Australia participates in the Asia–Pacific Economic Cooperation forum as a way of supporting economic growth in the Asia–Pacific region.

As we all consume goods and services, it is important that we bear in mind that these items have to be paid for. An opportunity cost will be incurred when we make a purchase, since buying one item means that we are sacrificing the

opportunity to purchase another. As consumers, it is also vital that we understand the range of internal and external factors that affect our decision-making, together with the resultant short- and long-term consequences of our actions.

Our global economy and marketplace are in a state of constant change. Australian businesses must position themselves to be competitive in this global market. If Australian businesses can create frameworks that set corporate visions, establish objectives, foster flexible organisational structures, and ensure ethical and socially responsible operations, they are in good stead to be productive and competitive. In the event of economic conditions changing, it is important for us to understand what actions businesses can take in response to improving or deteriorating economic climates. Similarly, we need to appreciate that adopting the latest technological developments assists businesses to be innovative in the global marketplace.

Australia operates under a democratic political system. While parliament creates legislation, it is vital that we understand the role of the High Court of Australia. Being a global citizen also means that we must adhere to certain international laws. In addition, our membership with the United Nations brings various responsibilities that we need to understand; we have obligations such as foreign aid and being a signatory to international treaties regarding human development and the environment. On the community level, it is important that we contribute to creating a civil society that can respond to the ever-changing pressures and challenges exerted on the status quo. As citizens we must ensure that our rights are protected, our responsibilities are understood and that we know how to resolve disputes.

The authors hope that you find the study of these two Australian Curriculum areas of great relevance as you continue on your life journey to become financially literate and informed consumers, and responsible citizens of Australia and the world.

*Gillian Somers*

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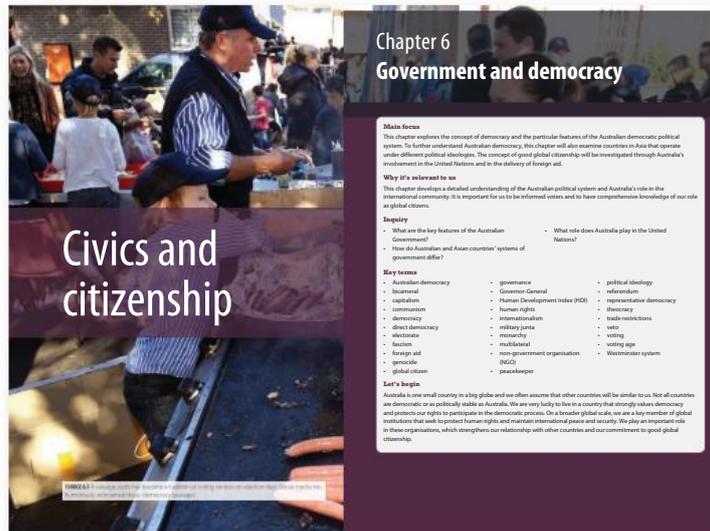
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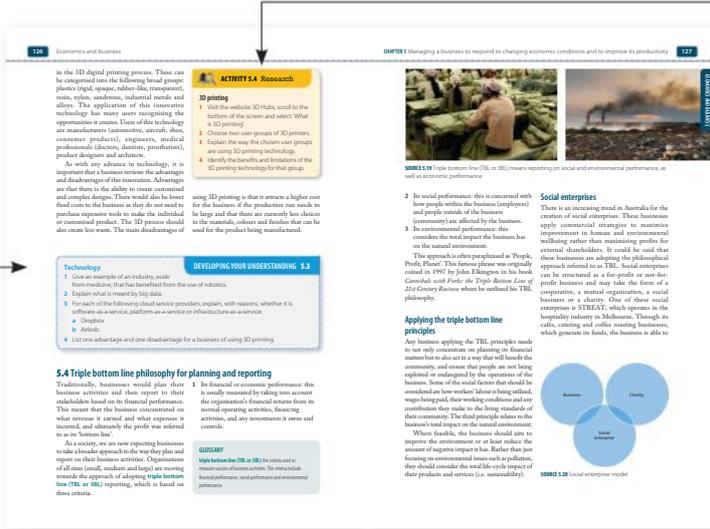
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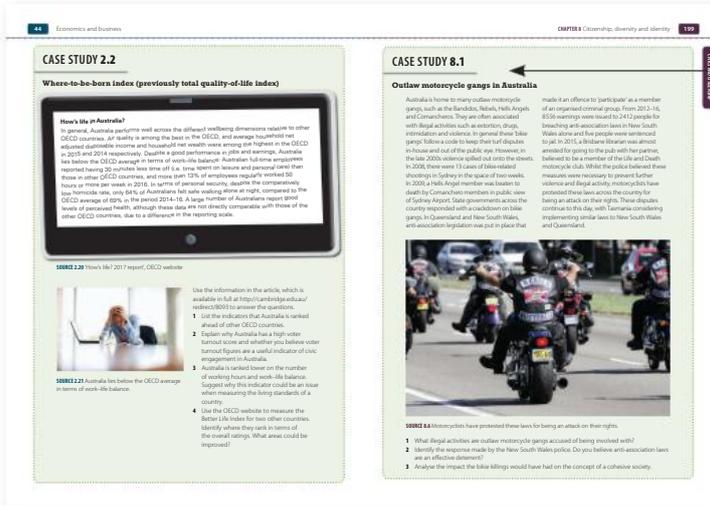


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# Economics and business

**SOURCE 1.1** Economic indicators include the rate of economic growth, trends in unemployment, inflation and sustainability.

# Chapter 1

# Indicators of economic performance and how Australia's economy is performing

## Main focus

Measuring economic performance allows us to determine the success and market strength of a country's economic system. This enables countries to be compared, and can help to keep a country's economy and markets strong. Economic performance is monitored and evaluated using a variety of measures known as economic indicators. These indicators include the rate of economic growth, trends in unemployment, inflation and sustainability. We also need to examine the fluctuations and changes in the business cycle to understand how they affect the economy.

## Why it's relevant to us

To assess economic performance, we need to be aware of the key economic indicators used to measure and evaluate the economy. Measuring economic performance gives us a deeper understanding of how Australia performs in the global market.

## Inquiry

- How is Australia's economy performing according to the indicators of economic performance?
- How is the performance of the Australian economy measured?
- How are the different economic sectors interconnected?
- How is the economy affected by fluctuations in the business cycle?

## Key terms

- business cycle
- classical economics
- consumer price index (CPI)
- consumption
- economic performance indicators
- free market
- gross domestic product (GDP)
- inflation
- interest rates
- monetarism
- New Deal
- sustainability index
- Sustainable Development Goals (SDGs)
- unemployment
- workforce

## Let's begin

Ideas about how to run and how to measure an economy have an effect on many aspects of our daily lives – from the level of taxes we pay and the funding levels of our schools, to the level of government support offered to businesses.

## 1.1 Economic performance indicators

The economic performance of a nation determines the living standards and lifestyles of its **citizens**. Governments are judged by their own citizens and internationally according to the economic performance of the country. The extent to which a government intervenes in its national economy and how it chooses to do so will differ according to the ideological beliefs of the people in the government itself, as well as the economic conditions faced at that particular time.

### GLOSSARY

**citizen** a person who has citizenship of a particular country; has the responsibility to obey the laws of that country and participate in the political process of that country (such as through voting)

### Economic ideology

Economists have different views – or ‘schools of thought’ – on the best way for a government to manage the economy. The extent a government



**SOURCE 1.2** How much a government intervenes in its economy will differ according to the ideological beliefs of the people that make up the government and the current economic conditions.

intervenes in the economy, and the manner of that intervention, will depend on the economic school of thought the government subscribes to.

Theory	Explanation	Economist
<b>Classical economics</b> (free market economy)	Classical economics is based on theories from the eighteenth and nineteenth centuries, which argue that the market works best when it is left alone by governments. The forces of demand and supply and the price mechanism act as an ‘invisible hand’ to allocate resources.  Some key points of the price mechanism include: <ul style="list-style-type: none"> <li>• The use and distribution of economic resources (factors of production) is decided by consumers and producers.</li> <li>• Economic resources (factors of production) are owned by individuals who use them to generate a profit.</li> <li>• If enough people want to buy something at a certain price, the owners of economic resources will use them to produce the demanded products in the hope of selling at a profit.</li> <li>• Businesses produce and supply what consumers demand in the hope of making a profit (profit motive).</li> <li>• The factors of production are then directed to producing what consumers want to purchase.</li> </ul>	Adam Smith

**SOURCE 1.3** Summary of economic theories and approaches

Theory	Explanation	Economist
Interventionist economics	<p>Supporters of interventionist economics believe that a government needs to intervene in the economy in order to ensure the most efficient and fair use and distribution of economic resources.</p> <p>Advocates of these 'Keynesian' theories believe that governments are obligated to use monetary policy (control of the money supply) and fiscal policy (government budgeting and spending) to control the economy of a nation. The aim of these policies is to minimise inflation (increase in the price of goods and services) and maximise employment.</p> <p>Keynesian theory was the basis of the <b>New Deal</b> implemented by Roosevelt and credited with helping the United States' economy break out of the Great Depression.</p>	<p>John Maynard Keynes (Keynesian economics)</p> <p>Keynes was an advisor to the US President, Franklin D. Roosevelt.</p>
<b>Monetarism</b>	<p>This economic theory became popular during the 1980s. Advocates of monetarism (or supply-side economists) support a <b>free market</b> with little government intervention except via monetary policy. The theory is that as productivity increases, the government must increase the money supply in direct proportion. This will keep prices stable and minimise inflation.</p>	Milton Friedman

SOURCE 1.3 (Continued)



SOURCE 1.4 Economists have different schools of thought regarding the best way for a government to manage the economy.

## GLOSSARY

**classical economics** the economic theories of the eighteenth and nineteenth centuries, which were based around free market ideals

**New Deal** the economic measures implemented by F. D. Roosevelt, which involved massive public works and a large-scale granting of loans to counteract the effects of the Great Depression in the US

**monetarism** the economic theory of having little government intervention and supplying money in direct proportion to productivity

**free market** a market economy based on supply and demand with little or no government intervention

## ECONOMICS AND BUSINESS FACT

Keynes was a winner of the Adam Smith Prize in 1909 for an essay he submitted on the method of index numbers, which are economic data compared or 'indexed' to a base or standard value usually set to be 100.



### ACTIVITY 1.1 Research

#### Economists

Select one of the economists described on pages 2–3. Using primary and secondary sources, gather information on your chosen economist. Prepare a report describing the following:

- the economist's background
- an explanation of the main principles of their economic theory
- the impact the economist has had on economics and economic theory.

## Economic conditions

The extent to which a government intervenes in the economy also depends on the economic and social conditions it faces. During times of war, for instance, governments intervene in a nation's economy more actively. During World War II, the **Australian Government** directed resources by dictating what should be produced. They also directed people into particular industries. This was done to ensure that resources were targeted at winning the war. For this reason many factories were converted to produce munitions. Certain products were also rationed, with each person only allowed to purchase a certain amount, regardless of how much they were prepared to pay. People will usually accept greater levels of government intervention during times of crisis.

The Australian Government has generally advocated a free market. There is, however, a belief that the government needs to intervene in the market economy in order to ensure that all Australians enjoy a basic standard of living, and public goods, such as schools, hospitals and recreational facilities, are provided.

How successfully a government manages its nation's economic resources can determine the living standards enjoyed by its citizens.



**SOURCE 1.5** Australia's Treasurer the Hon. Scott Morrison, MP, presents the 2018 Federal Budget

In a democracy, such as Australia, voters often include economic management as a high priority when deciding which political party to vote for. How much we have to spend and what we can purchase, what's known as the 'hip pocket nerve', often determines who wins elections.

## Measuring economic performance

The economic performance of a nation has traditionally been measured through a series of **economic performance indicators** or statistical measures. Generally, five economic areas are assessed in order to evaluate the economic performance of the economy. These are:

- 1 economic growth
- 2 inflation
- 3 levels of **unemployment**
- 4 the level of money market interest rates
- 5 **sustainability indexes**.

Overall, the factors measured and considered in economic performance are economic growth, the level of success in minimising price increases, the living standards of people and their spending power, and the performance of the nation's economy relative to other countries.



**SOURCE 1.6** The quality of people's living standards is considered when measuring economic performance.

### GLOSSARY

**Australian Government** sometimes referred to as the Commonwealth Government or the federal government. It was established by the Australian Constitution at the time of Federation and is divided into three arms: legislature, executive and judiciary.

**economic performance indicators** key statistics that indicate the direction of an economy

**unemployment** a state of actively searching for employment, but being unable to find work

**sustainability index** an index that compares the performance of different countries, companies or enterprises on sustainable use of resources such as water and energy

### Government and economic performance

- 1 Outline the level of government involvement desired under:
  - a classical economics
  - b interventionist economics
  - c monetarism.
- 2 Give an example of economic and social conditions that might necessitate government intervention, without using what has already been provided in the chapter.

### DEVELOPING YOUR UNDERSTANDING 1.1

## 1.2 Economic growth

Economic growth is an important and commonly used measure of economic performance. Growth in the economy determines the number of jobs available, so it has a direct effect on employment levels, and the spending power and economic wellbeing of households.

### Gross domestic product

A statistical measure known as **gross domestic product (GDP)** is the primary measure of economic

growth used in Australia. GDP measures the total value of goods and services produced in Australia over a year. In other words, it measures the value of final production made legally in a country.

### GLOSSARY

**gross domestic product (GDP)** a measure of the total value of production of goods and services in an economy over a period of time (usually one year)

GDP statistics are used to ascertain:

- *Potential growth*: the overall capacity of the economy. This measures what could be produced if all resources were used efficiently.
- *Actual growth*: this measures the actual annual increase in output and the value of production. Changes in GDP year to year measure growth levels.
- *Nominal growth*: the actual value of GDP in dollar terms.
- *Real growth*: the growth in value of GDP adjusted to take into account changes in prices (inflation); for example, suppose a country had an output valued at \$50 million one year and \$55 million the next year. This is a nominal growth of 10%. But if the country's inflation rate was 10%, this means that everything costs 10% more the second year, and so the actual output hasn't increased – just its dollar value. Therefore, the country has real growth of 0.
- **GDP per capita**: the gross domestic product divided by the total population. This statistic is another important measure of economic growth.

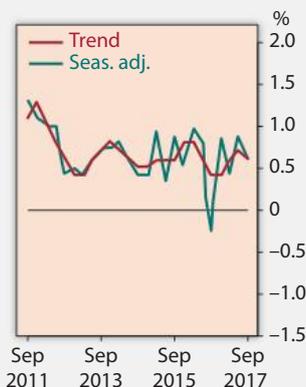


**SOURCE 1.7** GDP does not take account of volunteer work or illegal economic output such as work undertaken for undeclared 'cash in hand'.

## GLOSSARY

**GDP per capita** the total GDP figure divided by the number of people in a country

## GDP growth rate



**SOURCE 1.8** GDP growth rate

Note: 'Seasonally adjusted' means that data collected regularly over time may display seasonal patterns that make it difficult to see the effects of other trends and influences. If a figure is seasonally adjusted, then these seasonal patterns are removed.

## DEVELOPING YOUR UNDERSTANDING 1.2

- 1 Describe the trend in GDP growth rate between September 2011 and September 2013.
- 2 Describe the trend in GDP growth rate between September 2015 and September 2017.
- 3 Describe the possible effect of the following on employment levels:
  - a an increase in GDP growth rate
  - b a decrease in GDP growth rate.



**SOURCE 1.9** Generally, an increase in consumer spending per head of population is regarded as a sign of economic progress.

GDP as a statistical measure does have some limitations. It does not take account of illegal economic output such as work undertaken for 'cash in hand' that is not declared to the tax authorities. It also does not include work that is unpaid such as volunteer work. Additionally, it fails to take into account reductions in quality of life and losses that occur through natural disasters. For instance, if an earthquake occurs, GDP will measure the economic value of rebuilding but will not take into account the value of the economic assets such as the buildings lost. For this reason, GDP can be inaccurate as a measure of real economic activity.

## Consumption

Statistics are collected on the level of consumer spending, known as **consumption**. This is another indicator of economic growth. Generally, an increase in consumer spending per head of population is regarded as a sign of economic progress.

### GLOSSARY

**consumption** the use of goods and services by consumer spending

## ECONOMICS AND BUSINESS FACT

- Consumption in the following states and territories fell in October 2017: Western Australia (−0.3%), Queensland (−0.1%), Victoria (−0.1%), the Northern Territory (−0.4%), the Australian Capital Territory (−0.2%), and Tasmania (−0.1%)
  - New South Wales (0.0%) was unchanged
  - South Australia (0.1%) rose in October 2017
- (Source: Australian Bureau of Statistics, 8501.0 – Retail trade, Australia, January 2018.)

## CASE STUDY 1.1

### Weak consumer spending

#### 'Significant risk': RBA still troubled by weak consumer spending

The Reserve Bank has become more confident about the economic outlook in recent months, but weakness in consumer spending remains a 'significant risk'.

Household consumption had been affected by slow wages growth, something of a global occurrence.

Policy makers got some encouraging signs in the last three months of 2017, with gross domestic product data showing the economy expanded at its fastest annual pace in over a year.

Recent data showed employment rose past all expectations to notch up a 14th straight month of gains, the longest stretch of rises since the early 1990s.

In addition, government spending on public infrastructure had boosted non-mining business investment and was likely to support economic growth for some time.

Wages are growing at an annual pace of just 2%, restricting consumer spending power. Household consumption rose just 0.1% in the third quarter to post its smallest increase since 2008.

**SOURCE 1.10** Adapted from "'Significant risk': RBA still troubled by weak consumer spending', *The Sydney Morning Herald*, 19 December 2017

- 1 Why would the Reserve Bank be concerned about weak consumer spending?
- 2 Explain a possible link between consumer spending and slow wages growth.
- 3 How can wages and consumer spending be influenced by:
  - a increased employment rates?
  - b government spending on projects?

## CASE STUDY 1.2

### Retail turnover

*This Case study is available in the online version of the textbook.*



### ACTIVITY 1.2 Research

#### Retail businesses that have closed

Use the internet to research retail businesses that have closed due to financial difficulties. Some recent examples include Orotan, Pumpkin Patch, Masters and Snowgum. Select one business and prepare a short presentation on your chosen retail company. In your presentation include:

- how long the business operated before it closed
- what difficulties the business faced
- possible reasons for the closure
- what the business could have done differently.

## 1.3 Inflation

Broad increase in the prices of goods and services – or **inflation** – is another important measure of economic performance. As prices increase, consumer spending power decreases. Living standards then fall as a result. Inflation devalues people's incomes, spending power and savings. It also acts as an incentive for investors to invest in fixed assets such as housing, which rises in value with inflation, rather than in new business ventures. Inflation also reduces the level of competitiveness of Australian businesses that export – increases in local prices make it difficult for Australian businesses to sell overseas. This has an adverse effect on Australia's international trading situation.

The **consumer price index (CPI)** is the measure used in Australia to gauge the level of inflation. The CPI is measured by calculating the average percentage price increases of a 'basket' of consumer items typically used by Australian households (these are representative items that are averaged out over a period of time). This is how rises in the typical cost of living for Australian households are calculated. The annual percentage change in the CPI is used as a measure of inflation. The CPI can then be used to ascertain the real value of consumer spending after taking its effects into account.

### GLOSSARY

**inflation** the rate of increase in the price of goods and services

**consumer price index (CPI)** measures changes in the average percentage prices of a 'basket' of consumer goods and services purchased by households



**SOURCE 1.11** Inflation acts as an incentive for investors to invest in fixed assets such as housing.

Eleven major groups of items are considered in the Australian CPI. These are:

- food and non-alcoholic beverages
- alcohol and tobacco
- clothing and footwear
- housing
- furnishings, household equipment and services
- health
- transport
- communication
- recreation and culture
- education
- insurance and financial services.

CPI figures are compiled by the **Australian Bureau of Statistics (ABS)** and are released quarterly (every three months) and annually.

The simplest way of thinking about the CPI is to imagine a basket – or group of goods and services – typically bought by Australian households on a regular basis. Imagine that the items are purchased every three months. As prices change from one quarter to the next, so does the total price of the basket of items. The CPI measures changes in the price of this fixed basket of goods.

#### GLOSSARY

**Australian Bureau of Statistics (ABS)** the official statistical organisation for Australia. The ABS provides statistics on a number of issues that cover economics, society and the environment.

## ECONOMICS AND BUSINESS FACT

### Inflation rates in 2017

Rank	Country	Inflation rate
1	Venezuela	254.9%
2	Democratic Republic of Congo	22.4%
3	Malawi	21.7%
4	Mozambique	19.2%
5	Zambia	17.9%
6	Ghana	17.5%
7	Nigeria	15.7%
8	Kazakhstan	14.6%
9	Ukraine	13.9%
10	Haiti	13.4%
11	Azerbaijan	12.4%
12	Sierra Leone	11.3%
13	Argentina	10.6%
14	Egypt	10.2%

**SOURCE 1.12** The 14 countries with the highest inflation rates in the world (Source: Martin, W. (2017). 'The 14 countries with the highest inflation rates in the world', *Business Insider*, 12 October 2017.)

**Inflation**

- 1 Explain the meaning of 'inflation'.
- 2 Describe two effects of inflation.
- 3 Explain how Australia's CPI is measured.
- 4 Look up the most recent CPI figures released by the ABS.
  - a What is the overall percentage change over the last quarter?
  - b What is the overall percentage change over the past year?
  - c What group had the most significant price rise over the past quarter and by how much?
  - d What group had the most significant price fall over the past quarter and by how much?

**DEVELOPING YOUR UNDERSTANDING 1.3****1.4 Unemployment levels**

The level of unemployment is an important indicator of economic performance. It indicates how well the important economic resource of labour is being utilised. Unemployment also affects the level of wages paid and, therefore, the level of consumer spending, economic growth and, hence, standard of living.

In Australia, the level of official unemployment is measured as the number of people of working age without a job who are available for work. The ABS defines a person as being unemployed if they are aged 15 years or over and are:

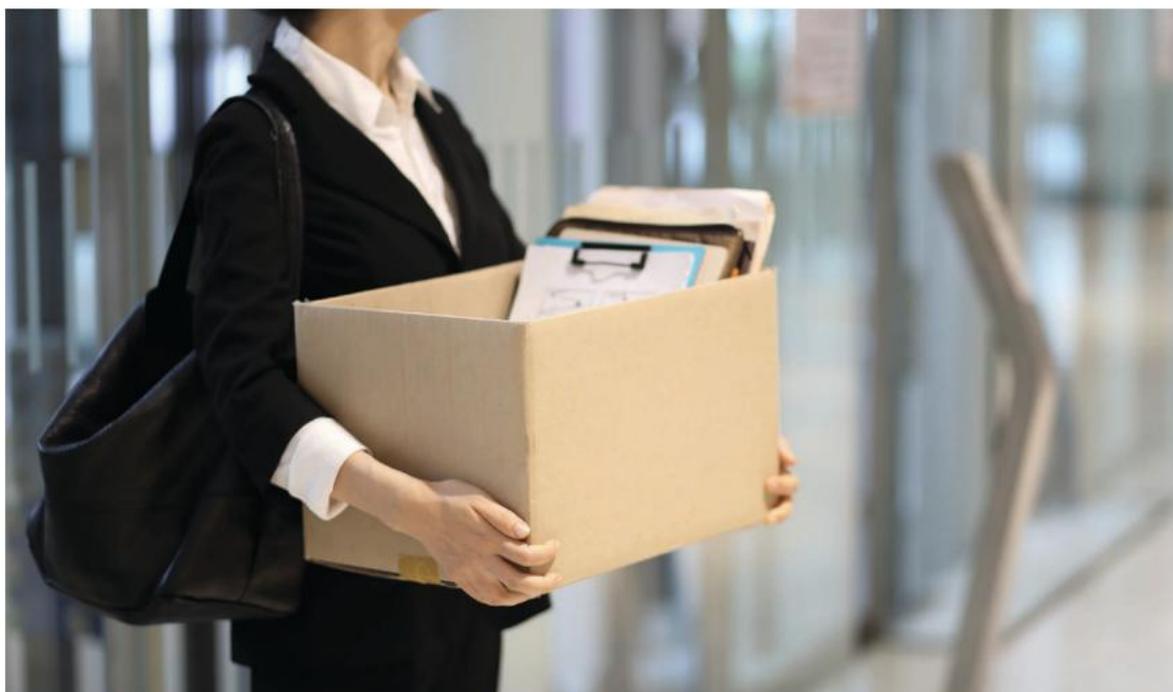
- not employed
- taking active steps to find work
- available to start work.

The **unemployment rate** is the percentage of available workers, known as the **workforce**, who are unemployed.

**GLOSSARY**

**unemployment rate** number of unemployed persons divided by the number of people in the labour force

**workforce** the individuals capable of working in a given economy



**SOURCE 1.13** In bad economic times, unemployment rises when workers are made redundant.

Unemployment can be classified according to the following categories:

- *Frictional unemployment*: this occurs because it generally takes employees some time to transition between one job to the next. Frictional unemployment usually only lasts for short periods of time. It also occurs when students move from education into the workforce full time, as well as when women move back into the workforce after having children.
- *Cyclical unemployment*: this is associated with the business cycle. When the economy is in a period of downturn or economic recession, the demand for goods and services falls. As a result, many employers reduce production; this causes them to reduce the size of their labour force. Redundant workers become unemployed. Cyclical unemployment is addressed by governments attempting to stimulate the economic cycle through expansionist fiscal and monetary policies.
- *Structural unemployment*: this occurs when the workers available for employment do not have the skills and experience required for the jobs that are available. Retraining of workers is required in order to address structural unemployment.

- *Seasonal unemployment*: this occurs because the demand for certain types of employees changes according to the season. Fruit pickers fall into this category.

## Costs of high unemployment levels

High unemployment levels are seen as a sign of a poorly performing economy due to the following reasons:

- *Income tax revenue falls*: this is a result of fewer people earning income. This has an adverse effect on government budgets.
- *Government expenses rise*: this is because higher levels of unemployment benefits need to be paid.
- *Increased rates of crime, family breakdown and regional decay*: these are some of the social costs associated with high unemployment.
- *Wasted labour resources*: the economic resource of labour is not being effectively utilised.
- *Individual costs*: people who become unemployed also suffer in the form of deskilling and lowered self-esteem, and they often become victims of stress.

### Types of unemployment

Complete the table below by classifying each of the following according to the type of unemployment it constitutes.

- A** Fred was made redundant as a result of a local timber mill closing. He is looking to undertake a TAFE course as jobs advertised do not match his skills and experience.
- B** Roger is a sheep shearer out of work in July.
- C** Thao has recently finished a university course and is looking to enter the labour market.
- D** Job vacancies have fallen to an all-time low and unemployment has increased. There are simply not enough jobs to go around.

Frictional	Cyclical	Structural	Seasonal

### DEVELOPING YOUR UNDERSTANDING 1.4



## Jobs growth

## DEVELOPING YOUR UNDERSTANDING 1.5

**\$A climbs as economy adds 61 600 jobs in November**

Employment surged past all expectations in November 2017, rising the most in more than two years, while the jobless rate remained near five-year lows.

Australia's annual jobs growth rate at 3.2% is more than twice the US pace of 1.4% and the second fastest on record.

The unemployment rate stayed at 5.4% as more people went looking for work, matching the lowest reading since February 2013.

While firms are hiring workers, they are not so keen on paying them more, leaving wage growth near record lows and putting an unwelcome cap on consumer spending and inflation.

The slow pace of wage rises is a major reason the Reserve Bank of Australia (RBA) last month forecast core inflation would not reach the floor of its 2 to 3% target band until early 2019.

**SOURCE 1.14** Adapted from '\$A climbs as economy adds 61 600 jobs in November', *The Sydney Morning Herald*, 14 December 2017

- 1 Define the term 'unemployment rate'.
- 2 What was Australia's annual growth in jobs at the end of 2017?
- 3 While jobs growth is positive, explain what has happened to wages growth. How can this impact on economic growth and consumer spending?

## 1.5 The level of interest rates

**Interest rates** reflect the cost of borrowing money. Interest on money borrowed is like 'rent' on the money you have borrowed until you have repaid it. Investors and consumers often need to borrow money in order to purchase items or invest in economic development. If interest rates are high, investors are less likely to borrow in order to invest in new business ideas or expansion of existing businesses. This will result in less economic growth.

However, low interest rates can be a disincentive for people to save, so governments must strike a balance with interest rates. The Australian Government often encourages banks to increase

### GLOSSARY

**interest rate** the amount paid by a lender to a borrower for the use of assets

interest rates when the economy is booming to prevent it from overheating. In an overheated economy, the demand for goods and services increases faster than supply, driving up inflation. At the moment, interest rates are at a record low as the Reserve Bank of Australia tries to ensure that the economy is growing at the desired rate.

### Interest

Bill and Jill borrow \$400 000 to purchase an investment property. For the first two years, they arrange to only pay the interest, so the total loan amount will remain at \$400 000.

Use a calculator, a spreadsheet or an online simple interest calculator, like the one at WebMath, to calculate the interest Bill and Jill will pay.

- 1 When they first take out the loan, the interest rate is 5% per annum. Calculate:
  - a the interest paid during the first year
  - b the interest paid during the first month.
- 2 Twelve months later, the interest rate increases to 7%. What will be:
  - a their annual interest cost?
  - b the interest bill in the first month?
- 3 Calculate the difference in the amount of interest paid during the first and second years.

## DEVELOPING YOUR UNDERSTANDING 1.6

## 1.6 Sustainability indexes

People in countries across the globe have become more interested in sustainability and the environment. In 2016–17, **Sustainable Development Goals (SDGs)** were adopted by world leaders at a United Nations summit. The goals are designed to increase efforts to end poverty, fight inequalities and tackle climate change. The goals are not legally binding; however, countries have responsibility for the establishment of frameworks and programs to support the goals. The goals have been set and each country's progress is monitored. Australia was ranked 20th in 2016 and has performed poorly in areas such as high levels of carbon

emissions, although Australia's life expectancy and health have been ranked highly.

### GLOSSARY

**Sustainable Development Goals (SDGs)** goals based on a range of different measures designed to work towards ending poverty, protecting the planet and ensuring prosperity without depleting resources that would prevent continuity

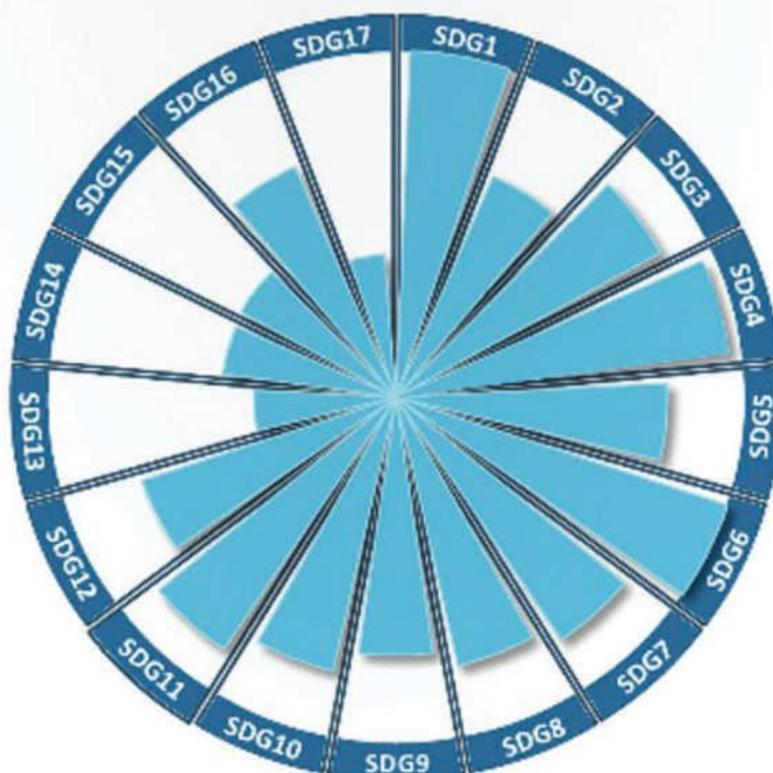
### SDG Index and Dashboard

The sustainability ranking, called the SDG Index and Dashboard, is prepared by the UN and ranks each country's performance using a set of 77 indicators.



OVERALL SDG PERFORMANCE	Global rank	Score or value	Regional average
SDG Index	20 (of 149)	74.5/100	75.3/100
<b>Comparison with other development metrics</b>			
Human Development Index, 2014	2 (of 188)	0.93/1	0.88/1
Subjective Wellbeing, 2015	10 (of 149)	7.3/10	6.6/10
GDP per capita, PPP, 2015	13 (of 149)	US\$47 318	US\$40 671
Global Competitiveness Index, 2016	21 (of 140)	5.5/10	4.9/10
Environmental Performance Index, 2016	13 (of 180)	87.2/100	84.4/100

**AVERAGE PERFORMANCE BY SDG**



**SDG DASHBOARD**



**SOURCE 1.15** Australia's performance on each of the Sustainable Development Goals, 2016 (Source: [https://issuu.com/unsdsn/docs/sdg\\_index\\_and\\_dashboards\\_country\\_pr](https://issuu.com/unsdsn/docs/sdg_index_and_dashboards_country_pr))



Rank	Country	Score
1	Sweden	84.5
2	Denmark	83.9
3	Norway	82.3
4	Finland	81.0
5	Switzerland	80.9
6	Germany	80.5
7	Austria	79.1
8	Netherlands	78.9
9	Iceland	78.4
10	United Kingdom	78.1
11	France	77.9
12	Belgium	77.4
13	Canada	76.8
14	Ireland	76.7
15	Czech Republic	76.7
16	Luxembourg	76.7
17	Slovenia	76.6
18	Japan	75.0
19	Singapore	74.6
20	Australia	74.5
21	Estonia	74.5
22	New Zealand	74.0
23	Belarus	73.5
24	Hungary	73.4
25	United States	72.7
26	Slovak Republic	72.7
27	Korea, Rep.	72.7
28	Latvia	72.5
29	Israel	72.3
30	Spain	72.2

**SOURCE 1.16** The top of the rankings: SDG Index and Dashboards report (Source: Thwaites, J. (2016). 'Australia ranks 20th on progress towards the Sustainable Development Goals', *The Conversation*, 21 July 2016.)

**SDG Index and Dashboard**

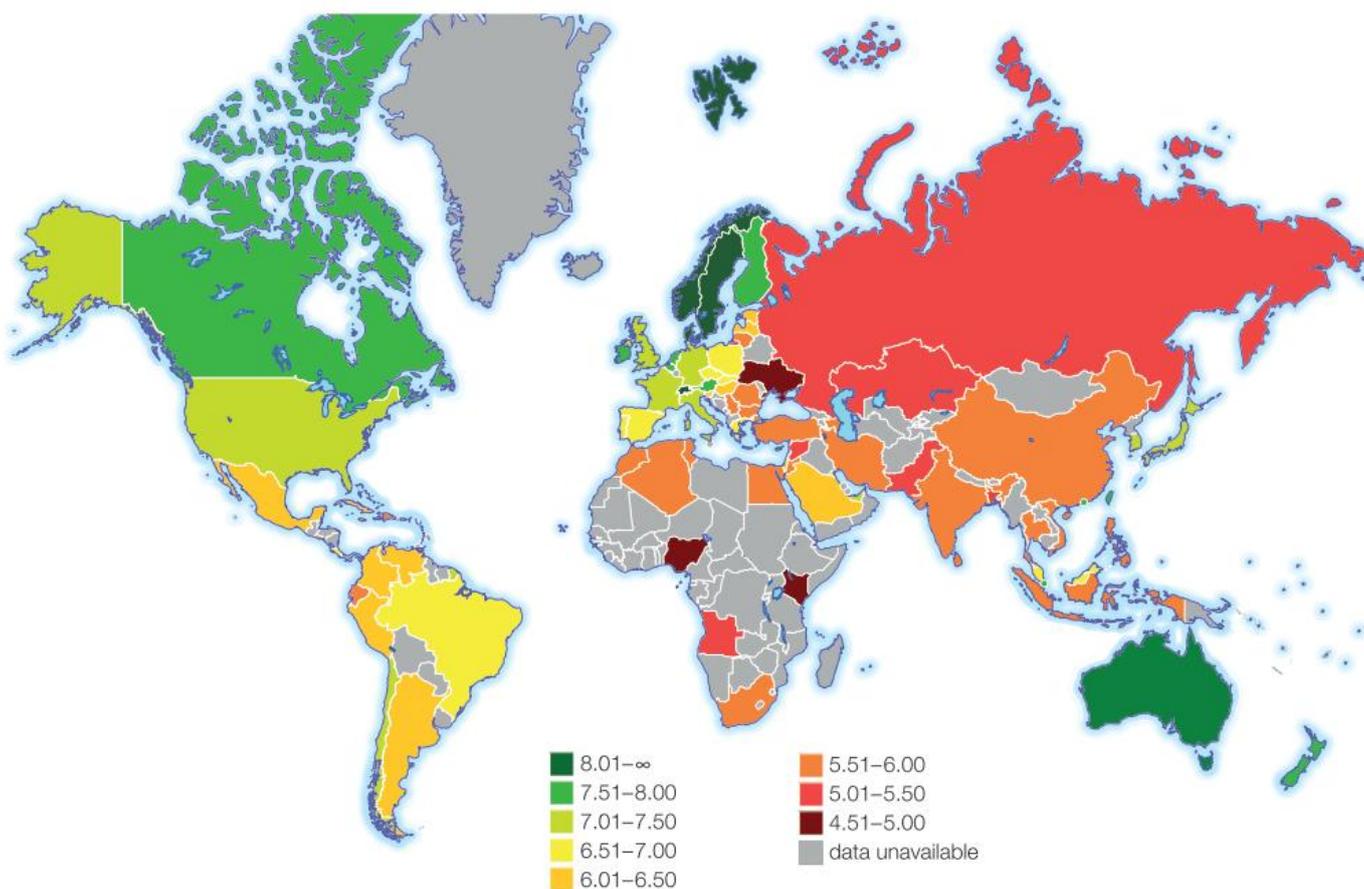
Examine Source 1.15 on page 15 and the information on the SDG Index and Dashboard for 2016 in Source 1.16, then answer the following questions.

- 1 Identify which goals Australia has ranked the highest on.
- 2 Identify which goals Australia has ranked the lowest on.
- 3 Why are countries committing to these types of goals?
- 4 Examine the table and look at Australia's ranking. Choose two countries above Australia in the list, and suggest two possible reasons for their higher score.

**DEVELOPING YOUR UNDERSTANDING 1.7****Other indexes**

When measuring living standards, it is increasingly common to take non-economic factors into consideration. The following factors may be taken into consideration when assessing the economic performance of an economy:

- quality of life including social factors such as crime rates, available health and education services, and public safety
- environmental factors such as quality of air and water; issues such as global warming are increasingly taken into account by governments when making economic decisions
- the level of resource depletion that is occurring to achieve economic growth; an example of this might include factors such as the effect of mining or forestry activities on the environment.



**SOURCE 1.17** Where-to-be-born index, 2017. This index by the Economist Intelligence Unit (EIU) measures quality of life across the world, scoring countries out of 10. You will learn more about this index in Chapter 2.

## CASE STUDY 1.3

### Social progress index

#### Australia's global ranking for quality of life is slipping

Freedom of the media and environmental quality are two indicators which have caused Australia to slide in its global rankings as a country with a high standard of living. Australia dropped from 4th place to 9th in the 2017 Social Progress Index. There are 50 indicators used to calculate the index scores, in three categories:

1. basic human needs – water and shelter
2. wellbeing – health and education
3. opportunity – equality, personal rights and access to advanced education.

An organisation defending freedom of information, Reporters Without Borders, states that laws introduced in Australia have enabled the surveillance of journalists' communications. There are also higher penalties for some whistleblowers (people inside an organisation who reveal wrongdoing to the media or authorities). Those who speak about operations by the Australian Security Intelligence Organisation or conditions in refugee centres may be subject to prison sentences.

Australia is ranked 16th for environmental quality. According to the index report, attention needs to be paid to endangered species, the protection of marine areas and high greenhouse gas emissions.

Social issues such as political terror, religious tolerance, gender issues, and quality of electricity supply are other areas that require attention by Australia.

Overall Australia is considered to be one of the best places to live. Australia is ranked 4th for health and 5th for access to education. Out of the 128 countries included in the index, Australia is ranked 1st on 14 issues.

**SOURCE 1.18** Adapted from Chris Pash, 'Australia's global ranking for quality of life is slipping', *Business Insider Australia*, 21 June 2017

2017 Social Progress Index Overall ranking			Social progress categorization: SPI rank 01–14: very high SPI rank 15–38: high SPI rank 39–69: upper middle			SPI rank 70–94: lower middle SPI rank 95–121: low SPI rank 122–128: very low		
SPI rank	SPI score	Country	SPI rank	SPI score	Country	SPI rank	SPI score	Country
1	90.57	Denmark	35	78.09	Lithuania	52	70.97	Albania
2	90.53	Finland	36	78.04	Croatia	53	70.80	Georgia
3	90.27	Iceland	37	77.32	Hungary	54	70.01	Montenegro
3	90.27	Norway	38	75.90	Argentina	55	69.97	Ecuador
5	90.10	Switzerland	39	75.18	Mauritius	56	69.85	Jordan
6	89.84	Canada	40	74.61	Panama	57	69.45	Saudi Arabia
7	89.82	Netherlands	41	74.42	Bulgaria	58	69.35	Macedonia
8	89.66	Sweden	42	74.12	Kuwait	59	69.01	Armenia
9	89.30	Australia	43	73.97	Brazil	60	68.73	Paraguay
10	89.30	New Zealand	44	73.53	Romania	61	68.68	Turkey
11	88.91	Ireland	45	73.41	Serbia	62	68.51	Thailand
12	88.73	United Kingdom	46	72.42	Jamaica	63	68.42	Dominican Republic
13	88.50	Germany	47	72.15	Peru	64	68.35	Ukraine
14	87.98	Austria	48	71.93	Mexico	65	67.80	Belarus
15	87.15	Belgium	49	71.72	Colombia	66	67.25	South Africa
16	86.96	Spain	50	71.14	Malaysia	67	67.17	Russia
17	86.44	Japan	51	71.09	Tunisia	68	67.10	Philippines

**SOURCE 1.19** Where Australia sits against the rest of the world, according to the calculations by the Social Progress Imperative, which creates the Social Progress Index

- 1 What is the Social Progress Index?
- 2 Where is Australia on the Index? Which countries are above Australia on the Index?
- 3 Identify the areas that Australia scores relatively poorly on.
- 4 What are the issues being debated in Australia at the moment?

## 1.7 The business cycle

The **business cycle** is the fluctuations (or changes) in economic activity in an economy over a period of time. It is usually examined in terms of expansion or growth and recession or contraction of the economy, and measured by GDP over time. When the economy is expanding, there is growth in economic activity and usually employment and production increases. During a recession, the economy is contracting, which means that there is a decrease in production and employment levels. Business cycles and business activity increase or decrease every few years, and governments tend to use their policies and spending to assist the community during a contraction or downturn in the economy. If unemployment is increasing and production by businesses is reduced, then it is important for the government (at both the federal and state level) to develop policies and measures to support the unemployed, and also to actively try to stimulate the economy. This might be done, for example, through infrastructure projects and incentives for businesses to invest and employ people.

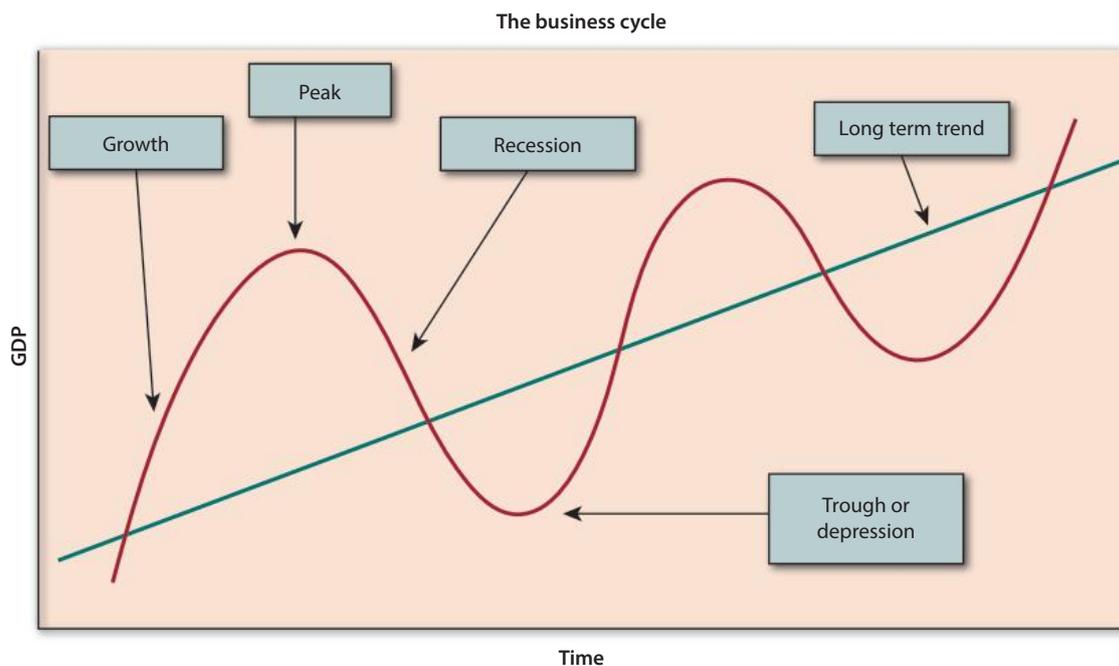
During growth, governments need to manage interest rates and inflation, to prevent the economy overheating (expanding too fast so that a crash then results).



Changes in the business cycle occur for a number of reasons and sometimes there is excessive spending or rapid expansion before confidence declines and economic activity reduces as well.

### GLOSSARY

**business cycle** the fluctuations (or changes) in economic activity in an economy over a period of time

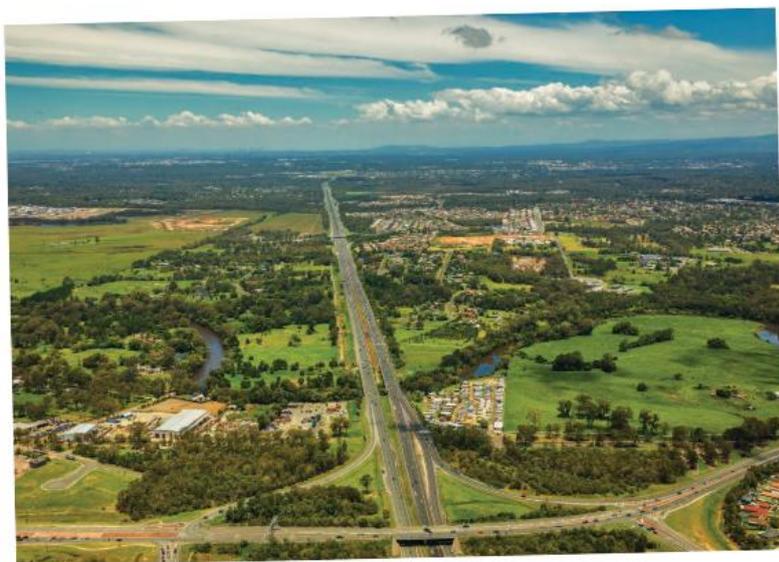


**SOURCE 1.20** The business cycle

**The business cycle****DEVELOPING YOUR UNDERSTANDING 1.8**

- 1 Define the concept of the 'business cycle'.
- 2 What occurs in a recession and in an expansion to the economy?
- 3 Explain the role of the government in a recession or decline in the economy. Why do governments intervene?
- 4 Read the article below and answer the questions that follow.

In the 2017/18 federal budget, the government focused on a number of areas to support the economy. These included guaranteeing essential services, providing opportunities for people and supporting businesses to create more employment. The government also announced a number of infrastructure projects to support production, employment and economic growth. Projects included the National Rail Line upgrade, the Geelong Rail Line upgrade, planning for a rail link to Tullamarine airport, upgrading the Bruce Highway in Queensland and developing the western Sydney Airport. Other projects and measures included investing in schools, and cutting taxation rates for businesses to make it more enticing to invest and expand.

**SOURCE 1.21** Budget 2017/18

- a Explain the benefits of governments carrying out infrastructure projects.
- b Why would the government cut taxes to businesses in Australia?
- c Explain the benefits to Australia if there are high levels of economic activity.

## REFLECTING AND CONSOLIDATING

### Chapter summary

- The economic performance of a nation determines the living standards of its citizens.
- Classical economic theories state that the market works best when left alone by the government and that the 'invisible hand' allocates economic resources where they will be best used.
- Keynesian theories state that the government should use monetary and fiscal policy to control a nation's economy.
- Monetarists believe that the government should not intervene in a free market except via monetary policy.
- Government intervention in the economy depends on economic and social conditions.
- Economic performance indicators are a way of measuring a nation's economic performance.
- GDP is the total value of goods and services produced in a nation in one year, minus the cost of production.
- Inflation refers to an increase in the price of goods and services.
- Unemployment levels have an impact on wage levels and total demand in an economy.
- Interest rates reflect the cost of borrowing money.
- The business cycle moves through periods of recession and expansion.

### Multiple-choice questions

- Classical economic theorists believe that the market would be controlled by
  - the dynamic lever.
  - the spirit level.
  - the invisible hand.
  - the central bank.
- Which of the following is a financial measure of an economy?
  - Quality of life
  - Environmental conservation
  - Health and education outcomes
  - Inflation levels
- An expansion in the economy during the business cycle benefits the economy by
  - providing employment for people.
  - reducing taxation revenue to the government.
  - increasing unemployment levels.
  - reducing the amount of goods and services available.
- Which of the following does not happen when high employment levels are present in an economy?
  - Income tax revenue falls as a result of fewer people earning income
  - Government expenses decrease
  - Decreased rates of crime, family breakdown and regional decay
  - Individuals have the opportunity to change jobs whenever they choose
- The rates of consumer spending have been increasing slowly in Australia. This has been caused by
  - an increase in spending at department stores.
  - weak or little wages growth.
  - consumers only buying goods online.
  - a decrease in spending at cafés.

### Short-answer questions

- 1 Explain how the Australian Government measures:
  - a economic growth
  - b inflation
  - c unemployment.
- 2 Discuss why it is important to measure each of the factors in Question 1 when assessing economic performance.
- 3 Summarise the theories of one economist mentioned in this chapter.
- 4 Discuss the economic and social costs of:
  - a high unemployment
  - b environmental issues.
- 5 Explain why GDP is not the only way to measure economic wellbeing.
- 6 Why is it important for the federal government to manage the economy to ensure economic recessions are overcome?

### Extended-response questions

- 1 Using the ABS website, locate the following statistics:
  - unemployment figures for the past 12 months
  - inflation figures for the past four quarters.
- 2 Describe any changes you noticed in the graphs.
- 3 Suggest some reasons for and consequences of these changes.

Use a spreadsheet application, such as Microsoft Excel, to construct a graph for each showing the changes.

# Chapter 2

## Links between economic performance and living standards, and how and why variations exist

**SOURCE 2.1** Living standards vary widely between countries.

### Main focus

Australia leads the way in many areas associated with a country's living standards, but we also need to examine the living standard of individuals. While totals give some indication of living standards, looking at per person or per capita information will reflect the distribution of wealth and income, and give a clearer picture of the living standards of individuals within an economy. This chapter explores what 'living standards' actually means and how this concept can be measured. Also explored is how Australia, as a country, can improve living standards for all its citizens, and why there are variations in economic performance and living standards between economies. How wealth and income are distributed in an economy is also looked at.

### Why it's relevant to us

We all live in a city, town or rural area and it is important for us to understand how our living standards might compare with others in our community, country and region. The living standards of the world's population varies a great deal; we need to examine and understand the factors that lead to these differences.

### Inquiry

- What is the relationship between 'living standards' and economic performance?
- Why are there variations in economic performance and living standards within and between countries?
- How do variations between economies develop?
- How do levels of foreign ownership, debt and unemployment impact on economic performance?
- How is wealth and income distributed in the economy?
- How can wealth and income distribution be measured?

### Key terms

- Australian Bureau of Statistics (ABS)
- average weekly earnings (AWE)
- Better Life Index
- budget deficit
- employment rate
- full employment
- Gini coefficient
- gross domestic product (GDP)
- happiness index
- Happy Planet Index (HPI)
- household debt
- Human Development Index (HDI)
- living standards
- Lorenz curve
- Organisation for Economic Co-operation and Development (OECD)
- personal earnings
- private sector
- public sector (government)
- where-to-be-born index

### Let's begin

The way people live is influenced by the country they live in and the living standards they can achieve. In Australia most people have access to food, shelter, education, healthcare and worthwhile employment. We often take these things for granted. However, in some countries, war, disease and starvation are everyday occurrences. We need to look at living standards in Australia and across the world to understand the differences between and within countries; we can then compare these differences on a global scale.

## 2.1 The concept of living standards

There are many ways to measure the **living standards** of individuals, or of an entire economy or country. One way to measure living standards is through an economic concept or explanation. In economic terms, living standards can be seen as a material standard, and includes items such as goods, services and an ability to earn an income. Rates of economic growth and income per capita (per person) are often used to measure the living standards in a country.

### GLOSSARY

**living standards** the level of material welfare of a community, class or person

The financial health of the total population can also be used to measure living standards. These measures include the amount of goods and services consumed in the country, and the level of income per person.

### The relationship between living standards and economic performance

It is important to examine the links or relationship between living standards in a country and economic performance. If the living standard in a country is high, then generally this means that economic performance is also high, and the economy is successful.

Many economists and politicians will state that increasing economic growth is equal to success. Most successful countries are able to increase economic output (production).

There are a number of benefits associated with increased economic growth.

- There is increased consumption (consuming goods and services), which usually means that customers or consumers have more access to goods and services, thus leading to increased living standards.
- If living standards are high, people usually have a job and pay more taxes (including income and sales tax, and the goods and services tax), which go to the government.



**SOURCE 2.2** Living standards can be reflected in the financial health of the population, which can be measured by the amount of goods and services consumed in the country.

This money is then spent on education, health, public transport and infrastructure; taxes usually assist in providing people with access to improved education and health.

- There is reduced unemployment and poverty in the economy. If there is economic growth, then people are more likely to have an income to spend on improving their living standards. High levels of unemployment can lead to social problems and people feeling alienated.



**SOURCE 2.3** People usually have a job and pay more taxes if living standards are high.

### Living standards and economic performance

- 1 Explain living standards in economic terms.
- 2 Describe, using examples, some of the benefits associated with increased economic growth.

### DEVELOPING YOUR UNDERSTANDING 2.1

## 2.2 Factors that can cause variations in economic performance

There are a number of different factors that can lead to changes or variations in the level of economic performance. Differences in economies and society have an impact on the economic performance of a country. While each country is unique, there are some circumstances that can influence the way a country performs and the living standards of people within the economy. These factors include:

- foreign ownership levels
- employment rates
- levels of debt.

There has been increasing concern from some sectors of the Australian community because levels of foreign ownership have increased in areas like agriculture and housing. Global organisations such as Ford, Holden and Toyota made decisions that led to the **cessation** of the car manufacturing industry in Australia in 2017. These decisions were made because the organisations decided that the operations in Australia were not economically viable, leading to unemployment in the car industry and related industries that manufacture and supply car parts.

### Foreign ownership levels

Foreign ownership is necessary for some economies and countries to ensure that there is sufficient investment and money to develop sectors of the economy. While there are multinational corporations that operate in nearly every country in the world, some countries have concerns about the level of foreign ownership they might have.

If a country has high levels of foreign ownership, then this means that the profits earned are taken out of the country. Further, if the company decides to move out of the country and ceases its operations, local people will lose their jobs.

### GLOSSARY

**cessation** brought to an end, either completely or temporarily

While there is concern about the levels of foreign ownership, the Australian Securities Exchange has increased its push for the federal government to abolish the current 15% cap on foreign ownership and, therefore, to allow an increase in the foreign ownership of Australian companies.



**SOURCE 2.4** The car manufacturing industry has now ceased in Australia.

### ECONOMICS AND BUSINESS FACT

Foreign ownership of farmland is set for more scrutiny (inspection) with the federal government looking at setting up a foreign ownership register. In 2016, 12% of Australian farmland was partially or wholly owned by foreign companies or individuals.

### Australian food brands owned by foreign companies

### DEVELOPING YOUR UNDERSTANDING 2.2

Examine the table below and answer the questions that follow.

Brand	Original Australian owner	Now foreign-owned by	Location
<b>Beverages</b>			
Cottee's Cordials	Cottee's Foods	Asahi Breweries	Japan
Dairy Farmers – Dare Iced Coffee, Moove	Dairy Farmers	Kirin Holdings	Japan
Berri	Berri Ltd	Kirin Holdings	Japan
Harris Coffee & Tea	D. E. Harris Pty Ltd	Douwe Egberts/ Sara Lee D-E N.V.	The Netherlands
<b>Biscuits, pies and snack foods</b>			
Arnott's Biscuits – Tim Tam, SAO, Scotch Finger, Milk Arrowroot	Arnott's Biscuits	Campbell Soup Company	US
Salada	Brockhoff Biscuits	Campbell Soup Company	US
Chiko	Francis McEncroe	J. R. Simplot Co.	US
Peters	Peters Ice Cream	Froneri Limited	UK and Switzerland
Streets	Streets Ice Cream	Unilever	UK and the Netherlands
<b>Confectionery</b>			
Allen's Lollies – Butter Menthol, Fantales, Minties, Jaffas	Allen's	Nestlé Limited	Switzerland
MacRobertson's – Cherry Ripe, Columbines, Freddo Frog	MacRobertson's	Cadbury	UK
Red Tulip	Red Tulip	Cadbury	UK
<b>Jams and spreads</b>			
Cottee's Jams	Cottee's Foods	H. J. Heinz & Co.	US
ETA Peanut Butter	ETA Foods Ltd	Kraft Foods	US
Monbulk	Monbulk Jams	H. J. Heinz & Co.	US

**SOURCE 2.5** Some famous Australian food brands are now owned by foreign companies.

Brand	Original Australian owner	Now foreign-owned by	Location
<b>General grocery items</b>			
Aeroplane Jelly	Aeroplane Jelly Co.	McCormick & Co. Inc.	US
Bundaberg Sugar	Bundaberg Sugar	Finasucre SA	Belgium
Edgell Country Garden	Gordon Edgell & Sons	J. R. Simplot Co.	US
Fountain	W. C. Douglas	Cerebos/Suntory	Japan
Gravox	Klembro	Cerebos/Suntory	Japan
Latina Fresh	Pasta House	General Mills, Inc.	US
Leggo's	H. M. Leggo & Co.	J. R. Simplot Co.	US
National Foods – Pura, Coon	National Foods	Kirin Holdings	Japan
P.M.U	Pick Me Up Foods	H. J. Heinz & Co.	US
Safcol	Safcol Australia	Tropical Canning Group	Malaysia
Sunbeam Sultanas	Sunbeam Foods	Bright Foods	China
Tom Piper	Tom Piper Co.	H. J. Heinz & Co.	US
Top Taste	Gartrell White	Associated British Foods	UK
Uncle Tobys – Vita Brits, Roll Ups	Uncle Tobys	Cereal Partners Worldwide S.A. (Nestlé/General Mills, Inc.)	Switzerland
<b>Food companies</b>			
George Weston Foods Ltd		Associated British Foods	UK
Dairy Farmers		Kirin Holdings	Japan
KR Castlemaine Foods		Associated British Foods	UK

**SOURCE 2.5** (Continued)

- 1 After examining the table, are you surprised at some of the products owned by foreign companies? Justify your response.
- 2 Other brands have also been purchased by foreign companies. Research the ownership of one or more of the following brands: Billabong, Speedo, R M Williams and Ugg Boots. Who owns the brand now and when was it purchased or taken over?
- 3 'Consumers would always buy Australian owned and made if they knew the products.' Discuss this statement. Do you agree? Provide at least three reasons for your response.



### ACTIVITY 2.1 Collaborate

#### Australian and foreign owned products

- 1 Look in the cupboard at home and list any products that are Australian owned and manufactured (it should be on the label). Bring the list to class and compare it with other members of your class.
- 2 As a class, calculate how many products at your home were Australian owned and made in Australia.

#### ECONOMICS AND BUSINESS FACT

- Adelaide-based company Robern Menz bought the Violet Crumble brand from Swiss food giant Nestlé in 2018.
- Bega Cheese purchased the VEGEMITE brand from Kraft in 2017.

and services available. Full employment can be defined as the percentage of the labour force that is employed in a job (usually more than two hours per week in Australia).

Full employment also means people have more disposable income to buy the goods and services they need and want. They generally can afford housing and do not have to rely on the government for any type of social security such as unemployment benefits. It is the objective of all societies to have full **employment rates**.

#### Employment rates

All economies would like to be in a position where there is little or no unemployment. **Full employment** generally means that the economy is growing, and living standards are improving because people have an income from their job to buy goods and services, and there are goods

#### GLOSSARY

**full employment** the percentage of the labour force that is employed in a job (usually more than two hours per week in Australia)

**employment rate** the percentage of people in the workforce who are in part-time or full-time work



## Employment rates

## DEVELOPING YOUR UNDERSTANDING 2.3

Study the information and table below and answer the questions that follow.

According to the ABS, Australia's employment rate increased by 16 500 in March 2017, with the number of unemployed persons growing by 5800 and the unemployment rate increasing to 5.9%.

There are now 25 200 more persons employed full-time than there were a year ago, while part-time employment has increased by 97 200 persons taking the part-time share of employment from 31.4% to 31.9%.

(Source: Australian Bureau of Statistics, 6202.0 – Labour Force, Australia, March 2017.)



**SOURCE 2.6** Employment to population ratio, Persons, March 2007 to March 2017 (Source: ABS.)

The seasonally adjusted unemployment rate remained steady in March 2017 at 5.9%, and the labour force participation rate increased 0.2 percentage points to 64.8%.

## Unemployment rates by states and territories

In March 2017, increases in trend employment were observed in all states and territories, with the exception of New South Wales. The largest increase was in Victoria and Queensland, while employment decreased in New South Wales by 1000 persons.

Location	Trend (2017)		Seasonally adjusted	
	February	March	February	March
	%	%	%	%
New South Wales	5.1	5.2	5.2	5.1
Victoria	6.0	6.1	6.0	6.1
Queensland	6.4	6.4	6.6	6.3
South Australia	6.7	6.7	6.6	7.0
Western Australia	6.4	6.4	6.1	6.5
Tasmania	5.9	5.8	5.8	6.0
Northern Territory	3.5	3.5	np	np
Australian Capital Territory	3.7	3.7	np	np
Australia	5.8	5.9	5.9	5.9

**SOURCE 2.7** Unemployment rate, states and territories, 2017 (Source: ABS.)

- 1 Define the concepts of employment and unemployment.
- 2 Describe the trend in unemployment rates in Australia between 2007 and 2017.
- 3 Suggest why some geographic areas in Australia have higher levels of unemployment than other areas.
- 4 How can high levels of unemployment impact on the Australian economy?

## Levels of debt

### Government debt levels

The level of debt in a country can influence its living standards. A government may decide to spend money to stimulate the economy and fund projects such as new roads and infrastructure (see Chapters 1 and 3). If the government spends more than it receives in revenue, then it may run a **budget deficit**.

If there is a budget deficit, then the government must borrow money to cover its expenditure. This can lead to debt and interest having to be repaid in the future. Governments will often run a deficit to stimulate the economy if the private sector is not producing sufficient goods and services. Recently there have been issues with the debt levels of governments in Greece and Spain in particular. In addition to trying to reduce debt levels, these countries are also grappling with high levels of unemployment. In Britain, France and Italy, governments are also trying to reduce budget deficits.

In Australia, the federal and **state and territory governments** also have to manage debt levels and budgets. At the end of September 2017, the federal national budget level was \$33.2 billion, and in Victoria there was estimated budget surplus of \$8.3 billion.

### Household debt

The level of **household debt** is also an indicator of the living standards in a country. If households have high levels of debt, then this needs to be serviced. If a person is not able to work due to unemployment or has a lack of disposable income and high levels of debt, then this can have a negative impact on their living standards. It can also impact on the economy as a whole if a number of people are not able to manage their personal debt.



**SOURCE 2.8** A government may decide to spend money to stimulate the economy and fund projects such as new roads and infrastructure.

### GLOSSARY

**budget deficit** when a government spends more money than it receives in revenue from taxation and other sources

**state and territory governments** governments with responsibility within individual states and territories

**household debt** the level or amount of debt in each Australian household



## Household debt

## DEVELOPING YOUR UNDERSTANDING 2.4

**Household debt has doubled over 12 years**

The bubble is about to burst for thousands of Australian families who have laden themselves with unsustainable levels of debt. The number of debt-laden Australian households is soaring as people push their finances to the brink.

Rising property prices have resulted in mortgage customers taking on larger loans, which, combined with an increased use of credit cards, is being blamed for the growth of households who do not have enough money.

The Australian Bureau of Statistics Household Income, Wealth and Expenditure Survey has found the average amount of debt has almost doubled in the period between 2003 and 2016. Most of this is accounted for by property debt.

The report found 29%, or the equivalent of 2.9 million households, were classed as 'over-indebted' in terms of how much money they owed as a proportion of their income. This was up from 21% in 2003–04.

While three quarters of Australian households have debts, the most common form of debt was credit cards – 55% of the population. This was followed by home loans (34%) and student loans (17%). Australians most likely to be indebted are those paying off a home loan (47%) and households with a person aged 25–34 (33%) or 35–44 (34%).

The cities where more households were carrying too much debt included Darwin (32% of the population), followed by Perth (27%). However, Sydney and Melbourne had larger numbers of over-indebted people making up a combined 43% of households. Younger households (25–34) also had higher rates of over-indebtedness – 62% were over-indebted.

But ABS chief economist Bruce Hockman warned the wealthier Australians were also putting themselves under financial pressure.

'Nearly half of our most wealthy households (47%) who have a property debt are over-indebted, holding an average property debt of \$924 000,' he said in an issued statement.

'This makes them particularly susceptible if market conditions or household economic circumstances change.'

**SOURCE 2.9** Extract from Sophie Elsworth, 'ABS research reveals household debt has doubled over 12 years', *News Corp Australia Network*, 13 September 2017

- 1 How have increasing property prices impacted on debt levels?
- 2 Explain the term 'over-indebtedness'. What has happened to these levels since 2003?
- 3 Describe the most common forms of debt.
- 4 Why are increasing debt levels across Australia an issue and a concern, even for wealthier Australians?



## ACTIVITY 2.2 Collaborate

### Credit cards

- 1 Survey five people you know who have a credit card. Ask them the following questions.
  - a Do you pay your credit card off in full each month?
  - b Do you know the interest rate on the credit card/s?
- 2 Compare the results of your survey with other members of the class. What conclusions can you draw about credit card use from the survey?

## ECONOMICS AND BUSINESS FACT

### Clock is ticking on credit card debt

The credit card debt clock on ASIC's MoneySmart website shows 'how much Australians owe on credit cards. It's an average of around \$4200 per card holder. The average card holder is paying around \$700 in interest per year if their interest rate is between 15 to 20%.' Based on figures generated using ASIC's MoneySmart credit card calculator, 'If you have \$4400 of credit card debt and only make the minimum repayments, it will take you 31 years to pay it off and cost you around \$14 900 in interest. But if you pay off \$216 each month you'd pay off your debt in 2 years and save \$9700 in interest.'

(Source: ASIC's MoneySmart website, moneysmart.gov.au, May 2018.)

## 2.3 Ways of measuring living standards

### Gross domestic product (GDP)

One of the most common economic measurements of living standards used is gross domestic product (GDP). GDP is the total value of the production of goods and services in a country over a given period of time, usually one year. While GDP gives an indication of living standards, it does not always give a true picture, as sometimes a small number of individuals in a country may have a large proportion of the wealth; looking at total

GDP will provide some useful information and allow for general comparisons between countries, but it does not mean that everyone in a country has a high living standard. So, looking at GDP per capita, and as a total over time, will give some idea of whether GDP has increased or decreased, but there is other meaningful information used to judge living standards, such as looking at social indicators within a country.

## ECONOMICS AND BUSINESS FACT

According to the Australian Council of Social Service, child poverty in single-parent families has reached a crisis level of 23%.

(Source: Australian Council of Social Service (2017). *Child poverty crisis hits single parent families.*)

## Gross domestic product

Australian gross domestic product (GDP) grew by 0.6% in the September quarter 2017, following a 0.9% rise in the June quarter. The economy grew 2.8% through the year. Between 2016 and 2017, GDP grew by 2% and was valued at \$1 693 452 million.

## DEVELOPING YOUR UNDERSTANDING 2.5



**SOURCE 2.10** GDP growth rates, volume measures, quarterly change (Source: ABS.)

Visit the ABS website and complete the following tasks:

- 1 Describe the GDP value for the last quarter and the current annual figure.
- 2 Has GDP increased or decreased? Identify the trend.
- 3 Explain two possible reasons for the change in GDP.

## The limitations of using GDP as a measure of the living standards of a country

While GDP is an economic measure that can be calculated and compared over time and between countries, it does have some limitations. The economic value of production does not take into account other factors that can affect a person's living standards. Having access to quality healthcare, medicine and hospitals is important, as is a quality and **equitable** education system.

Some people have argued that traditional measures of GDP do not truly capture the living standard of a country. Attempts have been made to come up with alternative measures, but they are often **ad hoc** and unplanned. Charles Jones and Peter Klenow of Stanford University used a hypothetical as the basis for their measure: if

you were reborn and lived your life in a different country, how much could you expect to consume in goods and leisure? The United States, for example, has a higher GDP per person than France. However, income inequality is a more serious issue in the US, and if we assume that people dislike being poor more than they like being rich, this suggests they would rather live in a society with more equality. Furthermore, Americans tend to live shorter lives, with longer working hours, than the French. For these reasons, it could be calculated that France and the US have roughly equivalent living standards.

### GLOSSARY

**equitable** fairly and equally distributed and available

**ad hoc** a makeshift or unplanned approach

## ECONOMICS AND BUSINESS FACT

Research from the *World Happiness Report* indicates that although higher incomes may raise happiness to some extent, the pursuit of more money may actually reduce happiness.

Apart from GDP, a number of other measures for standards of living have been developed. These alternative ways of measuring living standards are outlined below.

### Where-to-be-born index (previously the total quality-of-life index)

The **Economist Intelligence Unit (EIU)** is a United Kingdom-based independent business that offers forecasting and advisory services. It provides country, industry and management analysis and information to many organisations.

The unit researches and publishes information such as monthly country reports, five-year country economic forecasts and industry reports. The EIU also produces reports on 'liveability' and the cost of living of the world's major cities.

The EIU publishes its **where-to-be-born index** annually (previously the total quality-of-

life index). This report measures which countries offer the best opportunities for an individual's health, safety and prosperity into the future using economic forecasting.

### GLOSSARY

**Economist Intelligence Unit (EIU)** a United Kingdom-based independent business offering forecasting and advisory services

**where-to-be-born index** (previously called the total quality-of-life index) uses a number of indicators to determine what life is like in a country; it uses life expectancy, divorce rates, community life, material wellbeing and political stability

The where-to-be-born index uses nine quality-of-life factors to determine a total score for a country. The factors are measured in a number of different ways. These include:

- health: life expectancy at birth in years
- family life: divorce rate (per 1000 population), which is converted to an index between one and five
- community life: this measure looks at factors such as the rate of church attendance or trade union membership
- material wellbeing: this uses GDP per person in a dollar amount
- political stability and security: this is a rate of how stable a country is in terms of the stability of the government and how secure the government is



**SOURCE 2.11** Family, healthcare and security are just some of the important factors in the quality of life of a child.

- climate and geography: this examines the type of climate and the extremes in climate in a country or region
  - job security: the unemployment rate (as a percentage of the workforce)
  - political freedom: this measures the amount of political freedom and civil liberties a citizen has in a country
  - gender equality: this measures the amount of male and female earnings. It calculates the ratio of female to male earnings.
- Examining a range of indexes and measurements gives us a broader idea of what life is like for citizens in a country.

### Where-to-be-born index (previously total quality-of-life index)

### DEVELOPING YOUR UNDERSTANDING 2.6

- 1 Explain why a measure such as the where-to-be-born index would be used instead of GDP to measure living standards.
- 2 Part of the index examines and tries to measure community life. Explain why this might be part of the index.
- 3 Examine Sources 2.12 and 2.13 and answer the questions below.



**SOURCE 2.12** The 2017 quality-of-life index for cities (based on Numbeo, 2017)

- a Identify where each of the Australian capital cities are on the list. Why are they at this ranking?
- b Choose one Australian city and identify the areas it rates highly in.
- c Using the Numbeo website, find the current index for quality of life by country. Explain whether Australia's position has increased or decreased on the index.

Rank	City	Quality of Life Index	Purchasing Power Index	Safety Index	Health Care Index	Cost of Living Index	Property Price to Income Ratio	Traffic Commute Time Index	Pollution Index
1	Canberra	221.32	139.38	78.82	83.87	80.90	13.89	22.65	6.23
2	Wellington	208.39	118.59	70.08	71.42	80.87	11.86	26.63	5.87
7	Brisbane	198.29	130.41	65.13	80.71	82.17	23.08	41.88	6.81
14	Adelaide	193.68	113.86	65.74	72.47	86.02	21.14	34.28	5.51
19	Perth	190.00	130.38	56.07	75.76	86.24	26.87	38.97	6.24
30	Melbourne	185.84	127.15	57.64	74.94	85.15	27.79	38.41	9.03
38	Sydney	178.60	118.81	61.76	74.65	90.77	30.10	43.39	11.14
60	Tokyo	168.07	106.42	83.14	79.03	93.81	46.87	43.64	13.78
109	New York	138.44	100.00	55.32	63.51	100.00	55.70	44.39	12.34
129	London	124.80	92.61	52.25	67.75	88.69	59.56	48.38	22.19

SOURCE 2.13 Capital cities – Numbeo rankings from May 2018

## The Better Life Index

Another measure of living standards is the **Better Life Index**. The index examines a range of indicators. The index was founded in 1961 by the **Organisation for Economic Co-operation and Development (OECD)**; it examines the life of citizens in a material sense and also the quality of life in 34 OECD countries.

There are 11 topics covered in the index. The topics are built on one to four indicators or measures; for example, the employment rate, **personal earnings**, the long-term unemployment rate and job security. It gives an overall picture and is not designed to rank one country as better than another. Different topics or indicators provide different rankings and information about a country and its peoples' living standards.

### GLOSSARY

**Better Life Index** an index used to assess the quality of life in a country based on a number of different indicators

**Organisation for Economic Co-operation and Development (OECD)** an association of nations around the world, which was established to promote economic growth, prosperity and trade

**personal earnings** one's total earnings, including wages and investments

**happiness index** a measurement of happiness of a country according to various criteria (officially called Your Better Life Index)

### Better Life Index

### DEVELOPING YOUR UNDERSTANDING 2.7

#### Organisation launches 'happiness index'

A so-called '**happiness index**' to measure wellbeing and perceptions of living conditions came to life at the Organisation for Economic Co-operation and Development. Called officially 'Your Better Life Index', the new measure is part of a wider OECD programme to measure wellbeing and progress and was launched to mark the 50th anniversary of the OECD. The index covers 11 areas: housing, incomes, employment, social relationships, education, the environment, the administration of institutions, health, general satisfaction, security and the balance between work and family.

OECD secretary general Ángel Gurría said: 'This index encapsulates the OECD, pushing the boundaries of knowledge and understanding in a pioneering and innovative manner.'

He added: 'People around the world have wanted to go beyond GDP for some time. This index is designed for them. It has extraordinary potential to help us deliver better policies for better lives.'

The head of statistics at the OECD, Martine Durand, said that the idea was to measure more closely matters which people thought were important to them. The index is intended to enable people in the 34 OECD member countries to compare their countries according to criteria which they think are important, Durand said.

The OECD hopes soon to make the index applicable to other countries, beginning with emerging economies such as Brazil. The index is the first concrete result of a report by former Nobel economics prize winner Joseph Stiglitz, OECD officials said.

The OECD has worked for some years on ways of calculating a wellbeing index to complement the GDP and other indicators.

Indicators of the Better Life Index are shown in the table below.

Indicator	Subset of measurements
Housing	Dwellings without basic facilities Housing expenditure Rooms per capita (per person)
Income	Household net adjusted disposable income Household net financial wealth
Jobs	Employment rate Job security Long-term unemployment rate Personal earnings
Community	Quality of support network
Education	Educational attainment Student skills Years in education
Environment	Air pollution Water quality
Civic engagement	Consultation on rule making Voter turnout
Health	Life expectancy Self-reported health
Life satisfaction	Life satisfaction
Safety	Assault rate Homicide rate
Work–life balance	Employees working long hours Time devoted to leisure and personal care

**SOURCE 2.15** Indicators in the Better Life Index (OECD)

Go to the website for the OECD Better Life Index.

- 1 Explain why the OECD launched the new index.
- 2 Describe the purpose of the index.
- 3 Suggest why it is useful to have an index such as this as well as GDP to measure the standard of living in a country.



**SOURCE 2.16** While the OECD framework covers dimensions of wellbeing that are universal, it can also be complemented by specific information on what constitutes a good life.

The OECD indicators are all measures of wellbeing and living standards and can be used to compare the quality of life in different countries. Some countries and cultures may include additional wellbeing aspects that relate to their culture and history (e.g. spirituality). Therefore, although the OECD framework includes indicators of wellbeing that are universal and meaningful to all human beings, details on what constitutes a good life in specific cultures can extend it. So, while the measurement provides useful information about a country, it does not break down the information into states or regions.

### ECONOMICS AND BUSINESS FACT

The Programme for International Student Assessment (PISA) is a worldwide study that measures educational levels of 15-year-olds across the world. In the 2015 results, Australia was ranked 10th in reading and 1st in problem solving.

### Happy Planet Index

There are other indexes that can also be used to measure the ‘happiness’ of people. These measures all provide an indicator of wellbeing and living standards in a country. One measure of happiness is the **Happy Planet Index (HPI)**. This index provides information about sustainable wellbeing. It measures the degree to which countries provide long, happy and sustainable lives for the people who live in them, and it gives an overall view





This is because citizens feel less concerned with the uncertainties that unsustainable practices can create, and that their country provides healthy, happy and long lives for them.

### Human Development Index

The **Human Development Index (HDI)** is also important when measuring living standards and there is an Inequality-adjusted Human Development Index (IHDI) that takes into account inequality within a country. The index includes information on life expectancy, education levels and income. The HDI takes the economics of happiness into account by looking at education, income and life expectancy. However, it can be argued that a country ranking high on the HDI is not an indicator of happiness since hidden factors, like job dissatisfaction, are not evident in the index.

**SOURCE 2.17** The Gross National Happiness Index guides the government of Bhutan and measures the collective happiness and wellbeing of the population.

of whether the planet, as a whole, is happy. The measure includes data on global life expectancy and environmental impact on the planet, and takes into account matters and issues such as sustainability. A high rating on the HPI is evidence of a country's 'happiness'. Achieving sustainable wellbeing creates a feeling of confidence within a country's people.

#### GLOSSARY

**Happy Planet Index (HPI)** an index of the sustainable wellbeing of each country's population that provides an overview of whether we are living on a happy planet

**Human Development Index (HDI)** a ranking of all the countries in the world based on several factors, including life expectancy, infant mortality, education and income. HDI can be used as a measurement of a country's development beyond just economic issues.



### ACTIVITY 2.3 Research

#### United Nations Human Development Reports

Use the United Nations Development Programme: Human Development Reports website to help you research the different levels of development for countries. Copy and complete the table below by identifying the ranking and level of development for each country listed.

Country	Ranking	Level of development
Australia		
China		
India		
Papua New Guinea		
Thailand		

## CASE STUDY 2.1

### Australia's performance on the Better Life Index

Read the article below and study the table in Source 2.19, then answer the questions that follow.

#### How's life?

Australia performs very well in many measures of wellbeing relative to most other countries in the Better Life Index. Australia ranks at the top in civic engagement, and above the average in income and wealth, environmental quality, health status, housing, jobs and earnings, education and skills, subjective wellbeing and social connections.

Money, while it cannot buy happiness, is an important means to achieving higher living standards. In Australia, the average household net-adjusted disposable income per capita is USD 33 417 a year, more than the OECD average of USD 30 563 a year. But there is a considerable gap between the richest and poorest – the top 20% of the population earn more than five times as much as the bottom 20%.

In terms of employment, around 72% of people aged 15–64 in Australia have a paid job, above the OECD employment average of 67%. In Australia, 13% of employees work very long hours.

Good education and skills are important requisites for finding a job. In Australia, 80% of adults aged 25–64 have completed upper secondary education, higher than the OECD average of 75%. In terms of the quality of its educational system, the average student scored 502 in reading literacy, maths and science in the OECD's PISA. This score is higher than the OECD average of 486. On average in Australia, girls outperformed boys by 8 points, above the average OECD gap of 2 points.

In terms of health, life expectancy at birth in Australia is around 83 years, three years higher than the OECD. Life expectancy for women is 85 years, compared with 80 for men. The level of atmospheric PM2.5 – tiny air pollutant particles small enough to enter and cause damage to the lungs – is 5.2 micrograms per cubic meter, the lowest rate in the OECD, where the average is 13.9 micrograms per cubic meter. Australia also does well in terms of water quality, as 92% of people say they are satisfied with the quality of their water, higher than the OECD average of 81%.

Concerning the public sphere, there is a strong sense of community and high levels of civic participation in Australia, where 94% of people believe that they know someone they could rely on in time of need, more than the OECD average of 89%. Voter turnout, a measure of citizens' participation in the political process, was 91% during recent elections. This figure is one of the highest in the OECD, where the average is 69% and reflects the practice of compulsory voting in Australia.

In general, Australians are more satisfied with their lives than the OECD average. When asked to rate their general satisfaction with life on a scale from 0 to 10, Australians gave it a 7.3 grade on average, higher than the OECD average of 6.5.

**SOURCE 2.18** OECD Better Life Index: Australia

Housing	8.0	Income	5.0
Jobs	8.2	Community	7.9
Education	8.5	Environment	8.8
Civic engagement	8.6	Health	9.5
Life satisfaction	9.0	Safety	7.5
Work–life balance	5.4		

**SOURCE 2.19** Australia's rankings on the Better Life Index

- 1 Identify three areas that demonstrate or highlight the living standards in Australia.
- 2 Describe your overall impression of the living standards in Australia.
- 3 Using the OECD.Stat website, search for the current Better Life Index under Social Protection and Wellbeing. Identify Australia's rank in the following areas:
  - a civic engagement
  - b housing
  - c environment.
- 4 Select three areas or indicators that are important to you. What does the index indicate about Australia? Explain why you chose these indicators.



## CASE STUDY 2.2

### Where-to-be-born index (previously total quality-of-life index)

#### How's life in Australia?

In general, Australia performs well across the different wellbeing dimensions relative to other OECD countries. Air quality is among the best in the OECD, and average household net adjusted disposable income and household net wealth were among the highest in the OECD in 2015 and 2014 respectively. Despite a good performance in jobs and earnings, Australia lies below the OECD average in terms of work–life balance: Australian full-time employees reported having 30 minutes less time off (i.e. time spent on leisure and personal care) than those in other OECD countries, and more than 13% of employees regularly worked 50 hours or more per week in 2016. In terms of personal security, despite the comparatively low homicide rate, only 64% of Australians felt safe walking alone at night, compared to the OECD average of 69% in the period 2014–16. A large number of Australians report good levels of perceived health, although these data are not directly comparable with those of the other OECD countries, due to a difference in the reporting scale.

**SOURCE 2.20** 'How's life? 2017 report', OECD website



**SOURCE 2.21** Australia lies below the OECD average in terms of work–life balance.

Use the information in the article, which is available in full at <http://cambridge.edu.au/redirect/8093> to answer the questions.

- 1 List the indicators that Australia is ranked ahead of other OECD countries.
- 2 Explain why Australia has a high voter turnout score and whether you believe voter turnout figures are a useful indicator of civic engagement in Australia.
- 3 Australia is ranked lower on the number of working hours and work–life balance. Suggest why this indicator could be an issue when measuring the living standards of a country.
- 4 Use the OECD website to measure the Better Life Index for two other countries. Identify where they rank in terms of the overall ratings. What areas could be improved?

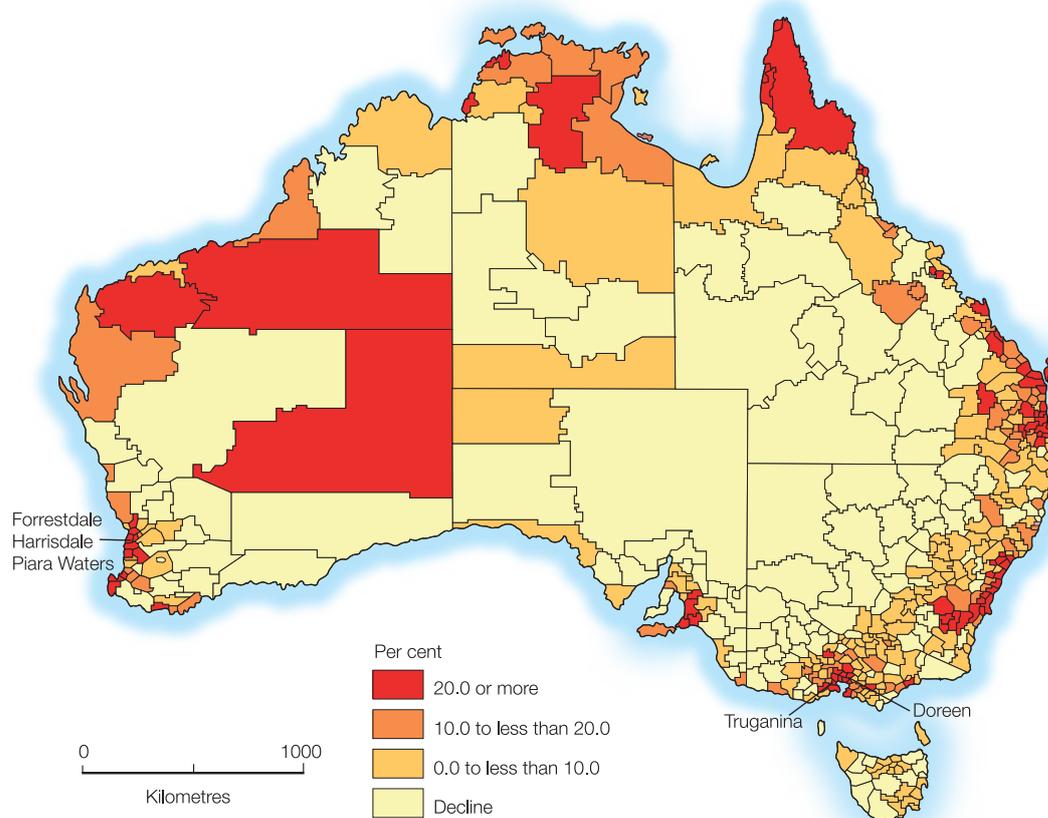
## 2.4 Investigating living standards in different countries

### Australia

Case study 2.2 compares Australia to other OECD countries across a number of measures.

While these studies and the evidence available illustrate that Australia is indeed the 'lucky country', there are a number of issues that many cities and states have to contend with. Australia has experienced high levels of population growth since 2007. According to the ABS, the population in Australia as at December 2017 was 24 607 330 people. All states and territories experienced growth during this period. Most of the population growth was in the outer suburbs, inner city, the coast and in mining areas.

- All states and territories experienced population growth between 2006 and 2016. Victoria had the largest growth in terms of absolute numbers (1.1 million people), followed by New South Wales (996 600) and Queensland (840 900).
- Western Australia's population grew fastest (that is, it had the strongest growth rate) in the ten years to 2016 (mainly due to strong growth between 2006 and 2011), increasing by 25%, followed by Victoria (22%), Queensland (21%), the Australian Capital Territory (20%), Northern Territory (18%) and New South Wales (15%). Tasmania had the slowest growth (5.8%) followed by South Australia (10%).
- The combined population of Greater Capital Cities increased by 2.9 million people (22%) between 30 June 2006 and 30 June 2016, accounting for 77% of the country's total population growth.
- Melbourne had the largest growth of all capital cities in the ten years to 2016 (964 600), followed by Sydney (773 600), Brisbane (452 000) and Perth (445 100).
- Darwin had the fastest growth (29%) between 2006 and 2016, ahead of Perth (28%), Melbourne (26%) and Brisbane (24%).



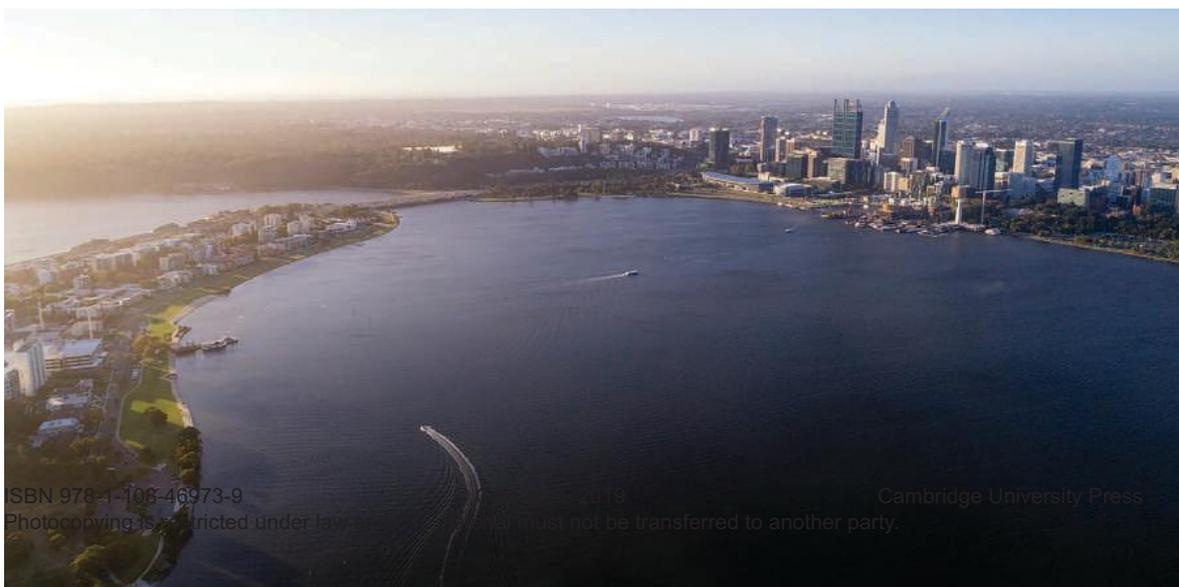
**SOURCE 2.22** Population change across Australia from 2006 to 2016

State or territory	Main highlights and trends
New South Wales	From June 2006 to June 2016, the ten suburbs with the largest population increases in New South Wales were all within Greater Sydney.
Victoria	The largest population increases in Victoria were within Greater Melbourne. The suburbs with the largest growth were Tarneit, Cranbourne East, Truganina and Doreen.
Queensland	The largest population increase in Queensland was North Lakes–Mango Hill in the Moreton Bay region, north of Brisbane. Large growth also occurred in Upper Coomera–Willow Vale on the Gold Coast; Deeragun, an outer suburb of Townsville; and Springfield Lakes, a suburb of Ipswich.
South Australia	The largest population increases in South Australia were all within Greater Adelaide.
Western Australia	The largest population increases in Western Australia were all within Greater Perth. Large growth also occurred in Ellenbrook in the north-east and Forrestdale–Harrisdale–Piara Waters in the south-east. Forrestdale – Harrisdale–Piara Waters was the fastest-growing in Western Australia between 2006 and 2016, up by 1500%. This was followed by Baldivis (390%) and Bertram–Wellard (West) (300%) in Perth’s outer south. Outside of Greater Perth, those with the largest growth were Busselton and Australind–Leschenault, both in the south-west of the state.
Tasmania	The largest population increases in Tasmania were within Greater Hobart.
Northern Territory	The largest population increases in the Northern Territory were within Greater Darwin. The outer southern SA2 (Statistical Area 2) of Rosebery–Bellamack had the largest growth in terms of absolute numbers.
Australian Capital Territory (ACT)	The largest population increases in the Australian Capital Territory were the outer northern suburbs of Harrison, Bonner, Franklin, Casey and Crace.

**SOURCE 2.23** All states and territories experienced population growth between 2006 and 2016. (Source: ABS.)

## ECONOMICS AND BUSINESS FACT

Two-thirds of Australia’s population resides in capital cities.



## CASE STUDY 2.3

### Cost of living in Australia

*This Case study is available in the online version of the textbook.*



While Australia rates highly on many of the standard-of-living measures, there are still some issues that cause concern, such as the variation in the income levels of different groups within society. It is also important to compare Australia with other countries in our region.

### New Zealand

New Zealand ranks at the top in health status. It ranks above the average, for environmental quality, civic engagement, housing, subjective wellbeing, education and skills, jobs and earnings, and social connections, but below average in income and wealth, work–life balance and personal security.

### India

India is a developing country that has become an emerging economy. The economy is growing rapidly and this allows for improved living standards.

In 2017 the GDP economic growth forecast for India was 7.9%, and while total GDP is still relatively low, it is still the fastest growing economy in the world and there is a rising middle class. Economic conditions in India remain robust and there have been a number of effective reforms to the economy which have supported this. Living standards are lower than countries like Morocco and Ghana, but the level of poverty is lower than in the past, and in 2017 the income going to the top 1% of wage earners was at its highest since 1922. While economic conditions and living standards have improved, 400 million people are still living in poverty with 4 out of 5 poor people living in the country. India hopes to have poverty eradicated by the year 2020.



**SOURCE 2.24** New Zealand scores highly for environmental quality.



**SOURCE 2.25** India has begun to build more infrastructure, including improved access to clean water.

India has begun to build more infrastructure, such as broadband, and it has increased access to computers and improved access to clean water; India also now exports more goods to other countries. This has started to have a positive impact on individuals there and will allow for improved living standards.



**SOURCE 2.26** China's move towards expanding its productivity and commerce has increased the country's strength and wealth.

## China

China is another emerging economy. In China, most of the population believes that their living standard is improving, according to a Gallup poll released in the US. The country was once overwhelmed with poverty and insecurity, but through the 1980s the living standards began to improve and today nearly all of China has access to adequate food, shelter and clothing. China's move towards expanding its productivity and commerce has increased the country's strength and wealth. China has also implemented poverty-reduction programs, while economic growth has increased and has provided more assistance to poor families.



### ACTIVITY 2.4 Research

#### Levels of GDP

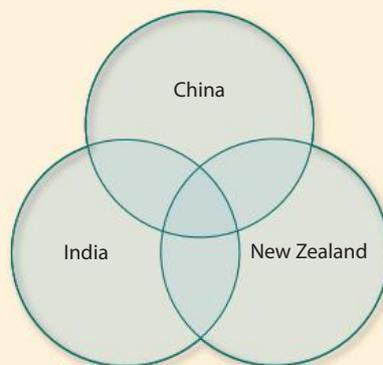
- 1 Choose a country other than Australia and research the levels of GDP and rates of economic growth. Use websites such as the OECD to help.
- 2 Identify two reasons for the trend (increase or decrease) in the figures.
- 3 Present your findings in a report.



### ACTIVITY 2.5 Note this down

#### Living standards of India, New Zealand and China

Copy and complete the graphic organiser below to compare the living standards of India, New Zealand and China. Identify any factors that these countries all have in common.



## Global poverty

There have been improvements in the living standards in many countries, yet the issue of global poverty is still a serious one. So while

Australia is a 'lucky country' and there have been advances for many nations in the Asia-Pacific area, there are still serious issues of poverty across much of the world.

## CASE STUDY 2.4

### Determinants of poverty

Study the table below and complete the tasks that follow.

School	Girls' education	Not enough money
Some parents cannot afford school fees for their children. Some children need to work rather than attend school and some miss school due to illness.	Sometimes education is not valued for girls. Where help is needed at home, it is often girls who stay away from school to provide it.	Food, clothing and shelter are basic needs, but if people cannot get work, or do not receive a fair price for goods they grow or produce, they will not have enough money even for these basic needs.
Environment	Poverty	Illnesses
Poor people are particularly affected by droughts and floods, as this has an impact on their ability to grow the crops they need to survive.	The poverty line is now \$1.90 a day. More than 700 million people in the world live in extreme poverty.	Many people have illnesses such as diarrhoea and malaria. These can be prevented or lessened in severity if there was better access to medicine and healthcare.
Death in childhood	The health of mothers	
Young people who do not have proper food and healthcare are more likely to die before reaching adulthood.	Good medical care, food and health education are very important for pregnant women. Where this is not available, deaths in childbirth are likely to be higher.	

**SOURCE 2.27** The main determinants of poverty (Source: Oxfam Education.)

- 1 In a group of two to three, choose two areas from the table. Explain how the two factors can affect wellbeing and the living standards of a person.
- 2 Develop one possible solution or improvement that could be implemented (at a country level or global level) to help overcome this problem or issue. You may wish to visit the Oxfam website to pick up some strategies and ideas.

### Living standards in different countries

### DEVELOPING YOUR UNDERSTANDING 2.8

- 1 Refer to the ABS figures on Australia's population growth between 2006 and 2016.
  - a In what state did Australia's population grow fastest?
  - b What percentage of the Australia's total population growth took place in greater capital cities?
  - c What area of the Northern Territory had the largest growth in terms of absolute numbers?
- 2 Discuss some of the impacts population growth would have on living standards.
- 3 Which of the four countries discussed in this section are noted as having a wide income disparity between different groups? Explain why this is an issue that causes concern.

## 2.5 How can wealth and income distribution be measured in an economy?

There are a number of measures that can be used to determine wealth and income distribution in Australia and the rest of the world. While GDP and other measures give an indication of the overall living standards, there are often differences between groups of people in a country. Some of the main measures used are:

- an income distribution histogram
- a Lorenz curve
- a Gini coefficient.

### Income distribution histogram

In statistics, a histogram is a graphical representation of the distribution of data. It represents tabulated frequencies. In Australia, we pride ourselves on being an **egalitarian** society. However, the latest report from the ABS found that wealth is an important component of household economic wellbeing, and that income and wealth are the economic resources that allow households to support their current and future consumption of goods and services. As noted earlier in this chapter, in 2016 the mean (average) household wealth was \$929 400 (higher than in previous studies).

Most of the household wealth was tied up in the family home and superannuation was the second largest asset (43% of total household assets). Credit card liability was around \$4200 per person.

The median net household wealth (the midpoint when all households are ranked in ascending order of net worth) was \$527 000, which is lower than the mean. This means that a relatively small number of households have a high net worth and wealth.

### ECONOMICS AND BUSINESS FACT

In 2016, 10% of the Australian population had more than \$2 million dollars in assets, 25% of households had more than \$1 million in assets and 10% of the population had assets of less than \$33 000.

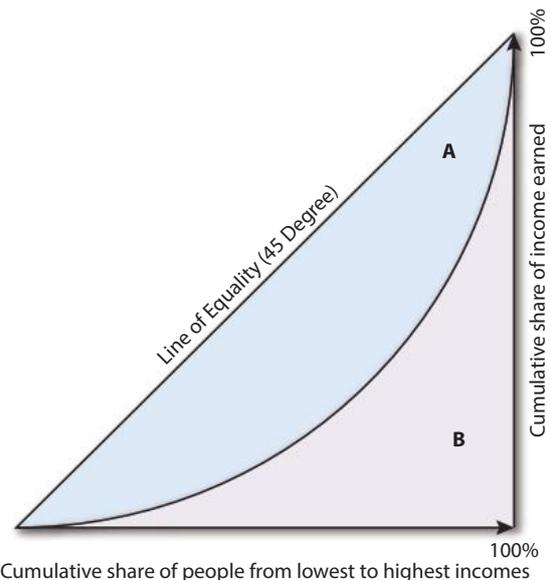
### Lorenz curve

A **Lorenz curve** is used in economics and is a graphical representation of the distribution of wealth in a country. It was developed by Max Lorenz in 1905 and was used to show the inequality of the distribution of wealth. Points on the Lorenz curve show what proportion of people have which percentage of income or wealth. The 45 degree line means equal distribution of wealth. The further away from the diagonal, the more unequal the distribution of wealth is. An equal income distribution would be one in which every person had the same income. If there was an unequal distribution, then a few people would have most of the income and wealth.

#### GLOSSARY

**egalitarian** the belief that all people are equal and should receive equal rights and treatment

**Lorenz curve** a graphical representation of the distribution of wealth and income in a country



**SOURCE 2.28** A Lorenz curve is a graphical representation of the distribution of wealth in a country.

### Gini coefficient

The **Gini coefficient** uses statistics as an indicator of the degree of inequality. When all people have the same level of income, it equals zero, then equals one (or 100%) when one person receives all income. Generally, the Gini coefficient is most equal when at its smallest.

According to the World Bank, income inequality tends to be lower in northern Europe, with countries such as Sweden, Norway and Finland showing some of the world’s lowest Gini coefficients. It is also low in less **affluent** countries like Afghanistan and Ethiopia. The highest levels of inequality were found in countries such as Honduras, Angola, Haiti, South Africa and Namibia. In terms of absolute poverty, the lowest minimum wage is in Sierra Leone at 3 cents per hour and in India the lowest minimum wage is 28 cents per hour.

#### GLOSSARY

**Gini coefficient** a statistical indicator of the degree of inequality; the higher the coefficient, the more inequality there is within the economy or society

**affluent** wealthy; of an individual, group or entity



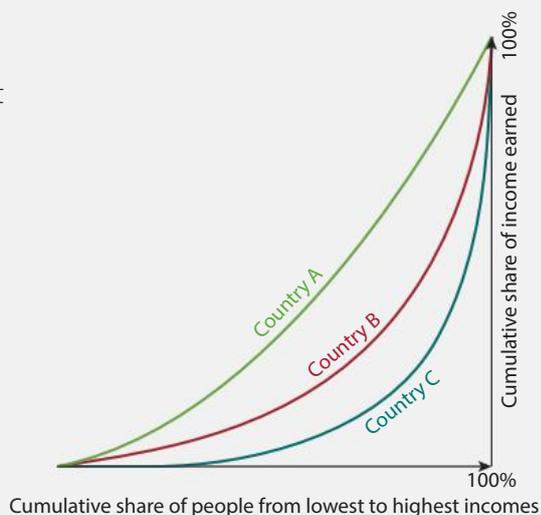
**SOURCE 2.29** Countries such as Sweden, Norway and Finland show some of the world’s lowest Gini coefficients.

### Measuring wealth and income distribution

- 1 Explain what an income distribution histogram shows.
- 2 In the below Lorenz curve, which country has the greatest level of income inequality? Explain your answer.
- 3 The Gini coefficients for three countries are shown below. Which country shows the least amount of inequality? Explain your answer.

Country	Gini coefficient
Country X	0.228
Country Y	0.476
Country Z	0.315

### DEVELOPING YOUR UNDERSTANDING 2.9



## CASE STUDY 2.5

### Income inequality in Australia

#### IMF says Australia has one of the fastest rising income inequality rates

Australia is among countries with the highest growth in income inequality in the world over the past 30 years, according to the International Monetary Fund (IMF).

Vitor Gaspar, the IMF's director of fiscal affairs, has told an audience at the launch of the IMF's latest Fiscal Monitor that Australia's income inequality growth has been similar to the US, South Africa, India, China, Spain and the UK since the 1980s.

Last month the treasurer, Scott Morrison, said that income inequality was not getting worse in Australia. He stated that Treasury and the Reserve Bank had found that Australian wages were growing slowly across most industries in the economy, and most regions of the country, so the slow growth was evenly shared.

Gaspar said IMF staff had used the OECD's income distribution database and Eurostat, among other sources, to calculate that income inequality had increased in nearly half of the world's countries in the past three decades, and Australia had experienced a 'large increase' in that time.

The IMF's latest Fiscal Monitor warns that while some inequality is inevitable in a market-based economic system as a result of 'differences in talent, effort, and luck', excessive inequality could 'erode social cohesion, lead to political polarisation, and ultimately lower economic growth'.

It also warns that income inequality tends to be 'highly correlated' with wealth inequality, inequality of opportunity, and gender inequality.

'The latest census showed on the global measure of inequality, which is the Gini coefficient, that is the accepted global measure of income inequality around the world and that figure shows it hasn't got worse, it has actually got better,' he said.

The Gini index is the most widely used measure of inequality. It looks at the distribution of a nation's income or wealth, where 0 represents complete equality and 100 total inequality.

Earlier in 2017, the OECD economic survey of Australia found 'inclusiveness has been eroded' in the past two decades and 'households in upper-income brackets have benefited [more] from Australia's long period of economic growth,' the report said.

Reserve Bank governor Philip Lowe said, 'Wealth inequality has become more pronounced particularly in the last five or six years because there's been big gains in asset prices'.

**SOURCE 2.30** Extract based on Gareth Hutchens, 'IMF says Australia has one of the fastest rising income inequality rates', *The Guardian Australia*, 12 October 2017

- 1 Why is it a concern that income distribution and inequality is becoming more prevalent?
- 2 How can governments impact on changes in income distribution?

## 2.6 Influences on wealth and income in Australia

In Australia, the majority of the population have relatively high living standards when compared to many countries around the world. However, as

Case study 2.6 shows, there is growing inequality between households.

### CASE STUDY 2.6

#### Inequality in Australian household wealth

##### The ABS is wrong: Inequality is getting worse in Australia

The Australian Bureau of Statistics announced that 'inequality has remained stable since 2013–14'.

Most discussion about inequality focuses on income (an economic flow), but wealth (an economic stock of assets) is a more fundamental indicator of people's social position and opportunities, and its distribution goes to the fairness and stability of a society.

The ABS reports that the share of Australia's household wealth owned by the richest 20% (quintile) has increased from 62.1% to 62.5% since 2013–14.

Most of the wealth the ABS apportions to the bottom of the distribution comprises non-income earning household durables (such as cars, furniture and clothing) which tend to be used and devalue over time.

The ABS reports that the wealth of those on the 90th percentile is now almost \$2 million, about 60 times the wealth of households at the 10th percentile. The multiple is up from 52 times in 2013–14, a rise of 13.2%.

The increase in this ratio implies that the gains of the wealthiest 10% of households have been greater than those accumulated by the top 20% overall. The survey results are compatible with other evidence that the wealth of the top 10%, particularly the top 1%, is continuing to race away from the rest of the population.

The limitation of the ABS survey is that it ignores what is happening to the wealth distribution beyond the 90th percentile, which is precisely where most of the concern about growing inequality lies.

In 2016 we prepared a report on Australian wealth inequality for the Evatt Foundation using the global standards, and found that the top 10% of households owned at least 50% of the total wealth, and the top 1% owned at least 15%.

**SOURCE 2.31** Extract based on Christopher Sheil and Frank Stilwell, 'The ABS is wrong: Inequality is getting worse in Australia', *ABC News*, updated 15 September 2017

- 1 Distinguish between wealth and income.
- 2 Describe what has happened to the richest 20% of households in Australia.
- 3 Why should income and wealth inequality be an issue for Australia?

There are a number of factors that can influence the distribution of income and wealth in Australia. These include:

- income levels
- occupation
- inheritance
- education: skills and qualifications
- geography and location.

## Income levels

The ABS has compiled information about the Australian labour force. It conducts surveys every year and this provides data on average salaries across gender and occupation.

When examining the information published by the ABS, we can see that income and wages have been growing at a slow rate over the past four years with growth rates at about 1.6% to 2.1% (down from around 5% in 2013). Australia's **average weekly earnings (AWE)** as of May 2017 are shown in Source 2.33 below.



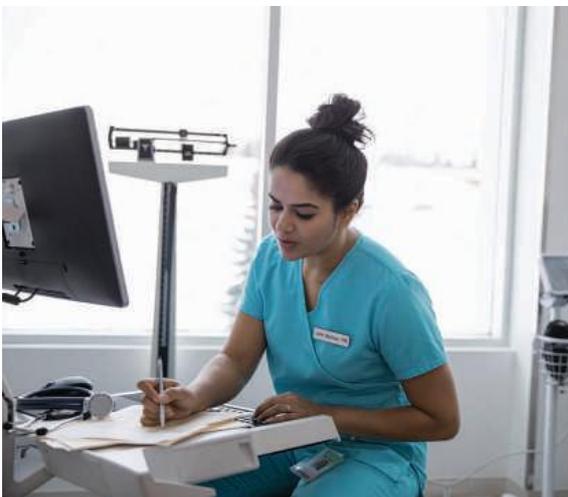
**SOURCE 2.32** Geography can influence the distribution of income and wealth.

### GLOSSARY

**average weekly earnings (AWE)** the average amount a person who works full time earns in a week

	May 2017 \$	May 2016 to May 2017 % change
Full-time adult average weekly ordinary time earnings	1543.20	1.8
Full-time adult average weekly total earnings	1605.60	2.1
All employees' average weekly total earnings	1179.00	1.6

**SOURCE 2.33** Australia's average weekly earnings (AWE) as of May 2017 (Source: ABS.)



**SOURCE 2.34** Salaries vary across gender and occupation.

## Employee earnings and hours

Study the 2016 information on employee earnings and hours below and complete the tasks that follow.

## DEVELOPING YOUR UNDERSTANDING 2.10

49.4% of all employees were male and 50.6% of all employees were female.

Average weekly total cash earnings were \$1230.70 for all employees: \$1457.00 for male employees and \$1010.20 for female employees. The average age of all employees was 39.4 years

**Full-time employees** made up 60.3% of all employees and had average weekly total cash earnings of \$1623.50. The average age was 40.5 years.

**Part-time employees** accounted for 39.7% of all employees and had average weekly total cash earnings of \$634.70. The average age was 37.7 years.

Male employees were predominantly full time (75.2%) and full-time males had average weekly total cash earnings of \$1727.40. The average age was 41 years.

Part-time male employees had average weekly total cash earnings of \$637.20.

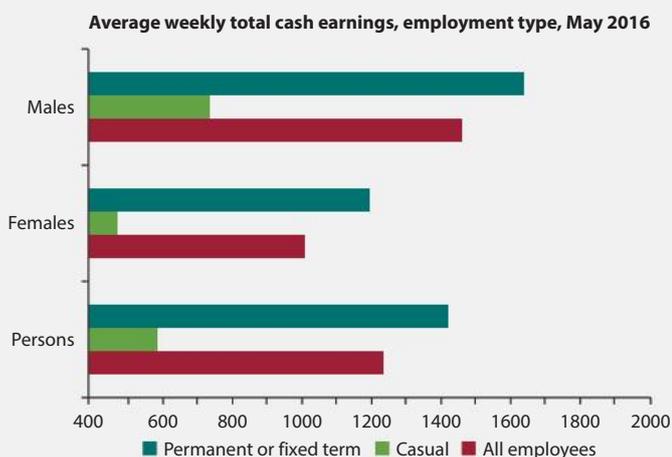
More female employees were employed part time (54.3%) than full time (45.7%).

Average weekly total cash earnings were \$1456.90 for full-time females and \$663.60 for part-time females.

The majority of employees (77.4%) were employed on a permanent or fixed-term basis. Average weekly total cash earnings were \$1634.20 for permanent or fixed-term males and \$1193.40 for permanent or fixed-term females.

**Casual employees** accounted for 2.6% of employees and had average weekly total cash earnings of \$585.00. A greater proportion of female employees (25.4%) were casual than were male employees (19.7%). Average weekly total cash earnings were \$471.40 for casual females and \$735.00 for casual males.

**SOURCE 2.35** Employee earnings and hours as of May 2016 (Source: ABS.)



- 1 Males earn more income than females. Suggest two reasons for this.
- 2 More females than males work casually rather than as permanent employees. Suggest two possible reasons for this situation.
- 3 Describe the difference between casual and part-time employment.

**SOURCE 2.36** Average weekly total cash earnings, Employment type, May 2016 (Source: ABS.)

## GLOSSARY

**full-time employee** an employee who is ongoing and works 38 hours per week

**part-time employee** an employee who is ongoing but works less than 38 hours per week

**casual employee** an employee who is not ongoing and works when required by the business; the employee receives a slightly higher hourly rate instead of holiday and sick leave

## Occupation

The ABS has also published information on earnings and the link to occupations. In Australia, while average earnings have increased and are relatively high, there are differences between occupations.

People in Australia are employed in the **private sector** or the **public sector (government)**. According to the ABS, average weekly total cash earnings for all employees were higher for employees in the public sector (\$1489.00) than in the private

sector (\$1170.00). Private-sector employees comprised 81% of all employees and public-sector employees comprised 19% of all employees.

### GLOSSARY

**private sector** part of the economy owned and operated by individuals and companies

**public sector (government)** part of the economy owned and managed by the government

State/territory, occupation and industry	Average weekly earnings	Percentage of the workforce
Managers	\$2298.00	9.0%
Professionals (usually tertiary educated – doctors, lawyers, accountants, teachers)	\$1631.00	21.5%
Sales workers	\$652.20	13.1%
Mining	\$2494.40	1.7%
Accommodation and food services	\$548.40	7.6%
Machinery operators and drivers	\$1327.80	6.6%
Healthcare and social assistance	\$1185.30	12.8%
Australian Capital Territory	\$1461.90	NA
South Australia	\$1077.00	NA
Tasmania	\$1041.00	NA

**SOURCE 2.37** Earnings by industry, occupation and state or territory (Source: ABS, 2017.)



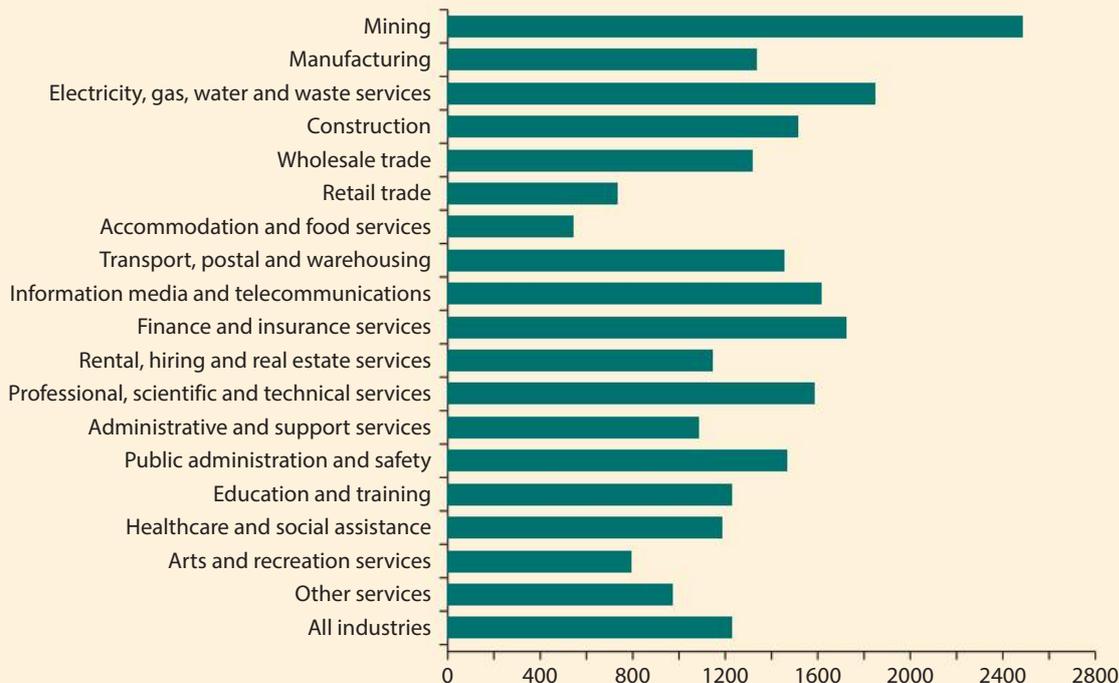


### ACTIVITY 2.6 Research

#### High income industries

Using the ABS website, prepare a report that outlines the top industry in terms of income and the highest income in each state or territory. In your report, describe the link between income and occupation.

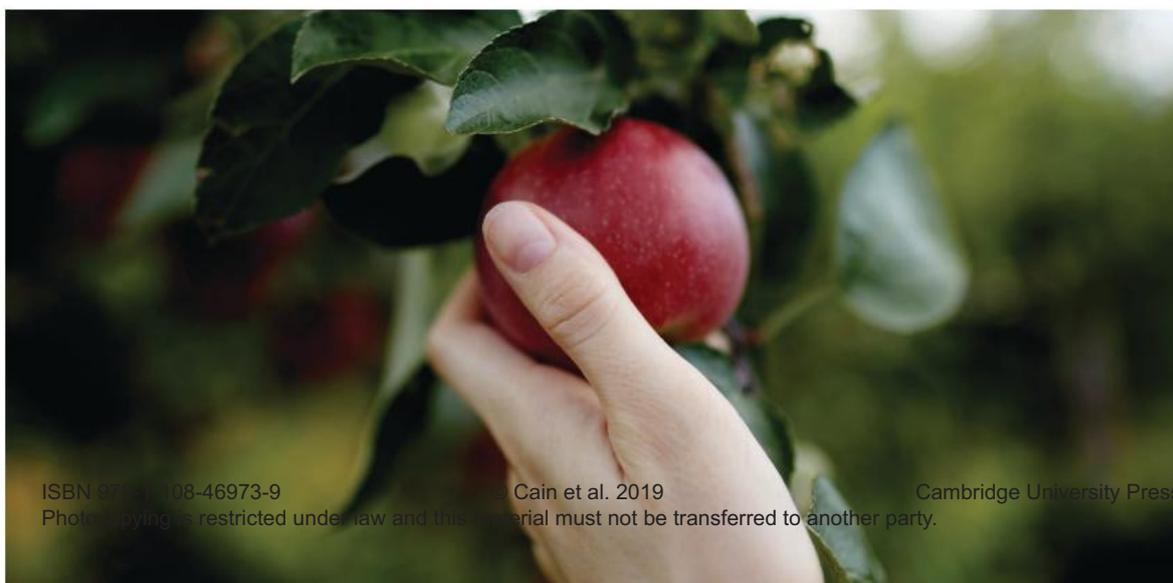
**Average Weekly Total Cash Earnings, Industry, May 2016**



**SOURCE 2.38** Average weekly total cash earnings, Industry, May 2016 (Source: ABS.)

#### ECONOMICS AND BUSINESS FACT

The highest paid workers per hour include anaesthetists, internal medicine specialists, dental practitioners, mining engineers and investment bankers. The lowest paid were fruit pickers, dishwashers and fast food cooks.





**SOURCE 2.39** Occupations such as those in medicine often earn higher incomes due to the qualifications, expertise and experience required for the position.

Incomes in industries such as agriculture, fishing and mining are often higher because of the danger involved in the position or the remoteness of the work location. Other occupations such as

those in medicine, senior management roles and the law often earn higher incomes due to the qualifications, expertise and experience required for the position.



### ACTIVITY 2.7 Research

#### Positions in the mining industry

Visit the SEEK website and look up positions in the mining industry in Western Australia. Choose three positions and complete the following tasks.

- a** List the title of each position, plus the skills and qualities required.
- b** Identify the salary of at least two positions. Suggest why these would be greater in regional and remote areas.

## CASE STUDY 2.7

### Injury rates

#### Australia's dangerous jobs

For most office jobs, death and injury are not usually a major concern. However, data from Safe Work Australia suggests that this is not the case in all industries.

In the 2003–2014 period, 22% of workplace deaths occurred within the agriculture, forestry and fishing industry. It also has the highest number of injuries and fatalities in all industries.

Transport related industries accounted for 549 workplace deaths, just behind agriculture, forestry and fishing. The injuries and deaths in the two industries can reflect that driving or manoeuvring vehicles is involved.

The greatest number of deaths in Australian workplaces are from vehicle-related incidents. 423 workers were killed in road freight transport alone in 2003–2014.

Here are the rankings of the 10 most 'dangerous' industries according to their risk level:

1	Agriculture, forestry and fishing
2	Transport, postal and warehousing
3	Construction
4	Manufacturing
5	Mining
6	Arts and recreation services
7	Wholesale trade
8	Health and community services
9	Public administration
10	Administrative and support services

Despite health and community services being eighth in terms of risk level, the industry has 17 415 injury claims, higher than any other industry.

Below is a comparison of the rate and number of work-related fatalities in 2003 and 2014, according to Safe Work Australia:

Year	Fatality rate per 100 000 workers	Number of worker fatalities
2003	2.75	259
2014	1.61	188

The figures suggest that the rate and number of work-related fatalities is decreasing over the years.

**SOURCE 2.40** Adapted from 'Australia's dangerous jobs', *timberbiz*, 14 July 2016

- 1 Which industries had the highest death and injury rates?
- 2 Provide two reasons why these industries are dangerous.
- 3 Describe the trend in injury and death rates in Australia since 2003.



**SOURCE 2.41** Some industries have high rates of injury and death.

## Inheritance

While much of the income and wealth Australians accumulate is due to the qualifications, occupation and skills they possess, there is also a growing trend of wealth and income gained through **inheritance**. In Australia the average household wealth was \$929 400 in 2015–16. Average household wealth suggests that there has been an increase in the net worth of households. The median (the midpoint when all households are ranked in order from the most wealth to the least wealth) was much lower. This means that a relatively small proportion of households had a higher net worth and a relatively large number of households had lower net worth. High wealth households increased in real terms from an average net worth of \$1.9 million in 2003–04 to \$3.0 million in 2015–16.

### GLOSSARY

**inheritance** to receive property, money or other assets from a relative/ancestor by legal succession or will

Demographic and social pressures and inequalities in wealth distribution due to inheritance mean that some Australian households are able to accumulate wealth at a greater rate than others. According to the ABS there is an inequality in the distribution of wealth in Australia. In 2015–16 the lowest 20% of households had a mean net worth of \$36 500 whereas the wealthiest 20% of households had 70 times that of the lowest 20% (\$2 906 400).

This implies that much of the wealth in Australia remains concentrated in the hands of

a few. This increase in wealth has been at the expense of other people, particularly those at the lower end of the income scale.

Typically, wealth is accumulated over the course of a person's life; a person's capacity to get wealthier over time varies according to their socio-economic position, inheritance, thrift and a number of other reasons; personal wealth commonly decreases during old age. Households with high incomes also accumulate wealth and assets, some of which can generate more income – for example, buying a second property and renting it out, or owning a work of art that increases in value. Households that are not able to save and accumulate assets are often disadvantaged and may end up in a cycle of poverty.

There is also an uneven distribution of wealth according to household composition; couples tend to accumulate more wealth than households comprising a single person or sole parent. Some wealth in Australia is inherited and passed down through generations of the family. A number of Australians are on the recently released Bloomberg Billionaire List. Gina Rinehart, for example, is in the top 100 richest people in the world. Property developer, Henry Triguboff, commodities trader Ivan Glasenberg and packaging businessman Anthony Pratt are also on the list. Pratt, Rinehart, James Packer and Lachlan Murdoch – are all wealthy in their own right – however, there is also family wealth that may have assisted them in establishing their own business ventures. As inherited wealth is one way that inequality is generated, there have been arguments regarding whether Australia should have an inheritance tax (levied on estates over a certain amount when someone has died).



**SOURCE 2.42** Mining magnate Gina Rinehart

## Education: Skills and qualifications

The level of education, skills and qualifications a person has are important determinants of a person's income and wealth.

In Australia, we are lucky to have an education system that provides high-quality education and usually equitable access to education at the primary, secondary and tertiary levels.

### ECONOMICS AND BUSINESS FACT

In May 2017, it was estimated that, of the 14.5 million people aged 20–64 years in Australia 66% have attained at least one non-school qualification such as a certificate, diploma or university qualification.

(Source: ABS website.)

According to a study by the Australian Council of Educational Research (ACER), there is a correlation between an individual's level of education and the amount of income they receive. A study was completed to track the education levels and income of young people over a period of time. The following conclusions were made.

- A bachelor degree had the most impact on career advancement. Most higher-status jobs require university qualifications.
- Traineeships, TAFE certificates and diplomas had an early increase on earnings, but it flattened out.
- It is mainly males whose earnings are affected positively by apprenticeships.

- Completion was important for most types of post-secondary education and training – especially university diplomas and bachelor degrees.

These results suggest that education and training make a substantial contribution to social mobility in Australia. While there are differences in the income earned by workers, particularly based on educational qualifications, there are also a number of occupations where there is a shortage of employees, which can impact on income levels too.



### ACTIVITY 2.8 Research

#### Full-time employment

Speak to four people you know who are in full-time employment. Determine how long they have been in their current job, and what skills, experience and qualifications they needed.

### ECONOMICS AND BUSINESS FACT

According to a survey by World Economic Forum the top three jobs for the future are data analysts, IT and mathematics professionals, and architects and engineers.



**SOURCE 2.43** The beneficial effects of apprenticeships on earnings are largely limited to males.



### ACTIVITY 2.9 Research

#### Experience, skills and qualifications

As a class group, develop an overview of the types of experience, skills and qualifications required for particular jobs. This can be graphed using spreadsheet software, such as Microsoft Excel, or shared via Google classrooms.

### Geography and location

Location can be an important determinant of income. If a person lives in a large city or country town, then it is likely that the salary earned will be commensurate (in proportion) with experience and qualifications. If a person has a job in a more remote area, then the pay is likely to be higher as it may be harder to find and retain employees. In some of the mines in Western Australia, for example, wages are often high as it is harder to attract employees, and sometimes the work can be dangerous and the hours long. The types of

jobs in remote areas include nursing, machinery operation, information technology and teaching. A number of jobs are also **fly in, fly out (FIFO)** where employees go to their job for a few weeks and then fly home to family, rather than relocate permanently to the area where they work.

#### GLOSSARY

**fly in, fly out (FIFO)** a type of employment where employees are sent to their worksite for a set amount of time, then sent home again, rather than permanently relocating



**SOURCE 2.44** Most oil rig workers operate on a fly in, fly out basis.

## CASE STUDY 2.8

### Fly in, fly out

*This Case study is available in the online version of the textbook.*



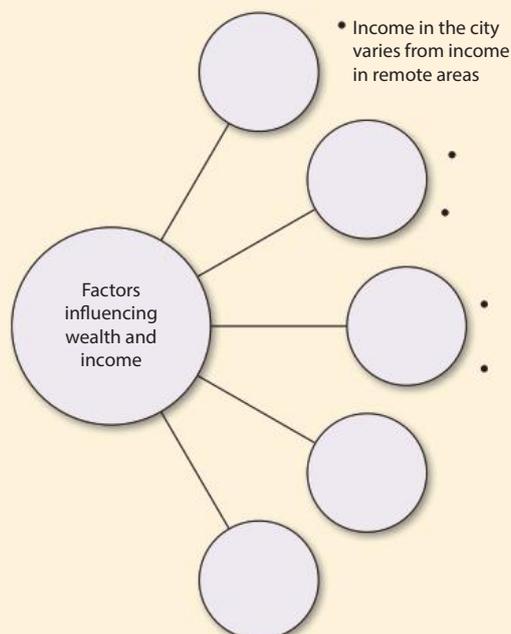
**SOURCE 2.45** Miners are also often employed on a fly in, fly out contract.



### ACTIVITY 2.10 Note this down

#### Influences on wealth and income in Australia

Copy and complete the graphic organiser below to summarise the influences on wealth and income in Australia. The first point has been started for you.



## REFLECTING AND CONSOLIDATING

### Chapter summary

- Different countries have different living standards and what is 'good' depends on the experience and context of the country.
- There is a link between living standards and economic performance. Usually a high economic performance means the economy is successful and the standard of living for the population is high.
- Benefits of economic performance include:
  - increased consumption
  - governments have money to spend on goods and services
  - reduced unemployment and poverty as people have their own income.
- Factors that contribute to variations in economic performance include:
  - foreign ownership levels
  - employment rates
  - levels of government and household debts.
- The living standards of a country can be measured in a number of ways, such as GDP. There are some limitations in using GDP as a measure of living standards as it focuses on economic information only.
- Alternative ways to measure living standards include: where-to-be-born index, the Better Life Index, the happiness index and the Human Development Index (HDI).
- Australia's living standard compares favourably with other countries in the region.
- Income and wealth can be measured in a number of ways: income distribution histogram, Lorenz curve and the Gini coefficient.
- Income and wealth can be influenced by occupation, income levels, inheritance, education – skills and qualifications, and geography and location.

### Multiple-choice questions

- 1 Gross domestic product is a measure of
  - A cumulative national wealth.
  - B taxation rates.
  - C total value of production of goods and services.
  - D balance of payments.
- 2 Since 1980, educational attainment rates in Australia have
  - A increased.
  - B decreased.
  - C stayed steady.
  - D dramatically decreased.
- 3 Which of the following factors does not contribute to concentration of wealth?
  - A High taxation rates
  - B High growth rates
  - C Inheritance
  - D High average income
- 4 Which of the following has the strongest impact on occupational status and career advancement?
  - A TAFE course
  - B Traineeship
  - C Bachelor degree
  - D Diploma
- 5 Which of the following is not a benefit associated with increased economic growth?
  - A Increased consumption
  - B Greater public revenue
  - C Reduced poverty level
  - D Deflation

### Short-answer questions

- 1 List some factors that are considered when calculating the living standards in a country.
- 2 Explain the link between economic performance and the living standards in a country.
- 3 Describe how employment levels can have a positive impact on the economy and living standards.
- 4 'No one should use a credit card as they will get into debt.' Discuss this statement.
- 5 List the advantages and disadvantages of working in a remote location and being a FIFO employee.

### Extended-response questions

Identify a local or state issue that is impacting on the quality of life in your local area. This issue might be limited employment opportunities, traffic congestion, a lack of public transport or local facilities.

- 1 In groups of three or four, construct a letter to the local newspaper explaining your concerns.
- 2 Share the letter and issue with other groups in the class. Write down the final thoughts and conclusions.

# Chapter 3

# Government's management of economic performance to improve living standards

**SOURCE 3.1** Careful economic management is essential to improve living standards.

## Main focus

A key role of the Australian Government is to effectively manage our economy. As citizens we expect to live in a country with living standards that are high. As part of this economic management, the government needs to collect revenue from income earners as well as providing assistance to those less able to support themselves. This chapter explores the ways the government undertakes this role.

## Why it's relevant to us

The role of government at all levels (federal, state and local) is important as it acts to regulate, monitor and assist in the economic performance of our country as well as ensuring that people living in Australia enjoy a high living standard.

## Inquiry

- Identify fiscal and monetary policy options that aim to redistribute income in Australia.
- Identify forms of government intervention aimed at redistributing income.
- Investigate the ways that Australia supports economic growth in the Asia-Pacific region.
- Explain the impact on living standards when a minimum wage is established, various forms of taxation are collected and the government makes payments and funds a variety of services.
- Identify the externalities that affect the wellbeing of society and how governments can influence or regulate the impact on prices.

## Key terms

- Australian Government
- Australian Productivity Commission
- externality
- fiscal policy
- migration
- minimum wage
- monetary policy
- negative externality
- pension
- positive externality
- productivity
- progressive tax
- Temporary Skill Shortage (TSS) Visa
- transfer payments
- unemployment rate
- values
- wealth redistribution

## Let's begin

Australia operates within a mixed economy with most of our scarce resources being owned and controlled by private individuals. The government, however, also assumes an important role in managing and overseeing the operation of the economy. In doing this they make macroeconomic decisions about the use and distribution of economic resources.

### 3.1 Why governments intervene

The extent and manner to which a government intervenes in the economy is determined by the **values** and economic priorities of those in the government. Some people hold a belief that the principles of a free market should be allowed to operate with minimal government intervention, while others hold more socialist views, believing that governments should actively intervene in the operation of the free market to create a more equal distribution of wealth in society. All governments, however, do intervene to some extent.

There are a number of reasons why governments regulate, control and actively participate in the economy.

- To make the most efficient and productive use of economic resources.
- To optimise the use of our economic resources and maximise their benefit, the government works to encourage **productivity**, growth and new investment in the economy, as well as to maintain a low unemployment rate.
- To establish **laws** and infrastructure that enable the economy to operate efficiently and effectively.
- To establish and maintain basic living standards accessible to all Australians.
- To ensure a stable economy, minimising the effects of severe inflation and periods of high unemployment.
- To redistribute income and avoid huge differences in wealth.
- To balance competing economic and social interests; for example, environmental sustainability versus economic growth.

#### GLOSSARY

**values** personal judgments as to what is important in life

**productivity** the amount of output produced from a given amount of input, measured over time

**law** the system of rules that are recognised by countries and communities, which regulate the actions of people and can be enforced by penalties and sanctions

#### Why governments intervene

- 1 Explain why some people believe that governments should intervene in the operation of the free market.
- 2 Choose two reasons governments intervene in the operation of the free market and give an example of each.

#### DEVELOPING YOUR UNDERSTANDING 3.1

**SOURCE 3.2** Governments regulate, control and actively participate in the economy to redistribute income and avoid huge differences in wealth.



## 3.2 Fiscal and monetary policy options designed to improve living standards

Governments determine the desired point at which they want the economic performance of the country. It usually involves the desire to maintain steady prices, a satisfactory employment level and potential growth in the economy. **Fiscal policy** is then used to adjust the economy to that desired level. The Australian Government is responsible for setting fiscal policy to influence the economy through the way it uses the taxation it collects and the way it then spends that revenue. Fiscal policy can be used to either stimulate a sluggish economy or to slow down an economy that is growing too fast, which can result in increasing levels of inflation (i.e. price increases).

The aim of **monetary policy** is to encourage strong and sustainable growth in an economy. It works to control inflation and preserve the value of money; monetary policy does this by managing interest rates and the total supply of money in circulation in the country. In Australia, The Reserve Bank is actively involved in working with the federal government on administering its monetary policy.

The government has available to it a range of policy options it can implement to improve the living standards of Australia. Five of these options – productivity, training and workforce development, taxation, work visas and migration, and buying or selling Commonwealth Government Securities – are set out below.

### Productivity policy

The Australian Government actively intervenes in the economy to encourage productivity improvements.

The **Australian Productivity Commission** is an independent research and advisory body that works to assist the government in creating better policies and promoting productivity improvements. Better productivity creates more income for less or the same amount of resources, and makes better use of economic resources.



**SOURCE 3.3** The Reserve Bank of Australia works with the federal government to administer monetary policy.

### Shifting the dial: Improving Australia's productivity performance

In 2017 the Australian Government asked the Productivity Commission to undertake an inquiry into Australia's productivity performance and to recommend reform priorities. This review is the first in a series, to be undertaken every five years, of Australia's productivity performance, with the aim of developing and prioritising reform options to improve the wellbeing of Australians. The Commission reported to the government that it needs to create a new way of thinking about productivity and prosperity. This new way of thinking is driven by two major factors.

#### GLOSSARY

**fiscal policy** the way in which a government changes its spending levels and taxation to monitor and influence the economy of the country

**monetary policy** policy aimed to influence interest rates and manage the total amount of money in circulation in a country

**Australian Productivity Commission** an independent body that advises the government on microeconomic policy, regulation and a range of other social and environmental issues

The Productivity Commission's legislative 'instructions':

- improve the productivity and economic performance of the economy
- reduce unnecessary regulation
- encourage the development of efficient and internationally competitive Australian industries
- facilitate adjustment to structural change
- recognise the interests of the community generally and all those likely to be affected by its proposals
- promote regional employment and development
- have regard to Australia's international commitments and the trade policies of other countries
- ensure Australian industry develops in ecologically sustainable ways.

**SOURCE 3.4** The Australian Productivity Commission provides independent advice and research to the government on optimising economic resource usage. (Source: Productivity Commission 2014, *A Quick Guide to the Productivity Commission*.)

- 1 Income growth has stalled, particularly for wage earners.
- 2 The changing nature of the Australian economy, with more focus needing to be placed on the non-market sector (i.e. education and healthcare) and on the quality of the cities where 80% of Australians live. The Commission's key reform priorities are:
  - more integrated healthcare that places the patient at the centre and that manages and prevents the onset of chronic ill health
  - an education system that supports better teaching in schools and universities



**SOURCE 3.5** One of the Commission's key reform priorities is to have an education system that supports better teaching in both schools and universities.

- cities that ease the costs of moving around and locates infrastructure and services where people most value them.

(Source: Australian Government Productivity Commission, *Shifting the dial: Improving Australia's productivity performance*, December 2017.)

## Training and workforce development

The federal and state governments fund education and **training** to ensure an adequate supply of skilled workers. A pool of highly skilled and flexible workers is vital to Australia's ability to improve productivity and its international competitiveness, as well as to maintain its current living standards. Public sector schools, TAFE colleges and universities are vital to ensuring this. Traditional unskilled labouring jobs are fast disappearing and there is growing demand for skilled employees. New technologies are demanding highly skilled, flexible employees with the ability to retrain and update skills as new technologies and innovations evolve. Governments provide a publicly funded system of training and education to ensure an abundant supply of suitable workers is available

### GLOSSARY

**training** the act of teaching and enhancing skills and behaviour

to Australian employers. Incentives are available for unemployed people to retrain.

The manufacturing industry in Australia is going through a period of transformation. Many manufacturers have closed their operations or decided to undertake their manufacturing operations overseas due to increasing costs of production. This change has created a pool of workers who need to be retrained so they can obtain jobs in other industries. The Australian Government and two state governments (South Australia and Victoria) created the Next Generation Manufacturing Investment Programme in response to Holden and Toyota announcing their car manufacturing and assembly plants would close in Australia by the end of 2017.



### ACTIVITY 3.1 Research

#### Government grants

Access the website for Business.gov.au and search for the Next Generation Manufacturing Investment Programme to answer the following questions.

- 1 Describe the purpose of the Next Generation Manufacturing Investment Programme.
- 2 Choose six businesses which have received grants. Describe the size of the grant the business received and how the business intends to use the grant.
- 3 The Next Generation Manufacturing Investment Programme is part of the Australian Government's \$155 million Growth Fund. Describe the purpose of this fund.

## Taxation

In Australia there are many forms of taxation; individuals and companies are required to pay taxes to all levels of government. These taxes are collected to pay for the provision of public services, such as healthcare, education and transport, while also helping those needing assistance in the form of pensions and grants. A goods and services tax (GST) is another form of revenue collected by the federal government,



**SOURCE 3.6** A goods and services tax (GST) is another form of revenue collected by the federal government.

which is then paid to the states by way of a distribution formula determined by the Commonwealth Grants Commission.

Personal income tax is imposed on the personal income of each person. It is calculated on a progressive basis, with higher tax rates applying to higher income levels. The reasoning behind using a **progressive tax** system is to reduce wealth differences in the community and as a way to redistribute wealth. A tax-free threshold is provided where no tax is paid; over that amount, the income earner pays progressively more tax as their income increases. In addition to paying personal income tax, the federal government imposes a two per cent Medicare levy, which is to help fund the National Disability Insurance Scheme (NDIS). The calculation of taxation for companies is different. They pay a flat rate of tax, which for the end of 2018 year is 27.5% if the turnover of the company is less than \$25 million and 30% if the company's turnover is larger.

## Work visas and migration

The Australian labour force must be able to meet the needs of the economy in regards to skills and

### GLOSSARY

**progressive tax** tax system in which those who earn higher incomes pay a higher percentage of their income as tax than those with lower incomes

**Taxable income**

The 2017–18 tax scales are outlined in the following table.

Taxable income	Taxable income
0–\$18 200	Nil
\$18 201–\$37 000	19c for each \$1 over \$18 200
\$37 001–\$87 000	\$3572 plus 32.5c for each \$1 over \$37 000
\$87 001–\$180 000	\$19822 plus 37c for each \$1 over \$87 000
\$180 001 and over	\$54 232 plus 45c for each \$1 over \$180 000

**SOURCE 3.7** Tax rates 2017–18 (Source: ATO.)

Calculate the amount of income tax paid on each of the following annual incomes.

- a \$45 000
- b \$156 000
- c \$90 000
- d \$1 456 000
- e \$60 000

**DEVELOPING YOUR UNDERSTANDING 3.2**

experience. If it is determined there is a skill shortfall in the Australian workforce, the federal government has various visa options available to source additional workers. One scheme is the Skilled **Migration** Program, which is specifically designed to target potential immigrants with skills and abilities that will contribute to the Australian economy. If a person has the skills or qualifications that have been identified to be in shortage in Australia by either an employer or level of government, they may apply using SkillSelect for a skilled visa.

Under this scheme, migrants may be:

- sponsored by an employer
- sponsored by a state or territory government
- gain entry on the grounds of possessing a history of innovation or success in running a business, and have potential to contribute to Australian innovation and economy
- have special or unique talents such as sporting, musical or artistic abilities
- assessed according to their skill, education, attributes and suitability.

**GLOSSARY**

**migration** movement of people from one country to another for permanent resettlement



**SOURCE 3.8** There are a range of visa options for people wanting to work and/or live in Australia.

### Skilled occupations

Go to the website for the Australian Government Department of Jobs and Small Business and search for skill shortages for Australia.

- 1 Look at the national skill shortages list – Australia. Identify three occupations or professions. Explain the type of shortages and determine whether the situation will change.
- 2 Look at the skill shortages list for one of the states. Identify four occupations or professions. Determine whether the situation will change.
- 3 Are there any differences between the national and state skill shortages? Provide reasons for the similarities and/or differences.
- 4 Explain why the federal government would publish a list of skill shortages.

### DEVELOPING YOUR UNDERSTANDING 3.3

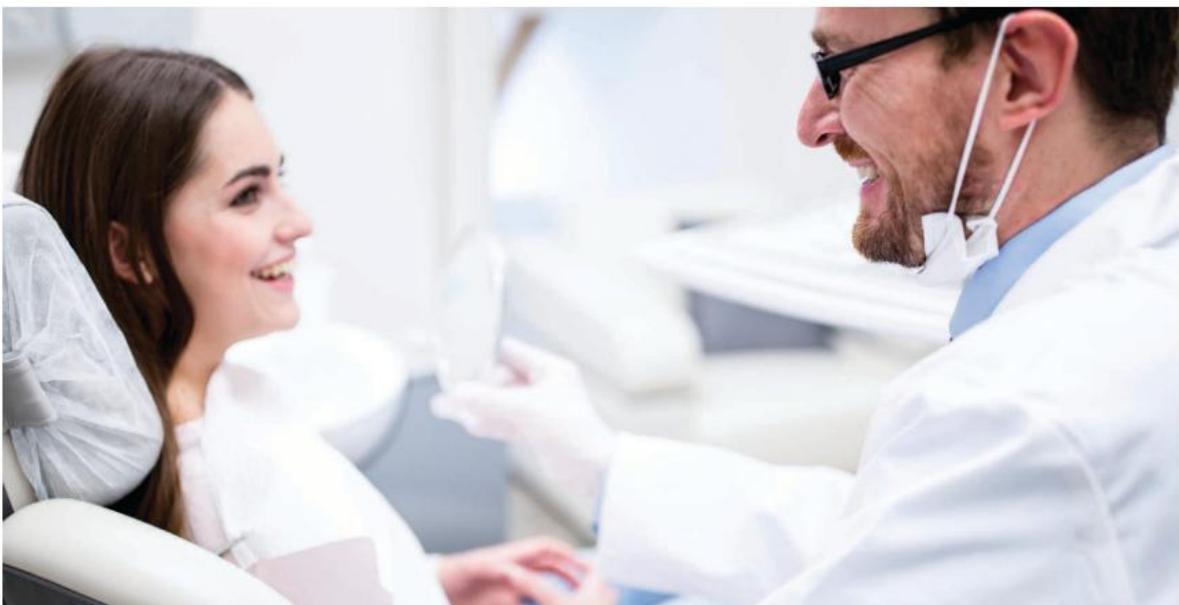
The Australian workforce may only need to be supplemented on a temporary basis. To overcome this shortfall, a **Temporary Skill Shortage (TSS) Visa** was introduced in March 2018, replacing a previous scheme known as the 457 visa. This visa program is comprised of a short-term stream of up to two years and a medium-term stream of up to four years. It is aimed at supporting businesses that have identified skill shortages in their workforce. The list of targeted occupation lists has been refined to reflect the actual skill shortage in the Australian labour market. The difficulty of gaining a skilled workforce in regional Australia has also been recognised and the selection criteria for workers in these areas has been relaxed.

#### GLOSSARY

**Temporary Skill Shortage (TSS) Visa** approval from the government to work in a host country for a certain amount of time

### Buying or selling government securities

The Australian Government issues bonds called Commonwealth Government Securities, which can be purchased by individuals and institutions such as insurance companies and banks. These securities can then be traded on the Australia Securities Exchange (ASX) at market rates. If an investor holds onto the security until the defined maturity date, they will get back the total value of the security. It is a low-risk investment as the investor receives a predictable cash flow paid on a periodic basis with a defined maturity date. For the government, selling this form of security provides it with an additional form of revenue. The current per cent yield for these securities is between two and three per cent, which is comparable to bank interest rates.



**SOURCE 3.9** The list of targeted occupations includes dentistry.

## CASE STUDY 3.1

### Skilled migrants

#### Temporary Skills Shortage Visa

WE'LL HAVE TO TRAIN MORE AUSTRALIANS TO DO THE WORK

*Chris F. Wright, Senior Lecturer, University of Sydney*

19 April 2017, News.com.au

The government's decision to establish a training fund as part of the replacement package for 457 visas is welcome given unemployment and underemployment is relatively high, especially among younger workers.

The Turnbull government clearly needs to do more to encourage employers to use domestic policy mechanisms – such as structured training and active labour market policy – to increase the supply of skilled labour rather than just looking abroad.

However, more extensive changes to education and training policy are required. Over the past quarter-century there has been a wholesale change in how employers address their skills needs. There has been a significant decline in employer investment in training and developing their workforce.

This is partly a consequence of the deregulation of the employee training system by the Keating and Howard governments that led to an erosion of structured training and to a decline in the quality of training.

As a consequence, employers became more inclined to engage ready-trained skilled migrants. My research with Dr Andreea Constantin showed employers who use the 457 visa were more than twice as likely to address skilled job vacancies by recruiting workers from abroad as they are to train their existing employees.

These problems have also been highlighted by other studies and are unlikely to be resolved without greater co-ordination and investment by employers and government.

It's unrealistic to expect that any local worker can be trained to be completely adequate for meeting employers' skills needs. As the Roach Review argued when it first recommended the introduction of the 457 visa in 1995: 'A country of Australia's size cannot expect to be completely self-sufficient at the leading edge of all skills in the area of key business personnel ... it is not realistic for Australia to attempt to develop specialised skills in all areas.'

**SOURCE 3.10** Henry Sherrell, Chris F. Wright and Joanna Howe, '457 abolished: How the Temporary Skill Shortage Visa works', *News.com.au*, 19 April 2017

- 1 Describe the purpose of the Temporary Skills Shortage (TSS) Visa.
- 2 Which visa is the TSS Visa replacing?
- 3 Outline the objections of many people to the 457 Visa.
- 4 Describe the approach that Chris Wright believes needs to be put in place for the shortage in the Australian skilled workforce to occur.

## 3.3 Government intervention

### Income

There are several measures in place designed to redistribute income from richer to poorer citizens and to reduce the wealth disparities in the Australian community. While most Australians are able to earn sufficient income to sustain high living standards, there are many who do not have sufficient financial resources to sustain an acceptable lifestyle. A person may be out of work, unable to work due to age or disability, or simply too young or sick to work. Similarly, many people perform economically valuable but unpaid work, such as caring for young children or caring for those who are unable to care for themselves. The government has a number of measures to ensure that these people have access to acceptable living standards.

The government collects tax revenue and redistributes some of this back to low-income earners. Consumers, for instance, pay a goods and services tax when they purchase products, employees pay income tax and companies pay company tax. A proportion of tax revenue is then used to pay benefits, known as **transfer payments**, to those who are either not earning an income or are only earning a minimal income. The elderly, sick and disabled may be eligible for a **pension**. Similarly, chronically ill people may be entitled to sickness benefits. Families on low incomes are supplemented with Family Assistance payments.

**SOURCE 3.11** Many people perform economically valuable but unpaid work, such as caring for young children or caring for those that are unable to care for themselves.



**SOURCE 3.12** The government has a number of measures to ensure people have access to acceptable living standards.

If a person is unemployed, they may be entitled to receive some income support by way of a Newstart Allowance while they are looking to gain employment.

Students can apply for a range of support services while in full-time study or undertaking an apprenticeship. They may be eligible to gain

#### GLOSSARY

**transfer payments** income redistribution made in the form of welfare, social security and government subsidies

**pension** a regular payment made by the government to people



a Youth Allowance, which is a means tested payment for full-time students and apprentices between the ages of 16 and 24 years. Older students and apprentices engaged in full-time studies may also apply for financial assistance under the means tested scheme, Austudy. People receiving these benefits may also be entitled to cheaper medicines and reduced healthcare costs.

These various schemes outlined above are known as **wealth redistribution**. The purpose of which is to ensure that everyone has enough money to survive and to minimise the gap between rich and poor.

### GLOSSARY

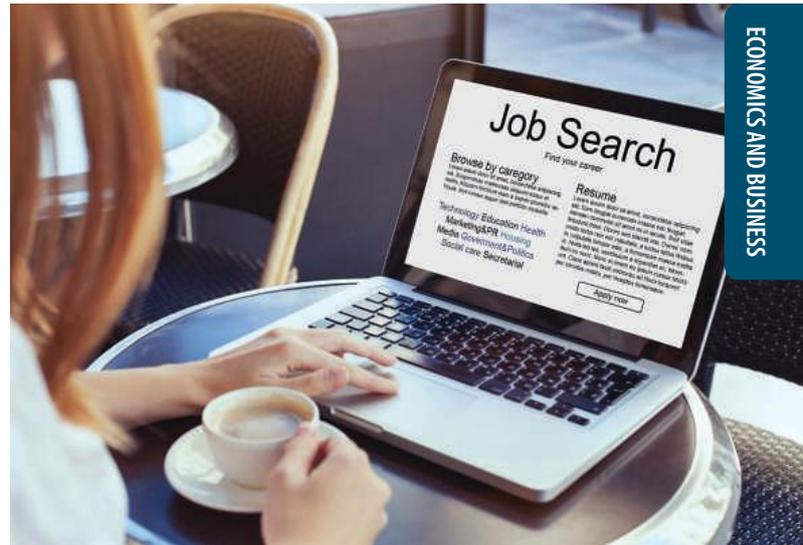
**wealth redistribution** the redistribution of income from high-income earners to low-income earners in the form of services and welfare, administered through the taxation system

JobSearch is a federal government initiative to link employers with workers seeking employment. Employers can advertise jobs on the job active website at no cost to them, while people seeking employment are able to check the website to see what jobs are available.

## Healthcare

The provision of healthcare in Australia is shared by all levels of government (federal, state and local) and private organisations. The Australian Government is responsible for setting the national health policy, with the various state governments being responsible for various elements of the system, such as the running of hospitals. Local governments play an important role in the health system by providing services including environmental health services (such as sanitation) and a range of community-based health and home-care services.

Medicare is the publicly funded healthcare system for all citizens of Australia. It gives them access to a range of medical services, such as doctors, medical specialists, optometrists and other allied health professionals, for free or



**SOURCE 3.13** If a person is unemployed, they may be entitled to receive some income support while they are looking to gain employment.

at a reduced cost. It also includes free care as a public patient in a public hospital and lower cost prescriptions. This scheme is largely funded through the Medicare levy imposed on income tax payers.

Medicare coexists with the private health system where people are encouraged to take out private health insurance if they want to have greater choice of provider or services (i.e. medical, hospital and ancillary services).



**SOURCE 3.14** Medicare is the public healthcare scheme of the Australian Government.



**SOURCE 3.15** Early childhood education



**SOURCE 3.17** Secondary education



**SOURCE 3.16** Primary education



**SOURCE 3.18** Tertiary education

## Education

The provision of education in Australia encompasses four sectors:

- early childhood education (preschool)
- primary education (primary school)
- secondary education (high school)
- tertiary education (universities, TAFE colleges, and vocational education and training providers).

Government schools educate approximately 60% of Australian students. The states and territories of Australia provide the majority of the funding required to build and operate the schools, and the Australian Government provides supplementary assistance. Approximately 40% of students attend either private or independent schools. While these schools charge tuition fees,

public funding is also provided by the Australian Government with supplementary funds being provided by the states and territories.

The education service provided in primary and secondary schools is based on the Australian Curriculum.

The majority of Australian universities are public, with student fees being subsidised through the Higher Education Loan Programme (HELP) where repayment by the student becomes due after they have graduated and receive an income level determined by the government. This programme is administered by the Australian Department of Education and Training and the Australian Taxation Office. As mentioned earlier in the chapter, the government also provides assistance in the form of a Youth Allowance or Austudy payment.



**SOURCE 3.19** Approximately 40% of students attend either private or independent schools.

### Government intervention

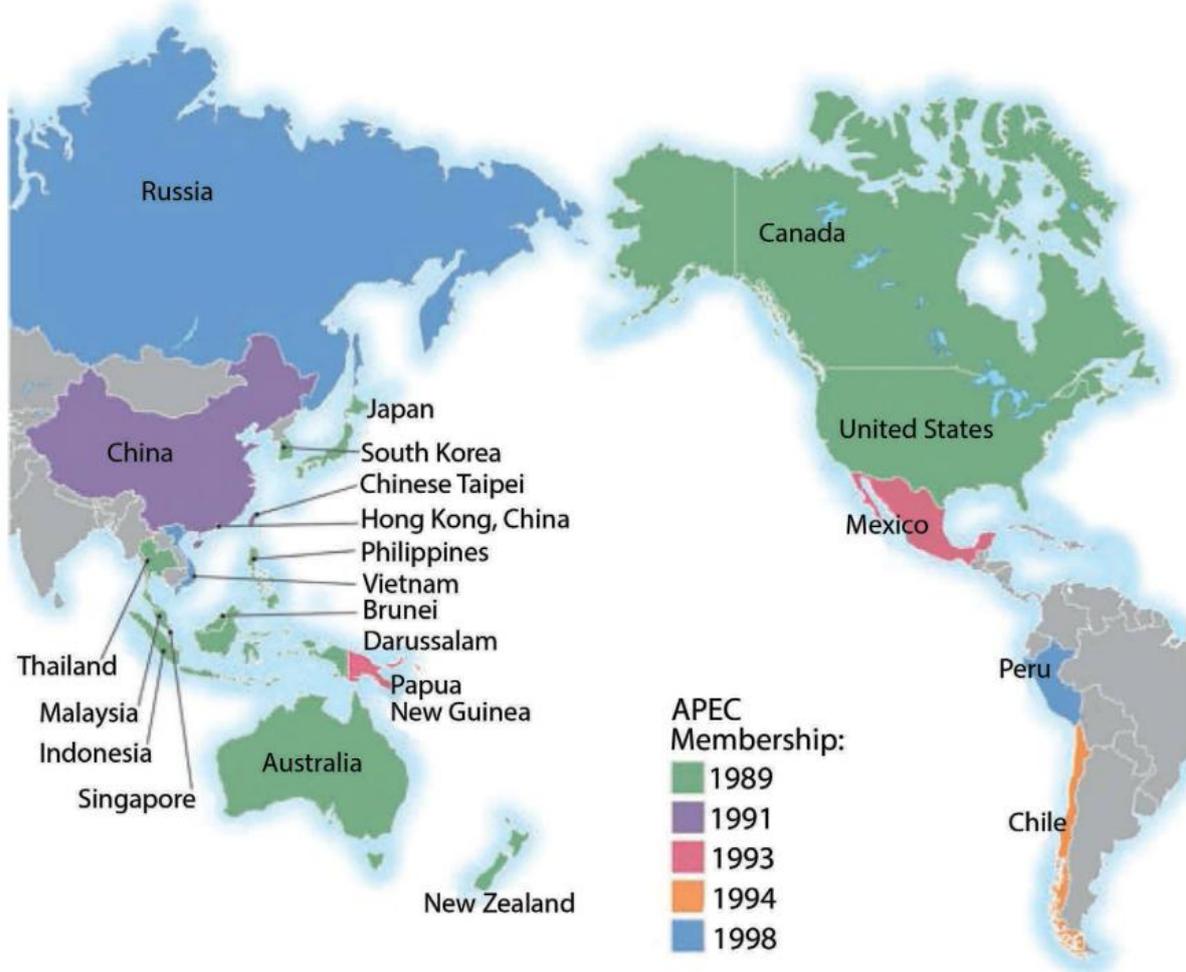
### DEVELOPING YOUR UNDERSTANDING 3.4

- 1 What form of government benefit will each of the following groups be eligible for?
  - a Students
  - b Chronically ill
  - c Unemployed
  - d Elderly
  - e Low income families
- 2 Which level of government is responsible for each of the following roles in the provision of healthcare in Australia?
  - a Home-care services
  - b National policy
  - c Hospitals
  - d Sanitation
  - e Medicare

### 3.4 Australia's support of economic growth in the Asia–Pacific region

The Australian Government actively promotes economic development in the Asia–Pacific region through participation in the Asia–Pacific Economic Cooperation (APEC) forum. Australia was a founding member of APEC in 1989, the primary purpose of which is to facilitate economic growth and prosperity in the region through free trade, investment, business, and economic technical development and cooperation. The

aim of APEC is to stimulate economic growth and development in the Asia–Pacific region by removing impediments to trade and economic cooperation between the 21 member nations. The 21 member nations of APEC generate more than half of global GDP and have a population of more than 2.7 billion people. Currently, more than two-thirds of Australia's trade in goods and services is with its APEC partners.



**SOURCE 3.20** APEC members around the world and the year they joined. Trade with APEC partners makes up two-thirds of Australia's total trade in goods and services.

#### APEC

- 1 What is the primary purpose of APEC?
- 2 How much of Australia's trade in goods and services is with its APEC partners?
- 3 Use the map in Source 3.20 to answer the following questions.
  - a Founding members of APEC included Australia, New Zealand, the United States and Canada. Name four more of the founding members.
  - b Name two of the most recent members of APEC.

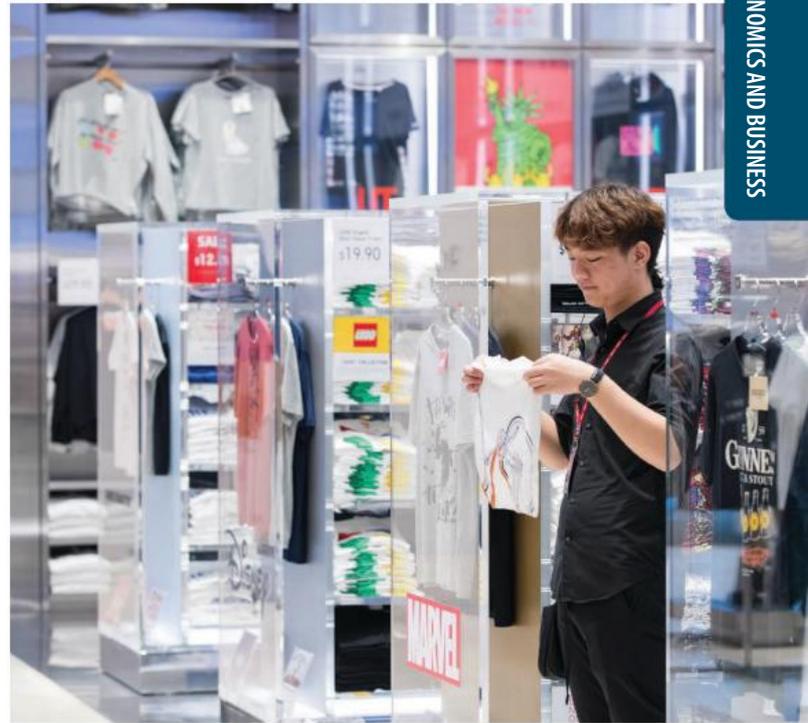
#### DEVELOPING YOUR UNDERSTANDING 3.5

### 3.5 Impact on living standards

There are a number of factors that impact on the living standards of Australians. These include minimum wages, government payments, taxation and government funded services.

#### Minimum wage

In Australia there is a minimum wage to ensure that employees are protected and given a fair and reasonable pay to live on. The **minimum wage** is an employee's base rate of pay for the ordinary hours worked. It is generally set out under a modern award or registered enterprise agreement (which are pay and conditions either set out by Fair Work Commission or negotiated at the workplace level and then registered). The Commission determines pay and conditions based on submissions from different groups and research. Employees cannot be paid less than the minimum wage although occasionally there are businesses that have done this illegally. There have been investigations into businesses such as Seven Eleven who paid workers less than the legal minimum. In 2018 the national minimum wage is \$18.29 per hour or \$694.90 per 38-hour week (before tax). Casual employees covered by the national minimum wage get at least a 25% casual loading on top of this.



**SOURCE 3.21** Casual employees covered by the national minimum wage get at least a 25% casual loading on top of this.

#### GLOSSARY

**minimum wage** an employee's base rate of pay for the ordinary hours worked

#### Fair Work Commission

Go to the Fair Work Commission website and answer the following questions.

- 1 What does the Fair Work Commission do?
- 2 Explain the concepts of awards and agreements.
- 3 What is the current minimum wage?

#### DEVELOPING YOUR UNDERSTANDING 3.6



**SOURCE 3.22** Employees who work weekends, public holidays, early mornings or late nights, such as those in the hospitality industry, are also due penalty rates. Penalty rates are increases in the pay rate for certain shifts.

## Government payments

Governments at the state and federal level provide different types of support and payments for people who may need help. The community expects the government to provide support and assistance to people and groups in the community who may

struggle to maintain sufficient living standards. This ensures they are able to function within society. The government therefore guarantees that there is a safety net that allows people to access allowances and pensions when needed. There are a range of payments, some are set out in the table below.

Payment	Explanation
Family Tax Benefit	Paid to a parent or guardian or an approved organisation to assist with childcare costs. This can be paid fortnightly or as a lump sum.
Newborn Supplement and Newborn Upfront Payment	If parents are not accessing Parental Leave Pay, they may receive the Newborn Supplement for up to 13 weeks to help with the upfront costs of a newborn child.
Rent Assistance	Some people are entitled to receive extra assistance with private rental payments.
Health Care Card	This is paid to individuals who receive Family Tax Benefit Part A in fortnightly instalments. This is assessed annually.
Paid Parental Leave Scheme	This is an entitlement for eligible working parents and provides financial support to families to enable more parents to take time off work. This is available to parents (usually the birth mother) and fathers and partners.
Jobs, Education and Training Child Care Fee Assistance	This program will cease on 1 July 2018. The new childcare package will introduce the Additional Child Care Subsidy (Transition to Work), which will help support parents transitioning to work from eligible income support payments by engaging in work, study or training activities. This provides extra help with the cost of approved childcare to eligible parents.
Parenting Payment	This is paid to one parent for a child aged under 6 (8 if a single parent)
Double Orphan Pension	If a child aged under 16, or 16–19 for a student, does not have parents then this payment can be accessed.
Age Pension	People born before 1 July 1952 are eligible for the age pension at 65 years of age. This increases for those born after this date and people born after 1967 are eligible for the pension at 67. The pension is means tested and after a certain level of income people are not eligible for it.
Disability Support Pension	This is available to people aged over 16 but under the Age Pension age at the date of claim lodgement. The impairment must be one assessed under conditions and the person cannot work over the next two years.
Sickness Allowance	This is paid to people aged 22 or over but under the Age Pension age and temporarily incapacitated for work. People must also have a job or full-time study to return to.

**SOURCE 3.23** Examples of federal government payments

Payment	Explanation
Carer Payment and Carer Allowance and Carer Supplement	This is paid to a person who is providing constant care to a person who has a physical, intellectual or psychiatric disability, or a disabled adult who has dependent children in their care. The supplement is an annual lump sum payment to recipients of the carer's allowance or carer's payment.
Austudy	This is payable to eligible people undertaking full-time study or a full-time apprenticeship and are aged over 25.
Abstudy	This is payable to eligible people who are of Aboriginal or Torres Strait Islander descent under the Abstudy definition and if studying at an approved education institution.
Youth Allowance	This can be paid to full-time students and apprentices aged between 16–24. Job seekers aged under 22 looking for work and studying part time may also be eligible.
Newstart Allowance	To access this allowance, a person must be considered unemployed and aged over 22 but under pension age. There are also obligations such as the completion of a Job Plan.
Farmer Household Allowance	To access this allowance, a person must be a farmer or the partner of a farmer and be over 16, and contribute significant labour and capital to the farm.
Concession cards, bonus payments, supplements and allowances	These are automatically issued to a range of people, for example, those who have the Age Pension, Disability Support Pension, Wife Pension, Carer Payment, Newstart Allowance, Parenting Payment and Youth Allowance.
Remote Area Allowance	This is a tax-free allowance for pensioners, allowances and beneficiaries.

SOURCE 3.23 (Continued)



SOURCE 3.24 Governments at the state and federal level provide different types of support and payments for people who may need help.



### ACTIVITY 3.2 Research

#### Federal government payments

- 1 Choose two of the government payments outlined in Source 3.23 and research the details of each payment. This could include eligibility, the amount provided, conditions and duration of the benefit.
- 2 Suggest two reasons why the government provides such payments and benefits.
- 3 Describe the impact that these types of payments have on the community.

## Taxation

As mentioned previously in this chapter, the government has a range of taxes that are used to raise revenue to enable it to spend money on required programs and services. The majority of taxation revenue is generated through income tax, company taxation and taxation on specific goods and services, such as the GST and excise taxes. This revenue is then used for government programs and spending. This can have a major impact on living standards of people within Australia.

The types of tax, the rates of tax and the way it is implemented can all influence the living standards of Australians. While most people understand that they need to pay tax to have services such as education, roads, health and government payments provided, many are not happy with the rates of tax they may need to pay. There has been negative feedback from associations and some **media** outlets because some people and

### GLOSSARY

**media** the collective term for the primary means of mass communication (including television, radio, the internet and social media). Media is central in democracies as it informs and influences the people by communicating an array of viewpoints.

## ECONOMICS AND BUSINESS FACT

According to a release from the Australian Taxation Office in December 2017, 36% of large companies and multinational corporations paid no tax in Australia.

companies pay little or minimal tax and are seen as not contributing their share of revenue.

Individual income tax rates and company tax are discussed earlier in this chapter. Businesses also collect GST (goods and services tax) on behalf of the federal government. The GST is on most goods and services except for some that are exempt. This includes most basic food, some education courses, some medicines, water, sewerage and drainage, and farmland.

The taxation system aims to generate sufficient revenue to provide services that the community expects and to support a fair society. It is also expected that people should contribute to taxation revenue in a fair and equitable manner. Governments also need to use the revenue they receive to sustain and stimulate the economy when economic conditions dictate.

## Company taxation

### Article one

The federal government has put the focus onto the economy recently. The United States is looking at cutting company tax to 20%, which is lower than the current rate in Australia. Singapore has a national company tax rate of 17% and some income is exempt from any tax. The United Kingdom has a company tax rate of 19%, and in the United States there are a number of different taxes and state levies for a total of around 39%. Australia's company tax rate is relatively high when compared with a range of other countries. Many politicians, commentators and business groups have argued that the rate of company tax should be reduced to enable Australia to remain competitive and be seen as a desirable place to invest.

**SOURCE 3.25** 'Fact check: Will Australia be uncompetitive on company tax if the Government's reforms fail?', *ABC News*, 30 November 2017

## DEVELOPING YOUR UNDERSTANDING 3.7

## Article two

The third annual corporate tax transparency report by the Australian Taxation Office stated that Murdoch's News Corporation paid no tax whatsoever in 2015/16 on an Australian income of \$2.9 billion. Other entities related to News Corporation such as Foxtel Holdings did pay tax. Australia's biggest company BHP reported taxable income of \$5.3 billion on a total income of \$26.7 billion, paying an effective tax rate of 24%.

In releasing the figures, the Tax Office took care to point out that there are often legitimate reasons why companies pay less than the statutory rate.

Oil companies Exxon Mobil Corp and Chevron Corp paid no tax in Australia; however, both are investing in liquefied natural gas projects that will take years to produce returns.

ACTU (Australian Council of Trade Unions) President Ged Kearney said the tax data was 'nothing short of a national scandal'. He argued that it means there is not as much money for the federal government to fund schools, hospitals and other community services and needs.



**SOURCE 3.26** Murdoch's News Corporation paid no tax whatsoever in 2015/16.

**SOURCE 3.27** Extract based on P. Martin, 'Big firms including News Corp, Exxon and Chevron paid no tax in 2016, Tax Office says', *The Sydney Morning Herald*, 8 December 2017

- 1 Define company taxation.
- 2 Explain why it is important for the government to look at providing services to the community and also to try to keep company tax rates competitive.
- 3 Why would the ACTU and other groups be concerned that some multinational companies do not pay any tax in Australia?



## Government-funded services

The state and federal governments provide services to the community. These are funded through taxation and other government revenue. People in Australia expect the government, at the national, state and local level, to provide services and support them. Examples of government funded services include education, health, benefits and essential services, such as fire and police.

Level of government	Examples of services
Commonwealth (Australia)	Arts, recreation and culture Defence and border security Education Foreign affairs Health Housing Immigration Infrastructure Medical research funding Pensions and benefits for people Research and development
State	Arts, recreation and culture Police – law and order Emergency services Education Health and hospitals Housing Infrastructure projects
Local	Rubbish collection Recycling Library Projects and community education and childcare

**SOURCE 3.28** Services provided by different levels of government



### ACTIVITY 3.3 Research

#### Government services

- 1 Why do governments provide services for the community?
- 2 How does the provision of services enhance the living standards of people in Australia?
- 3 Research one of the services provided by a level of government, this may be at the federal, state or local level. What is the impact of this service?



**SOURCE 3.29** Rubbish collection is a service provided by local government.

**SOURCE 3.30** Emergency services are provided by the state government.



**SOURCE 3.31** The Commonwealth Government provides pensions and benefits for people.



### 3.6 Externalities that affect the wellbeing of society

There can sometimes be a difference or division between private and social costs. When making a decision, most individuals will look at their own costs and benefits rather than the social costs that could also be associated with their decision. It can become a dilemma since individual actions and wishes may have a negative impact on society and other people; questions may need to be considered regarding the balance between individuals and society as a whole. This is known as an **externality**.

#### GLOSSARY

**externality** when an action taken by one person directly affects the welfare of someone else in a non-monetary way

An externality must come from an action – an act by a person. In the majority of cases, the action is associated with production by a business or consumption by an individual or household. An externality can only occur when a person is directly affected by the individual or business. This might be the impact on the activities or profit of a business, or on the health, happiness or lifestyle of an individual. It does not, however, include transactions and the prices paid for goods or services. A person, for example, who moves further away from their employment may be adversely affected as the travel to work is longer thus cutting down the person's free time.

#### Externalities

- 1 Define the concept of externality.
- 2 Why is it important for individuals and businesses to take externality into account?
- 3 What would be the externality of the following situations?
  - a Roadworks and road closures make it difficult for a business to get their deliveries to customers on time
  - b Franca decides to increase her hours and work full-time
  - c A new restaurant close to a residential area decides to extend its opening hours

#### DEVELOPING YOUR UNDERSTANDING 3.8



**SOURCE 3.32** A person who moves further away from their employment may have less free time.

## Positive and negative externality

Externalities can have positive and negative effects. A **negative externality** occurs when the action of a person or a business imposes a cost or imposition on other people. This may include congestion at public spaces or on the roads. A **positive externality**, on the other hand, is when there is a benefit enjoyed by third parties because of the act of a person or business. This might include a situation where a business undertakes research which creates knowledge and ideas that can be shared with others in the community.

Although negative externalities sound bad and positive externalities sound good, a positive externality can also be a source of inefficiency. The behaviour reflects a difference between private costs or benefits and social costs or benefits.

### GLOSSARY

**negative externality** when an act by a person or business imposes a cost or imposition on other people

**positive externality** when there is a benefit for third parties that indirectly results from a private act of a person or business

## Costs and benefits associated with production or consumption

Sometimes the costs or benefits associated with the production or consumption of a product spill over or impact on people other than the consumers and producers. At times these effects can be significant.

If the external benefits from the production are substantial, then producers might decide to limit production of the good or service as people who have not paid for the product or service have also benefitted from it. It may also mean that supply is less than demand so the price or the product also increases. If a product or service is impacting in a negative way on society or people who have not purchased the product or service, then it may mean the government or other government bodies decide to introduce legislation or regulations to control the product because of the impact on the community.



**SOURCE 3.33** Congestion at public spaces is an example of a negative externality.

## Production of a good or service

There are a number of costs and benefits associated with the production of goods and services, these are outlined in the table below.

Costs	Benefits
Use of materials in the production process may be non-renewable.	Product or service is available to consumers and may influence other products and services as well.
Sourcing and getting materials and resources involved in the production process may have a detrimental impact on the environment.	Production may mean that new more efficient processes and products are developed. New technologies or advances may support the wider community.
Resources used for this product are not available for the production of other products or services.	The living standards of those in the community may increase.
Pollution may increase due to the production of the good.	Training is provided for employees which improves skill development and education.
Traffic congestion may increase if the product needs to be delivered to retail outlets or customers.	Jobs are created as businesses need to employ people to produce the products, which may also have a spin-off effect.

**SOURCE 3.34** Costs and benefits associated with the production of goods and services



**SOURCE 3.35** Pollution may increase due to the production of a good.

## Consumption of goods and services

There are also a range of costs and benefits associated with the consumption of goods and services.

Costs	Benefits
Pollution involved in the product or service may be adversely impacted, the more the product is consumed.	Access to quality goods and services for the community.
Litter may increase as the more the product is consumed, the more waste is generated.	May mean that more products and services are available to more people than before; for example, new medicine or technology to assist people.
Waste may increase as people consume the product; for example, packaging may be added to landfill.	The living standards of the population is generally higher when there is access to quality products and services.
Overconsumption of some products may be harmful for people.	

**SOURCE 3.36** Costs and benefits associated with the consumption of goods and services

### ECONOMICS AND BUSINESS FACT

The Victorian Environmental Protection Authority monitors and regulates pollution. It is currently monitoring pollution and emissions from the Brooklyn Industrial Precinct.

## 3.7 Ways governments can influence or regulate these impacts to ensure prices reflect external costs

If the externalities are negative in their impact on society at large, then it is likely that the community expects governments to intervene to minimise or eliminate the impact on people. Some examples of government interventions might include laws relating to pollution which could include regulations restricting some practices that make producers change their processes. Other laws might try to control the consumption of particular products such as alcohol or cigarettes. In Australia, for example, there are taxes on alcohol and cigarettes that are designed to try to reduce or discourage the consumption of these products because of the harmful impact they can

have on people's health and wellbeing. Cigarette advertising is banned and there are restrictions on advertisements for alcohol and gambling, which may come with a warning or are restricted to certain times of the day to discourage consumption.

In addition, governments can influence or regulate the impact of production through ensuring that there are minimum pay and conditions, and health and safety requirements for employees. They may also regulate many facets of production; for example, controlling the safety of products, incentives for businesses to invest in research and development, and labelling laws for products and services.

## CASE STUDY 3.2

### Regulation of gambling



**SOURCE 3.37** There are a number of bodies responsible for managing and overseeing gambling in Australia.

Read the following information and answer the questions below.

There are laws in Australia at the state and national level, and a number of bodies responsible for managing and overseeing gambling in Australia. The bodies include:

- ACT Gambling and Racing Commission – Australian Capital Territory
- Licensing Commission – Northern Territory
- Office of Liquor, Gaming and Racing – New South Wales
- Independent Gambling Authority – South Australia
- Office of Liquor and Gaming Regulation – Queensland
- Victorian Commission for Gambling and Liquor Regulation – Victoria
- Department of Racing, Gaming, and Liquor – Western Australia
- Tasmanian Gaming Commission – Tasmania
- Australian Broadcasting Authority – Manages a formal complaint process across Australia, allowing residents to register concerns involving the advertising of any interactive gambling products.

(Source: GamblingSites, *Gambling in Australia – A complete breakdown of their gambling laws.*)

There are also regulations that cover online gambling, although there are exceptions to the laws such as sports betting and some lottery games.

- 1 Describe some of the costs and benefits (externalities) associated with gambling.
- 2 Investigate the laws or the body responsible for regulating gambling in your state. Why was this body established and what powers does it have?

## CASE STUDY 3.3

### Sugar tax

*This Case study is available in the online version of the textbook.*



### ECONOMICS AND BUSINESS FACT

According to a recent Commonwealth Scientific and Industrial Research Organisation (CSIRO) report, the top dietary weaknesses for Australians are alcohol, chocolate and confectionary, cakes and biscuits, and sugar sweetened beverages.

### Government regulation to reflect externalities

### DEVELOPING YOUR UNDERSTANDING 3.9

- 1 List some of the ways Australian governments regulate consumption of products such as cigarettes and alcohol.
- 2 Give an example of occupational health and safety requirements in a particular industry.
- 3 Explain why the government would provide incentives for businesses to invest in research and development.



## REFLECTING AND CONSOLIDATING

### Chapter summary

- The government performs an important role in managing the economic performance of Australia to improve the living standards of the country.
- Fiscal and monetary policies are used to encourage strong and sustainable growth in the economy.
- The Australian Productivity Commission assists the government in creating better policies and to promoting productivity improvements.
- The government funds education and training to ensure an adequate supply of skilled workers.
- Taxation (personal and company) is collected by the government to provide the funds to be able to redistribute income to those who need assistance. Additional funds can be obtained by selling government securities.
- To assist Australia in having a skilled and experienced workforce necessary to meet the needs of the economy, overseas workers are able to apply for visas to come and work for varying periods of time.
- The government intervenes to redistribute income by providing pensions and youth allowances. In addition, they also assist people in their search for a job.
- The government provides goods and services in the form of healthcare and education.
- Australia is part of the Asia–Pacific region and the government actively promotes economic development in the Asia–Pacific region through its participation in the Asia–Pacific Economic Cooperation (APEC) forum.
- There are a number of factors that impact on living standards including minimum wages, government payments, taxation and government funded services.
- There are a range of benefits and allowances paid by state and federal governments to support people in the community.
- Externalities occur when one person takes action that directly affects another's welfare. It must come from an action.
- Externalities can have both positive and negative effects.

### Multiple-choice questions

- The Australian economy is classified as a
  - democratic economy.
  - market economy.
  - mixed economy.
  - socialist economy.
- Identify which of the following statements is not one of the aims of the Australian Productivity Commission.
  - To improve the productivity and economic performance of the economy
  - Promote regional employment and development
  - Ensure Australian industry develops in ecologically sustainable ways
  - Increase regulation of industry
- Which of the following nations is not a member of the APEC forum?
  - the US
  - India
  - Australia
  - Vietnam
- Which of the following statements is not correct?
  - Medicare is a private health insurance fund
  - Goods and Services tax does not apply to all items
  - The majority of students in Australia attend government funded schools
  - The age pension is not means tested

- 5 The minimum wage is determined by
- A the owner of a business.
  - B the Fair Work Commission.
  - C trade unions.
  - D an Act of Parliament.
- 6 An externality can be defined as
- A something external to the business.
  - B something that has a negative impact on people.
  - C when one person takes an action that directly affects another's welfare.
  - D an event that impacts on people through product pricing.

### Short-answer questions

- 1 Describe four ways the Australian (federal) Government intervenes in the economy in order to:
  - a ensure all Australians have acceptable living standards
  - b ensure the economy is stable and has the potential to grow.
- 2 Describe one way that the Australian Government can stimulate a sluggish economy.
- 3 Identify the two major factors affecting the productivity and prosperity of Australia as identified by the Productivity Commission.
- 4 Define the term 'taxation'. Identify the purpose of taxation and the various forms of taxation imposed by the Australian Government.
- 5 Describe how the government selling government securities can benefit the Australian economy.
- 6 Identify the primary purpose of the Asia-Pacific Economic Cooperation (APEC) forum.
- 7 Define the concept of a minimum wage. Why is it important for employees to have a minimum wage?
- 8 Explain why governments provide benefits for people who qualify.
- 9 Define the concept of externalities.
- 10 Distinguish between a positive and a negative externality.
- 11 Why do governments try to influence or regulate some products and services?

### Extended-response question

The Australian Government has recognised that the Australian workforce sometimes needs to be supplemented on a temporary basis especially in regional areas. To support businesses with identified skills shortages in their workforce, the government introduced the Temporary Skill Shortage (TSS) Visa. The difficulty of gaining a skilled workforce

in regional areas was recognised with the selection criteria for workers in these areas being relaxed.

Discuss whether you believe the introduction of this visa was a good initiative of the Australian Government.

# Chapter 4

# Factors influencing major consumer and financial decisions

**SOURCE 4.1** Sound financial decision-making can ensure a lifetime's security.

## Main focus

We all love to buy and consume things, bearing in mind that we also have to pay for them as well. It is important to understand what factors affect our decision-making and what could be the short- and long-term consequences of these decisions. This chapter focuses on identifying and explaining the range of factors that influence our decision-making as consumers. In addition, we look at the outcomes that are associated with the product we choose to purchase. We also identify the difference between what is considered to be a minor or major consumer and financial decision.

## Why it's relevant to us

When making decisions to purchase a large consumer item or enter into a financial arrangement or commitment, it is important that we recognise and understand that we need to gain a detailed understanding of what we are entering into. Also, we need to know that there will be associated outcomes of a personal and financial nature.

## Inquiry

- What are the factors that influence our buying decisions?
- What is opportunity cost? How does it impact on our buying decisions?
- Evaluate the outcome of making a major consumer and finance decision, such as purchasing a car.
- Identify the difference between minor and major consumer and financial decisions.

## Key terms

- budget
- comprehensive (insurance)
- cost–benefit analysis
- debt cycle
- depreciation
- opportunity cost
- price
- price elastic
- price inelastic
- top-shelf

## Let's begin

Prior to making any major consumer and related financial commitments, we need to understand that there will be consequences of a short- and long-term nature associated with these decisions. To make a 'good' decision we need to understand all the factors and repercussions associated with the purchase we want to make or problem we want to resolve.

## 4.1 Major buying decisions of consumers

When people make decisions about buying things for themselves, or for their households, they may be influenced by a range of internal and external factors. Price, marketing strategies and finance (availability and cost) are all external factors. The person's age, gender and personality, their lifestyle, their occupation and economic circumstances, and where they are in their life-cycle are all examples of internal factors. Cultural and social influences (e.g. peer and family pressure, and social status), psychological elements (e.g. motivation, beliefs and attitudes) and ethical and environmental concerns are also examples of internal factors.

### External factors

#### Price

When making a purchasing decision, one of the most important issues is often the cost of the product. The **price** tag carries a range of messages, which lead to questions in the consumer's mind. Is the product a **top-shelf** item or one that is inferior? If I buy this product at the marked price, am I paying a fair and reasonable price or is the price too good to be true (a bargain), or am I getting 'ripped off'?

#### GLOSSARY

**price** the amount of money paid by customers for a product or service

**top-shelf** of a high quality

The price charged for some products is very closely linked to the level of supply of that product. The price of fresh fruit and vegetables for example, is highly dependent on the level of supply available when the fruit shops are buying from the wholesale fruit and vegetable market. These products also have the additional consideration of seasonal factors affecting availability of supply. When the marketplace is oversupplied with the product, the price will usually fall. For consumers, this provides an opportunity for them to buy the product at a cheaper price and, if desired, to buy a greater quantity than they would normally purchase.



**SOURCE 4.2** The price tag placed on a product by the manufacturer or retailer conveys a range of messages or perceptions to the consumer.

For instance, in summer the price of strawberries and stone fruit usually falls, and many consumers are then able to enjoy these as fresh fruit as well as use them to make jam. Products that have a large drop-off in demand due to a price increase are referred to as being **price elastic**.

A price rise for some products – for example, items such as milk, bread and eggs – usually has little or no impact on the demand for the products. The products are referred to as being **price inelastic**.

#### GLOSSARY

**price elastic** when the demand for a product has a large drop-off because the price of the product increases

**price inelastic** when an increase in price has little or no impact on the demand for the product

If the price of a product is low and perceived to be of good value, a consumer may decide to buy more than one item. For instance, small items of clothing, that are not closely related

to fashion, such as socks and underwear, are often sold as pairs or in multiple packs. When making a price comparison, a consumer may find that these multiple packs offer better value to them than buying an individual item. Another popular area where price is important to consumers is when purchasing fuel for cars. Many car owners will make a conscious decision to fill up their car on particular days of the week as the price often fluctuates over the seven-day period.

### Marketing strategies

The purpose of marketing is to raise the consumer's awareness of a product and to create a positive image about that product or brand. It aims to create your sense of need for a particular product. Businesses use many marketing strategies and promotional tools to influence and encourage consumers to purchase their product. Some of these methods are:

- advertisements placed in newspapers, magazines, on TV or radio, direct mail, outdoor advertising, yellow pages or the internet
- sale promotions and incentives (e.g. specials such as 'buy one, get one free')
- personal selling by personnel with product knowledge and good interpersonal skills
- internet marketing
- social media where various website and applications enable users (often manufacturers and retailers) to create and share content or participate in social networking.



**SOURCE 4.3** Price is important to consumers when purchasing fuel.

When consumers are deciding whether to purchase a particular product they may be influenced by information-based marketing, where the facts about that product are provided to connect on an intellectual level with the consumer and so encourage them to make an informed decision about the purchase. This information may be gained from catalogues, television commercials, the internet or social media, where the product, and the virtues or failings of using it, are provided.

The following table lists the global average of consumers in 2014 who sought product information online and then actually purchased online. It is imperative that businesses wishing to use the internet as a marketing tool ensure the purchasing experience for customers is safe, convenient and cost-effective.

Generation	Will browse online	Will buy online
Generation Z (under 20)	6–9%	5–9%
Millennials (21–34)	49–59%	52–63%
Generation X (35–49)	25–28%	25–30%
Baby Boomers (50–64)	7–13%	6–13%
Silent Generation (65+)	1–3%	1–3%

**SOURCE 4.4** Global average – percentage of population browsing and buying online (Source: Neilson Global Survey of E-commerce, August 2014.)



### ACTIVITY 4.1 Research

#### Finding information to assist in purchasing

Prepare a survey of at least 30 people spread over the five generations set out in Source 4.4.

Use the following category of products to complete the questions below:

- grocery items
- clothing
- electronic equipment, computer hardware and applications
- holidays, tours and hotels
- mobile phones
- cars and/or motorcycle.

- 1 What method will they use to find out information to assist them in their purchase of the products?
- 2 What were the major influencers on their purchasing decision for the individual products?
- 3 Analyse the information collected and present it in a written report.



**SOURCE 4.6** Roger Federer endorses Rolex watches.

Other consumers want to belong to a particular 'target group' and are influenced by aspirational marketing. The consumers who purchase these products want to feel that they are joining that group. For instance, advertisements for luxury items will often use famous, beautiful or wealthy-looking people to highlight the prestige related to their particular product or brand.

### ECONOMICS AND BUSINESS FACT

Sprout Social (a social media management tool created to help businesses grow their social media presence) estimates that 74% of shoppers make buying decisions based on social media.



**SOURCE 4.5** Social media icons

### ECONOMICS AND BUSINESS FACT

'Overseas born Australians have been a contributing factor to ecommerce growth. In cities like Sydney, Melbourne and Brisbane, with large percentages of overseas born nationals, consumers have always been comfortable buying goods online as it was often the only way to get the products they liked.'

Trent Duvall, Head of Consumer Markets, KPMG in Australia  
[kpmg.com/onlineconsumers](http://kpmg.com/onlineconsumers)

The truth about online consumers 2017  
 Global Online Consumer Report.

## CASE STUDY 4.1

### Luxury Escapes

#### Why online travel firm Luxury Escapes is opening shopfronts

Adam Schwab's Luxury Escapes has opened a shopfront for the first time. The decision to open the first bricks and mortar outlet for the online discount travel business Luxury Escapes was all about data. Luxury Escapes has grown rapidly as a purely online business selling discounted luxury travel packages to destinations such as Dubai, Thailand, Bali and the Maldives. But four years after it was established, the group opened its first shopfront in Melbourne's Little Collins Street and has plans to roll out more across other capital cities around Australia.

In doing so Schwab, a Young Rich List member and chief executive of Lux Group, owner of Luxury Escapes, is part of another trend starting to take hold in the tech sector.

His business is following in the physical footsteps of other online disrupters ranging from Amazon and Catch Group in establishing a retail presence years after building purely e-commerce businesses.

After six months of planning, Luxury Escapes opened its Melbourne shopfront two weeks ago styled, Schwab says, on a high-end airport lounge. The outlet includes free wi-fi, an onsite masseur, a coffee barista, snacks, virtual reality goggles and a free BMW transfer service for members. (It has created a Platinum Club, based on the Qantas Chairman's Club for high-spending clients.)

Most importantly, though, the outlet is fitted with technology developed by Melbourne data analytics firm Blix, which uses smartphone signals to count people and track how long they linger in the store, which then Luxury Escapes will match with the number of deals their staff sell in-store.

'E-commerce companies usually make all their decisions based on data, whereas retailers don't do a lot of it,' says Schwab. 'So what we are trying to do here is to analyse the data that we will get to find out what will work in the store and adapt the business accordingly.'

Schwab says he expects that the conversion rate in-store will be higher than online, justifying the spending on the fit out. He says the group has also got good business from traditional marketing strategies such as travel seminars and print media and television advertising.

'With a brand like ours it is about convincing people to use us and to get them to trust us. Once they do we find we have a lot of repeat business, but it is about getting them in the first place. This helps with our credibility.'

Lux Group, which Schwab co-founded with Jeremy Same, includes other e-commerce brands such as Cudo, deals.com.au and The Home.

The group made a pre-tax profit of \$7.4 million from \$134 million in revenue in 2016. The travel business accounted for more than half that result and Schwab says Luxury Escapes grew a further 30 per cent in 2017.

Schwab says the average number of trips per customer is up from one a year ago to 1.4 this year, and that Australians booking their deals overseas typically stay for longer than customers from other countries and therefore allow Luxury Escapes to cut better deals with hotel and travel groups.

'The hotels like Australians because they stay longer and tend to spend more on things like meals and other incidentals. That is where the hotels make their money.'

The group's number one destination is Bali but the Maldives has been a rapidly growing market along with others that benefit from the rising Australian dollar against its US counterpart.

'We like the US dollar at 80 cents, and we've seen good numbers for places where the dollar makes it more accessible. Vietnam is pegged to the US dollar so that is growing, so is Dubai. Thailand is basically as well, and Hawaii is also popular.'

**SOURCE 4.7** John Stensholt, 'Why online travel firm Luxury Escapes is opening shopfronts', *Australian Financial Review*, 4 August 2017

- 1 Describe the type of business Luxury Escapes operates.
- 2 For how many years has Luxury Escapes been operating as an online business?
- 3 Identify the reasons why Luxury Escapes has now opened a 'shopfront' store.
- 4 What is an 'online disrupter'? Provide examples of other businesses that fall into this category of business operations.
- 5 Describe the atmosphere created by the Luxury Escapes shopfront store. Identify the facilities it has included in its fit out.
- 6 Describe the role technology is playing in the store.
- 7 Outline the justification Adam Schwab provides for the very expensive fit out of the store.
- 8 Identify other marketing strategies used by Luxury Escapes.
- 9 Explain why Australian travellers are popular at hotels and resorts.

## Finance: Availability and cost

When purchasing large ticket items – for example, a car, jet ski, boat or even an overseas holiday – a consumer will often not have sufficient savings and will need to borrow money to make the purchase. Many consumers use their credit cards to purchase items; however, if they do not repay the full amount owing on their credit card each month, they can accrue interest at a very high rate (e.g. 20%) and get themselves into a **debt cycle**. Loans for these purchases could also be obtained from a bank, a building society or a credit union. When entering into any form of debt financing it is important that you have sufficient money available each month to meet the minimum repayments and that you make the required payments punctually. It is imperative that you do not create for yourself a ‘poor credit rating’ as this will adversely impact on any further debt finance you may want. Students are generally ineligible for most standard credit cards due to having not yet established a credit history or a

consistent employment history. Some banks in their quest to build brand loyalty do offer student cards, however it is important to check the terms and conditions attached to these cards before applying for one.

### ECONOMICS AND BUSINESS FACT

A Reserve Bank survey in 2017 found that 52% of all Australian payments in 2016 were made with credit and debit cards, up from 43% in 2013.

### GLOSSARY

**debt cycle** a result of not keeping on top of debt payments and therefore accumulating more debt through interest and extra borrowing



## ACTIVITY 4.2 Research

### Bank loans

- 1 Identify the current rate of interest payable on credit cards with the Commonwealth Bank of Australia (CBA), NAB, Westpac and ANZ.
- 2 Do any of the banks offer debt finance to students? If so, which ones?
- 3 Identify the conditions that need to be met by a student when applying for a student credit card. View the website Credit Card Compare and under Features look for Student Credit Cards.
- 4 Identify the current rate of interest payable on personal loans with CBA, NAB, Westpac and ANZ.
- 5 Explain the qualifying criteria associated with gaining loan approval from these banks.

## Internal factors

### Personal

The term ‘consumer’ is a generic term for people who purchase or use a product or service. Consumers, however, are not all the same – they differ in age, gender, personality, life-cycle stage and style, occupation, and economic circumstances. These differences have an enormous impact on purchasing decisions.

The decisions that you would make as a young person can be very different to those made by

your parents or grandparents. For instance, would deciding what music you want to listen to and how you go about purchasing be very different to other generations? What about going on a holiday – a young person may be more inclined to go on a cheaper holiday (e.g. backpacking around Australia, Asia or Europe), whereas a mature-aged person may go on an expensive cruise ship around Asia or down a famous river system in Europe. A family with young children of school age and financial commitments, such as paying off a housing loan, may choose a camping holiday instead.

## Social and cultural

The social group with which you associate can act as a powerful influence on your decision-making. If you are determined that you must fit in with your peer group, then you might actively seek products or brands favoured by this group. Television shows or advertisements often use celebrity endorsements aimed at particular peer groups to pressure group members (fans) to create a desire and need to purchase the product. Reality television shows such as *My Kitchen Rules* and *MasterChef* use product placement and celebrity chef endorsements of products throughout their programs to encourage viewers (consumers) to be like them. *The Block* generates interest in house renovation products being sourced by the contestants from businesses that sponsor the show. Following the series, successful contestants are often then used to endorse products.



### ACTIVITY 4.3 Research

#### Reality television

Choose a reality television show and complete the following questions.

- 1 Identify what products are endorsed by the presenter or contestants of the show.
- 2 Choose one of the products identified in Question 1 and discuss whether the presenter/contestant endorsement of the product would act to influence your decision to either purchase or not purchase it.

While advertisements would be regarded as an upfront marketing technique, a passive way of influencing others within a peer group is the use of word-of-mouth, which can be used to positively or negatively influence a purchasing decision. Consulting your peers, either through internet reviews, or conversations with family and friends, prior to making a purchase is an important factor for many consumers. Currently, social media is 'king' as a word-of-mouth influencing factor

**SOURCE 4.8** Reality television shows such as *MasterChef* use product placement throughout their programs and celebrity chef endorsements of products.

since comments made by current customers can either help or drive away business.

The Nielsen Company conducted a study in 2014, which found that when making online purchases of consumer electrics, almost 60% of people check reviews before buying, and 40% always look for reviews before making a purchase.

We, as consumers, are also influenced by our values and beliefs developed through parental and environmental influences, such as our nationality, religion or racial background or even the social group to which we belong. For instance, think about the food you eat for lunch at school. Is yours the same or different to others in your class? What about what you had for dinner last night? We are very fortunate in Australia to have such a wide variety of good quality food available to us to be able to make the decision to eat meals that come from a different country every night of the week. Is this the same in other countries of the world?

## Ethical and environmental considerations

If you have strong views in particular areas, this can also influence your buying decisions. For instance, ethical and environmental considerations may be a crucial factor when making your purchasing decisions. The manner in which the product was sourced or manufactured may become a determinant factor as to whether you buy a particular product. For example, the coffee or chocolate you want to purchase – was it sourced and produced in a sustainable and environmentally friendly manner?

## Psychological

This relates to the level of motivation a consumer has when purchasing a product. The consumer's level of need helps in their purchasing decision – is it an urgent need required to provide the consumer with a level of satisfaction or merely a social need?



**SOURCE 4.9** Many consumers are very loyal to a particular smartphone brand.

We as consumers possess specific beliefs and attitudes towards various products, and this relates directly to brand image. Marketers understand this and will launch special campaigns related to gaining our loyalty and commitment to their brand.



### ACTIVITY 4.4 Research

#### Special campaigns

Using the internet, research different 'special campaigns' launched by various brands. Select one campaign and prepare a case study on it. In your case study outline the following points:

- What makes the campaign special?
- How does the campaign encourage brand loyalty?
- What do you think the target market's needs are?
- How do psychological factors fit in with the campaign?

#### Buying decisions

List two internal and two external factors that might influence a consumer in making the following purchasing decisions:

- a a smartphone
- b a meal at a restaurant
- c a pair of jeans.

#### DEVELOPING YOUR UNDERSTANDING 4.1

## 4.2 Outcomes of making a purchase

When consumers make any purchase, they are said to have incurred an **opportunity cost**. In other words, if you had decided not to spend your money purchasing one item, what benefits could you have gained making a different purchasing decision? For instance, if you decided to visit a café or milk bar on your way to school each day and buy a bottle of water, you would have incurred a cost of approximately \$10–\$15 per week. By making this decision rather than filling up your bottle with tap water from home each morning, it has now meant that your weekend spending money will be reduced by \$10–\$15 because you have already spent this amount on your purchase of water. Over a period of a school term this would mount up to \$100–\$150 that you could have used over the term holidays.

A **cost–benefit analysis** is another way of analysing and assessing your purchasing decision. The benefits gained by making the purchase need to be identified and added up, and then the costs that will be incurred by making that purchase need to be subtracted.

### GLOSSARY

**opportunity cost** the alternative you have to go without in a choice between two competing things or events

**cost–benefit analysis** involves determining the benefits of a given situation with the costs associated with taking this action then being subtracted

Case study 4.2, on the next page, explores the decisions to be made in a particular purchase: a car.

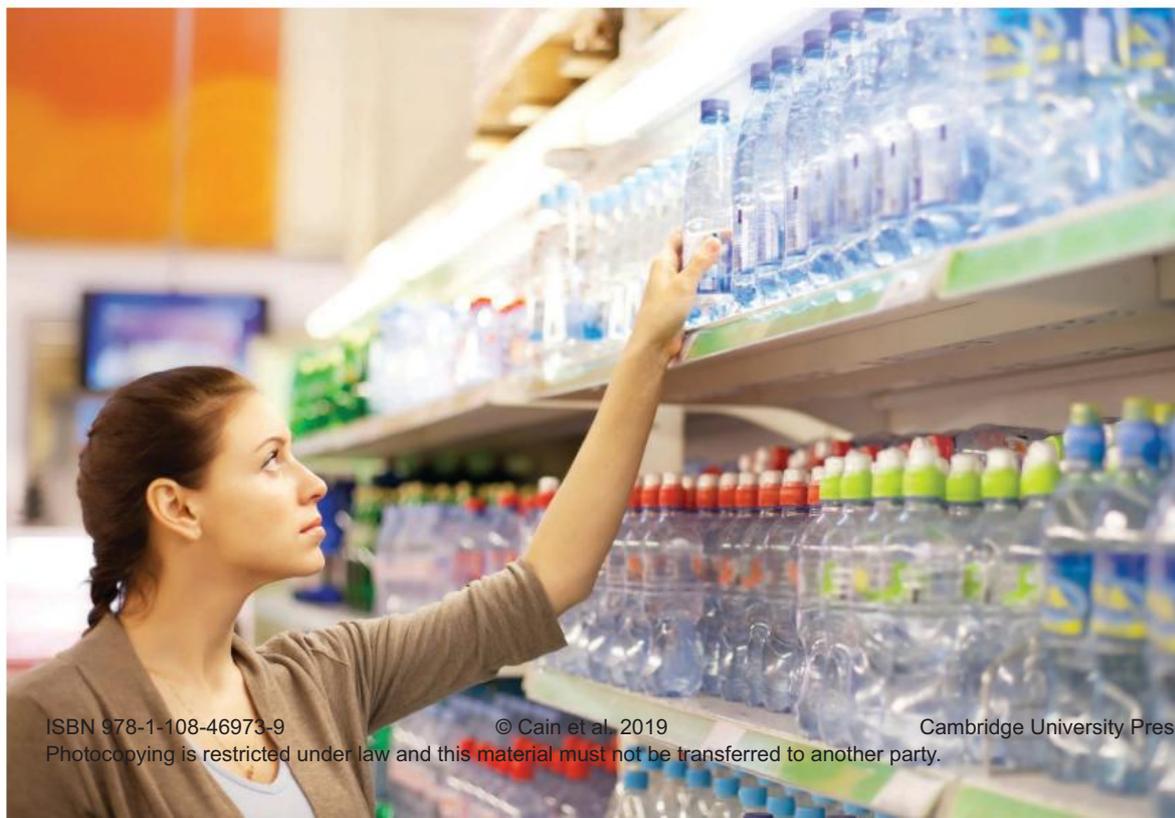
### ECONOMICS AND BUSINESS FACT

The RACV estimates in a study published in Royal Auto in April 2017 that the total weekly running costs of a Kia Cerato S is \$128.21 per week and a Mazda3 2 L is \$157.96.

#### Making a purchase

- 1 Explain the meaning of 'opportunity cost'. Give an example.
- 2 Explain, using an example, how you would make a cost–benefit analysis.

#### DEVELOPING YOUR UNDERSTANDING 4.2



## CASE STUDY 4.2

### Purchasing a car

In the next couple of years, you will be looking towards your future after secondary school. There will be some big decisions that will need to be made. One of these will be: will I purchase a car or not? If your answer is yes, then as this will be a major purchase, you need to do a lot of research into the following areas to help you to make an informed decision, considering:

- purpose of the car
- **budget** – how much can I afford to pay?
- payment – savings or a loan
- type of car – age, size and safety
- ongoing costs to keep the car on the road
- insurance – what type?

#### **Purpose**

*What is the car's purpose? Am I buying the car I want or the car I really need?* If the car is going to be needed as your main form of convenient and independent transport to get you from home to university, TAFE or your place of work, you need a car that is safe and reliable, and not going to continually break down. The time frame (i.e. how many years) you need to keep this car

is another consideration. If it is short-term to medium-term, then the fact that it is providing you with independence should be a more important factor than the social status that can be attributed to certain makes of car.

#### **Budget**

*What is my budget – how much can I afford to pay?*

The purchase price of the car is just the start of your financial commitments. While you may have saved up money to make the initial purchase, the costs of keeping the car on the road are often overlooked by eager purchasers. Costs such as fuel, maintenance, insurance and repairs are but a few examples of these ongoing costs. It is important to remember that in the first few years after finishing school, your income is generally low and running a car can be a very expensive exercise so the purchase needs to be looked at very carefully.

#### **GLOSSARY**

**budget** a record of the income coming in and the money going out (expenditure) for an individual



**SOURCE 4.10** The type of car you purchase will depend on your budget.

#### **Payment**

*How am I going to pay for the car?* If the purchase price is low, say \$5000 for a small used car, you may have been able to save enough money

to buy it. If the car is brand new, the cost price will be higher, and you may need to obtain a personal loan to make the purchase. Interest rates on personal loans are high as they are

generally not secured over an asset. You will need to make regular repayments of principal and interest to a finance lender, and this ongoing commitment will adversely affect your disposable income.

### **Type of car**

*Do I buy a new or used car?* Your budget is closely linked to what type of car you should buy. A brand-new car will be more expensive to initially buy than a used one; however, it does have the added benefit of coming with a fixed-term warranty that will cover any mechanical

problems that may occur. It will also have up-to-date safety features, which then directly impact on lowering the costs of insurance. One major downside of purchasing a new car is that its value drops as soon as it is driven out of the dealer's showroom. This is referred to as **depreciation**.

### **GLOSSARY**

**depreciation** relates to the reduced value of an asset over time



**SOURCE 4.11** One major downside of purchasing a new car is that its value drops as soon as it is driven out of the dealer's showroom.

One way of lowering the cost of purchasing a new car is to purchase a demonstration car. These cars have been driven for a short period of time by the sales staff at the car dealership as part of its marketing campaign of getting the new model out on the road. Demo models are a good buy as they generally have a low kilometre reading yet cost less and generally come with a full warranty.

The initial cost of buying a used car is less; however, it generally comes with no warranty to cover any mechanical problems, therefore adding a potential ongoing cost to the purchase

price. Being an older model, the car may not have the safety features legally required of new cars and this may add to insurance costs. If you are looking for a specific make, model and colour of a used car you may need to be a little more flexible or patient. You have to make sure you have someone familiar with mechanics to look over the car as you are more likely to be buying someone else's problems. People who buy a used car that causes them problems often refer to the experience as 'buying a lemon' (i.e. a bitter experience).

## Ongoing costs

### Registration

After paying stamp duty and transfer fees based on the value of the car, you will incur an annual registration fee. Regardless of the state in which you live, the car will need to be registered. In Victoria, for instance, VicRoads is the governing body that controls registration of cars. The actual cost of registration varies depending on the vehicle type and postcode of the vehicle's garaged address. The annual registration renewal fee includes the Transport Accident Commission charge, which is used to pay for treatment and support services for people injured in transport accidents. This charge also varies according to the class of vehicle and the postcode, which indicates whether it is garaged in a high or low-risk zone for accidents. In other states, the registration of cars comes under the jurisdiction of the various state departments, such as the Department of Transport and Main Roads in Queensland, the Roads and Maritime Services in New South Wales and the respective Departments of Transport in Western Australia and South Australia. The cost of registration also varies between states; for example, it would cost approximately \$400 in Western Australia compared with \$700 to register the same vehicle in Victoria.

### Maintenance

Maintaining the car can be another costly commitment. Cars must be serviced on a regular basis to ensure their efficient running. Paying for repairs and replacing a set of tyres can also be a very expensive ongoing cost. It is important that tyres have sufficient tread, are correctly aligned and are properly inflated. Attention to these details will also assist in ensuring efficient fuel consumption.

### Fuel

Buying fuel for the car, particularly if it is a large car with a fuel tank capacity of over 70 litres, can cost approximately \$100 per tank. It is, therefore, very important to stay on top of the fuel price cycle and buy when petrol is cheaper.

## Insurance

 Insurance is an important part of looking after your car as just one crash can put a severe dent not only in your car but also in your savings (if you have any) or put you off the road for an extended period of time. There are three basic levels of insurance cover that can be taken out:

- **Comprehensive:** This form of insurance provides cover for accidental loss or damage to your vehicle up to an agreed value (amount set by owner and insurer) or market value (cost of replacement vehicle). This insurance will also cover your legal liability for damage to other people's property caused by you and, in limited circumstances, the death or bodily injury caused using your car.
- Third party property damage, fire and theft: This form of insurance covers your legal liability for damage to other people's property arising out of an accident that is fully or partly your fault. It also covers loss or damage to your car up to market value or agreed value, arising out of fire or theft. Similar to comprehensive insurance, it also covers your legal liability for damage to other people's property and, in limited circumstances, death and/or bodily injury arising out of your car.
- Third party property damage: This form of insurance covers your legal liability for damage to other people's property caused by a motor vehicle accident that is your fault. It also covers, in limited circumstances, death or bodily injuries caused by or arising out of the use of your motor vehicle.

### GLOSSARY

**comprehensive (insurance)** a form of insurance that provides cover for accidental loss or damage to your vehicle up to an agreed value (amount set by owner and insurer) or market value (cost of replacement vehicle), legal liability for damage to other people's property and in limited circumstances the death or bodily injury caused using your car

The cost of motor vehicle insurance is high. For instance, the annual premium for comprehensive insurance on a car owned by an experienced driver with no prior claims can be in the vicinity of \$500 to \$1500, depending on the value of the vehicle and where you live. Drivers under 25 years of age attract a loading

on the premium payable, as this age group are less experienced as drivers, more likely to take risks and less aware of the potential consequences of their actions. A young person owning their first car is more likely to only take out third party property damage insurance due to the higher cost of the other forms of cover.



**SOURCE 4.12** Insurance is an important part of looking after your car.

As this insurance does not cover repair of damage to their motor vehicle, it is recommended that the car owner keeps some additional savings set aside to cover the cost of repairs in the event of any accident.

### ***Planning your purchase***

Imagine you are planning to purchase a car, and need to go through a thorough decision-making process. Using the information outlined in this case study, prepare a report that addresses the following information.

- 1 Identification of the purpose of your car.
- 2 Budget – how much you can afford to pay. Outline whether the purchase is to be funded by personal savings or through debt finance (i.e. a loan).
- 3 Type of car – description of the make and model, whether it is pre-loved or new.
- 4 For your chosen car, identify the registration and transfer costs associated with registering the car in the state or territory where you live.
- 5 Outline the ongoing costs associated with maintaining the car on the road; for example, weekly fuel cost, tyres and servicing.
- 6 Describe the level of insurance cover you will take out. If possible, obtain a quote from one of the insurance companies as to the actual cost of the policy.
- 7 Evaluation: having undertaken this comprehensive research project. Do think that you can realistically afford to purchase, run, maintain and insure the car of your choice or do you need to modify your expectations?

## 4.3 Minor and major consumer and financial decisions: How do they differ?

When making a consumer or financial decision it is advisable to carefully think about:

- the purpose of the consumer item or financial undertaking – it is a necessity or something that you think you would like to have
- the opportunity cost associated with the decision
- the short-term and long-term effect on you of the decision you have made.

When making a decision as a consumer to purchase a product, classifying it as a minor or major purchasing decision is a subjective matter and is dependent on the circumstances of the consumer. For a family, spending \$200 at the supermarket on a weekly basis would be considered a decision of a minor nature and one that needs to be made to provide the necessary food and household items. For that same family it would be considered a major financial decision if they decided to update their car with the

intention of spending in the range of \$40 000 to \$50 000 on the purchase. Deciding to buy a home is considered possibly to be the most important (major) financial decision that the family would need to make. They would need to carefully look at the area/suburb where they want to live, the size of the house and its facilities, age of the house, transport options, local schools and most importantly how they will fund the purchase.

When a consumer decides to purchase a product or service they come under the protection of The Australian Consumer Law (ACL). This legislation requires businesses to provide consumers with guarantees about the products they are selling. For example, a consumer is protected for purchases of a product or a service relating to their personal, domestic or household use in excess of \$40 000. This consumer protection also extends to a vehicle or trailer used for transporting products on public roads regardless of its initial cost.

### Major and minor decisions

Listed below are items that require decision-making associated with consumer items or finances.

- computer tablet
- item of clothing (\$150)
- one-week holiday skiing in New Zealand
- jet ski
- mobile phone
- a flat/unit/apartment or house
- dinner at a restaurant
- your first car

**1** Classify these items as requiring major or minor decisions when obtaining that item.

**2** Justify your classification of the item.

### DEVELOPING YOUR UNDERSTANDING 4.3



### ACTIVITY 4.5 Collaborate

#### Classifications

Share your results from Developing your understanding 4.3 with class members. Identify any classifications that differ and discuss why this may have occurred.



## REFLECTING AND CONSOLIDATING

### Chapter summary

- There are a range of factors that influence our buying decisions.
- Some factors are external while others are internal.
- External factors are:
  - price which can be elastic or inelastic
  - marketing strategies such as advertising (variety of forms), sales promotion and incentives, personal selling, internet and social media
  - finance – savings or debt.
- Internal factors are:
  - personal – age and gender
  - social and cultural, social media
  - ethical and environmental
  - psychological.
- Outcomes of making a purchase – with every purchase made there is an opportunity cost incurred.
- A cost–benefit analysis will determine the benefits and costs associated with taking any action.
- Research should be undertaken when making any major purchase. For example, a proposed car purchase needs research to be undertaken in the following areas: the purpose of the car; budget considerations; payment – how it will be paid for; type of car – new or used; ongoing costs – registration, maintenance and fuel; and insurance (and at what level).
- Insurance comes in three levels:
  - comprehensive
  - third party damage, fire and theft
  - third party property damage.
- The decisions relating to purchasing consumer items and financial matters may differ in their classification due to a number of subjective factors.

### Multiple-choice questions

- 1 Which of the following is an internal factor that could influence the purchasing decision of a consumer?
  - A Price
  - B Ethical and environmental considerations
  - C Marketing strategy
  - D Availability of finance
- 2 An opportunity cost is
  - A the costs subtracted from the benefits.
  - B increasing value of an asset over time.
  - C the benefits given up on an alternative by making the current decision.
  - D a sharp decrease in the price of a product.
- 3 Which of the following is an external factor that could influence the purchasing decision of a customer?
  - A Gender of customer
  - B Motivation of customer
  - C Marketing strategy – internet
  - D Social status of customer
- 4 Which of the following goods is likely to show price inelasticity?
  - A Caviar
  - B Mangoes
  - C Wild salmon
  - D Eggs
- 5 Which of the following holiday options is most likely to suit the financial situation of a student?
  - A Cruise in the Bahamas
  - B Camping holiday in the Victorian Alps
  - C Skiing at Whistler, Canada
  - D A week in Paris

### Short-answer questions

- 1 Demonstrate your understanding by defining and incorporating each of the following terms in a sentence.
  - a social media
  - b sales promotion
  - c target group
  - d debt cycle
  - e budget
- 2 Categorise the following statements as either true or false.
  - a The majority of drivers and car owners under 25 years of age take out third party damage, fire and theft.
  - b The price of petrol remains the same every day of the week.
  - c The demand for a product not adversely affected by an increase in price is said to be price elastic.
  - d Marketing strategies are aimed at creating the awareness of a product to entice consumers to purchase the product.
  - e Social media has become a powerful method of influencing consumers purchasing decision.
- 3 Explain why it is important to undertake research prior to making any major purchase decision.
- 4 Provide an example of when you have made a purchase where you have been influenced by the following factors:
  - a price
  - b advertising of that product in a catalogue
  - c personal selling strategy in a shop
  - d personal recommendation of a friend (peer group)
  - e review posted on the internet.
- 5 Consumer decisions are closely linked to your current life-cycle. Describe what you believe are the characteristics of your current life-cycle; for example, single, part-time job (limited income).

### Extended-response question

'The internet is increasing in popularity as a place where consumers are seeking product information to assist them in making their purchases.'

Discuss whether you believe this way of finding out about a product will ever become the sole source of information, instead of seeking the advice and opinions of our peers and family, and actually visiting a shop or business to see or experience the product in person.

# Chapter 5

# Managing a business to respond to changing economic conditions and to improve its productivity

**SOURCE 5.1** Australian businesses are adapting to the changing global environment.

## Main focus

This chapter looks at the ways businesses respond to changing economic conditions and improve productivity through organisational management and workforce management.

## Why it's relevant to us

Australian businesses must make sure they are in a position to compete in the global market as well as being able to cope with the fluctuations that occur in the global economy. To do this they must have their vision in place, objectives set and have created an appropriate organisational structure. This forms the framework from which to launch their efficient and productive operations while ensuring they are an ethical workplace. Their overall planning and performance will then be judged on the basis of the triple bottom line philosophy.

## Inquiry

- What strategies can businesses adopt to improve their productivity?
- What types of business structures will be the most appropriate for businesses wanting to be flexible and efficient in their operations to adopt?
- What types of technological development (hardware and software) have assisted businesses in their quest to be innovative?
- Why are businesses adopting a triple bottom line approach when undertaking business planning?
- What are the implications for employees, competitors and the broader economy if a business adopts a triple bottom line approach when undertaking business planning?
- What strategies can be put in place to ensure a workplace is adopting ethical practices?
- In what ways are businesses proactively responding to improved economic conditions?

## Key terms

- big data
- customer profile
- ethics
- innovation
- inventory
- Just-in-Time (JIT)
- market share
- procurement
- target market
- triple bottom line (TBL or 3BL)

## Let's begin

One of the primary objectives of a business is to enhance its operational efficiency and productivity, which is the level of output obtained from a level of input. In simple terms, it is what you get out for what you put in (see the calculation below).

$$\text{Productivity (P)} = \frac{\text{Output (O)} \\ \text{(units of production)}}{\text{Inputs (I)} \\ \text{(units of raw materials, capital, labour)}}$$

## 5.1 Ways in which businesses can improve productivity

When wanting to gain an increase in the productivity of a business, there is a range of areas that can be worked on within that organisation. These include the following:

- investing in and implementing new technology applications
- capital investment in equipment and facilities
- using a Just-in-Time (JIT) inventory management system
- training and upskilling of their workforce.

Managers in a business are responsible for clarifying the goals of the business, devising processes for achieving the goals and controlling those processes. With the central focus being to increase organisational productivity, businesses need to strive to reach an optimum level of operational efficiency by improving quality. In other words, doing things right the first time, by reducing costs and by eliminating waste. Efficiency is about producing goods without wasting any resources such as time, effort and money. Productivity is used to measure efficiency.

### Investment in applications of technology

The fact that businesses can change and increase their productivity through implementing new **technology** these days goes without saying. One only needs to think of businesses such as car manufacturers that have introduced robotics into their production process, resulting not only in improved output but also more consistent quality.

#### GLOSSARY

**technology** the practical application of science to achieve a commercial or industrial objective

The majority of manufacturing industries now apply the use of technology in their processes. This assists these industries to produce products (outputs) in greater quantity, of consistent quality and in a shorter production time. Businesses that would be classified as being in the service industry also apply technology to improve the efficiency of their operations. For instance, sharing files and data with the Cloud, telecommuting, data



**SOURCE 5.2** Managers in a business are responsible for clarifying the goals of the business, devising processes for achieving the goals and controlling those processes.



**SOURCE 5.3** Telecommuting can improve the efficiency of business operations.

management and analysis, and self-service automation to name but a few.

In the medical field, the use of technology to assist in a variety of medical procedures has led to productivity improvements in hospitals. For example, Intuitive Surgical has become the global leader in robotic-assisted minimally invasive surgery through its use of the da Vinci Surgical System. This technology means that the surgery undertaken is less invasive, it improves clinical outcomes for the hospitals and it helps patients

in their recovery process in getting back to having active and productive lives.

In the area of packaging, there have also been massive changes. For instance, in the 1970s Schütz Australia was established with the intention of buying, selling, collecting and reconditioning steel drums. Today, it manufactures and reconditions containers, and is among the largest and most technically advanced Australian company in this field. As part of Schütz GmbH, it has facilities across the Asia–Pacific region and the rest of the world.

The Schütz Group produces sustainable packaging systems for industry, including a recycling service to the end user, with its composite Intermediate Bulk Container (IBC), a technology that replaces comparatively expensive steel drums. Schütz factories worldwide then receive back empty, used IBCs through the unique Schütz Ticket Service. Upon receipt, the inner plastic bottle is removed, shredded and recycled into components that are used on new IBCs, and the metal outer cage is refitted with a new plastic bottle, thus providing another useful life for the container.

This aligns with their commitment of being a responsible and environmentally–friendly company.

Federal and state governments also understand the productivity gains that can be made through introducing the latest technology. The Victorian Government has an Investing in Manufacturing Technology (IMT) program that provides

grants to manufacturers wanting to purchase and integrate new technologies into their business. IMT recipients are then supported to improve productivity and competitiveness, strengthen capability, and encourage wider and ongoing **innovation**. At the federal government level, a free Innovation Connections Facilitation service has been established to assist businesses operating in the following growth areas: advanced manufacturing, food and agribusiness, medical technologies and pharmaceuticals, mining equipment, technology and services, and oil, gas and energy resources.

### GLOSSARY

**innovation** the introduction of new things or methods; improving the current work practices, procedures and products



### ACTIVITY 5.1 Research

#### New technology applications

Conduct individual research to find examples of the new technology applications that have been introduced into businesses in the following industry areas:

- food
- travel
- transport
- education.

Share your findings with other members of your class.



**SOURCE 5.4** Businesses operating in technology and services are eligible for the free national Innovation Connections Facilitation service.

### Capital investment in equipment and facilities

The quality of the working equipment and facilities used will directly impact on the productivity of a business. A regular programmed maintenance approach will help to overcome or reduce the likelihood of breakdowns and production downtime. Equipment and facilities age and become outdated so they need to be replaced. Efficiency increases can also be obtained through simple acts such as redesigning workstations, moving equipment to create a more logical flow and assessing the best storage areas for stock.



**SOURCE 5.5** A regular programmed maintenance approach will help in overcoming, or reducing the likelihood of, breakdowns and production downtime.

Kez's Kitchen, a family-owned gourmet cookie manufacturer, recognised that to remain competitive in their industry they needed to double their production capacity by 2018. To achieve this vision, they needed to replace their three ageing machines. With the assistance of a \$300 000 grant from the IMT program, they were able to invest \$1.5 million in new equipment to increase their production of premium biscuits, cereals and snack bars, and streamline their manufacturing process to reduce waste. Kez's Kitchen reports that they have achieved a 'huge jump in productivity' while also being able to become more innovative and work on developing the skills of their workforce.

### Just-in-Time inventory management systems

Effective management of the supply chain is a very important element in the successful running of any business operation. This area of operations incorporates management of **inventory**, the **procurement** of supplies and the distribution of

#### GLOSSARY

**inventory** the holding or storage of raw materials, component parts, work in progress and finished goods

**procurement** the action of buying or obtaining something

finished products to customers. Inventory covers raw materials and component parts, unfinished production and the finished goods, which are ready for distribution.

The aim of inventory management is to ensure that the right quantities of parts and materials are available for the operations systems of the business to keep running, and that there are sufficient finished products produced to meet the demand of its customers. This becomes a juggling act for businesses as they do not want to hold too much stock and then have the cost of storage, be left with out-of-date stock or suffer stock loss due to theft. However, businesses do not want to have insufficient stock, which means they will not be able to meet the requirements of their customers. The key to success is to maintain a level of inventory that allows production to



**SOURCE 5.6** Inventory covers raw materials and component parts.

continue without any delays, while avoiding the cost of excess stock. This approach is referred to as **inventory control**.

In the early 1970s, a Japanese inventory management system, **Just-in-Time (JIT)**, was introduced at Toyota. The JIT system aims to eliminate waste and storage costs by having all operations completed just in time for the next stage to commence, thereby reducing production costs via reduced lead time, reduced inventory holdings and subsequent decreased inventory storage space requirements. The JIT system has now gained wide popularity across all types of industries as a way of streamlining the manufacturing process, lowering inventory costs and improving product quality, which ultimately increases the productivity levels of a business.

## GLOSSARY

**inventory control** a system of overseeing the contents of an inventory. It involves maintaining correct stock levels as well as averting stock loss and theft.

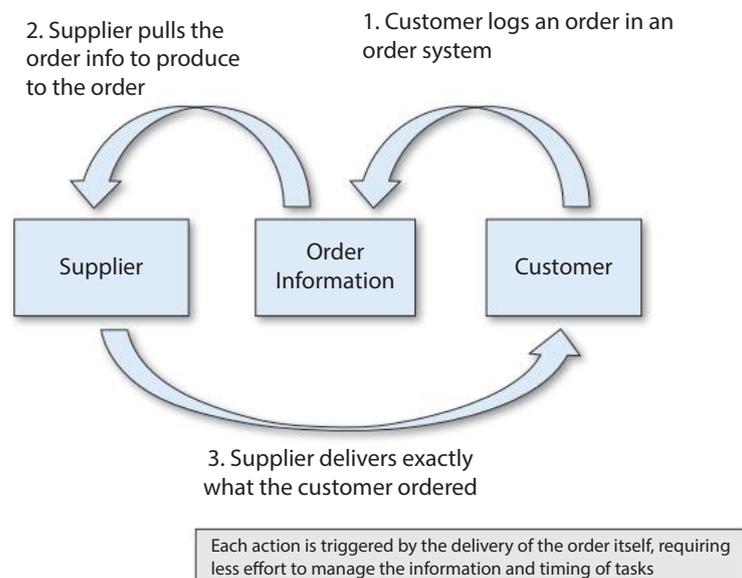
**Just-in-Time (JIT)** an inventory management system that aims to avoid holding any stock (inputs or finished goods). Supplies arrive just as needed for production and finished products are immediately dispatched or sold to customers.

JIT for businesses means ‘only making what is needed, when it is needed and in the amount needed’. To effectively implement JIT, an ordering system known as kanban can be employed. This is a ‘pull’ system of production-materials control, where orders are placed in response to needs further up the production line. Inventory is only replaced as it is used.

## Training and upskilling of their workforce

Any business that has a well-trained, motivated and loyal workforce is on the right path to improving their competitive edge and workplace relations. In addition, due to this positive environment their workforce will be more productive. Increasing the performance of individuals, groups and teams by providing them

### The general idea of Kanban



**SOURCE 5.7** The kanban system

with training, covering new knowledge to carry out a specific task or activity, will also contribute to their levels of efficiency and productivity. If the employees are also cross-trained and become multiskilled, they will be more flexible, creative and innovative. By being multiskilled they will be able to perform multiple tasks and therefore reduce the likelihood of mistakes being made through boredom or slowdown in production if a worker is absent. Employees who feel valued by their organisation are usually more willing to adapt to change, such as adopting new technologies, while also increasing the confidence and motivation of staff. Digitisation of many workplaces provides the opportunity for workers to work at any place at any time. This change in

work practices can also directly impact on how a business trains or upskills their employees.

### ECONOMICS AND BUSINESS FACT

Have you ever wondered why the Google homepage is so plain and simple? The truth is that when Google was started, its founders had not been trained enough in HTML to create a well-designed page, and they wanted to create a quick interface they could use without any instruction.

#### Improving productivity

- 1 List two advantages of using technology in manufacturing processes.
- 2 List three types of capital investment that can lead to efficiency increases.
- 3 Explain how a Just-in-Time (JIT) inventory system works.
- 4 Employees can be upskilled to carry out a particular task or activity and multiskilled to perform multiple tasks. Outline one advantage to each of these types of training.

#### DEVELOPING YOUR UNDERSTANDING 5.1



**SOURCE 5.8** A work team training day

## 5.2 Ways businesses structure the working environment

It is important that businesses create an organisational structure that enables them to be flexible and efficient in the way they undertake their business activities. To create a structure appropriate to their business they need to determine how they want to divide their labour (who does what); their chain of command, control and authority (who is responsible to whom and for what); their communication channels, patterns of decision-making and the number of layers within the organisation's structure.

### Hierarchical structure

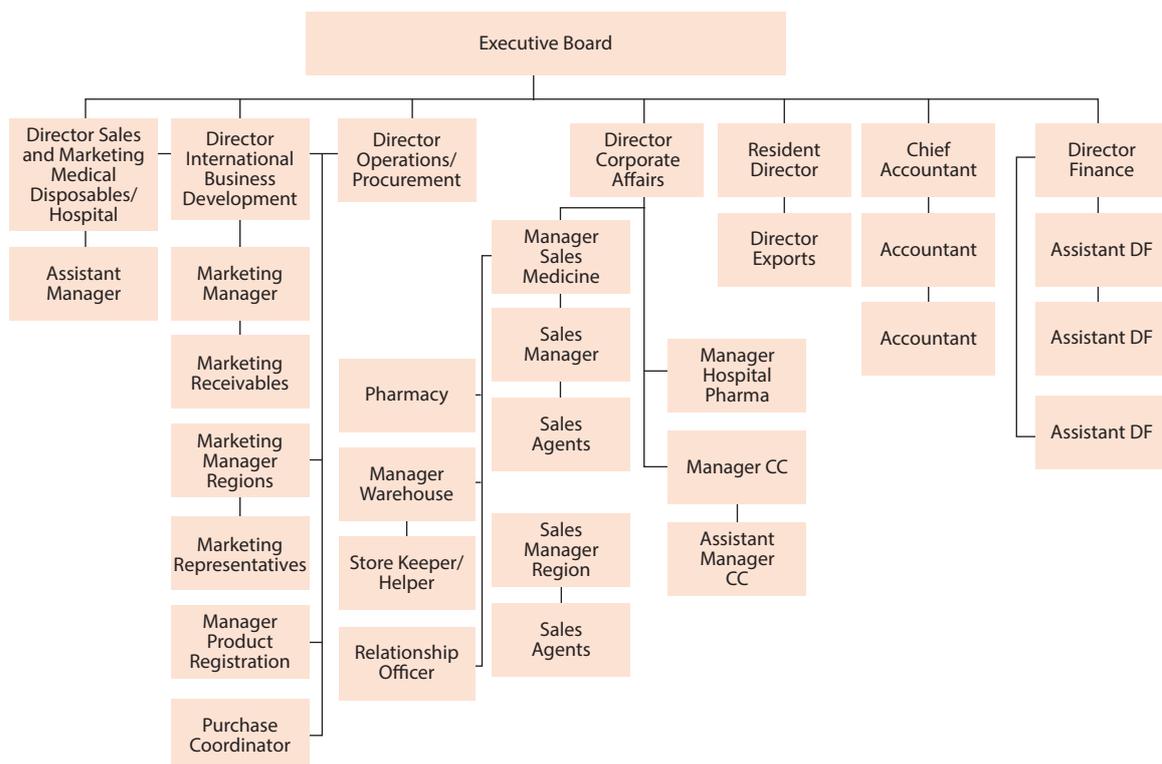
Traditionally, a hierarchical organisational structure has evolved in large businesses, often being referred to as a vertical structure. The features of this structure are:

- employees are arranged into layers and levels from senior management down to frontline workers
- clearly identifiable organisational positions, roles, responsibilities and accountabilities
- clearly defined span of control (i.e. number of employees reporting to a manager)
- centralised decision-making.

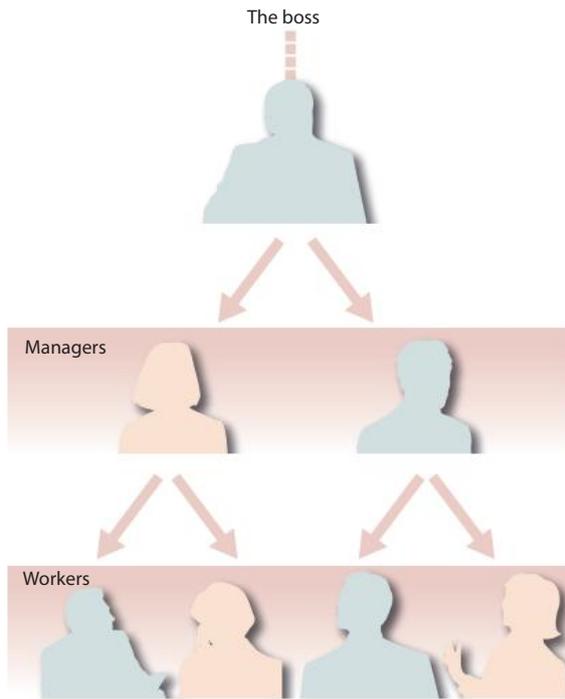
### Flatter structure

Smaller size businesses often have a less formalised structure. In recent times, many businesses have moved away from a traditional hierarchical model and adopted a flatter structure. This has allowed these organisations to be more responsive to changes in their business environments and more dynamic in their operations. Both of which contribute to their increased level of efficiency and productivity. The effects of these flatter structures are:

- improved communication due to fewer layers of staff between senior managers and frontline workers
- employees now being actively involved in decision-making
- increased use of employee knowledge, skills and experience
- workers feeling greater levels of empowerment and motivation.



**SOURCE 5.9** An example of a traditional (hierarchical) organisational chart for a medical company

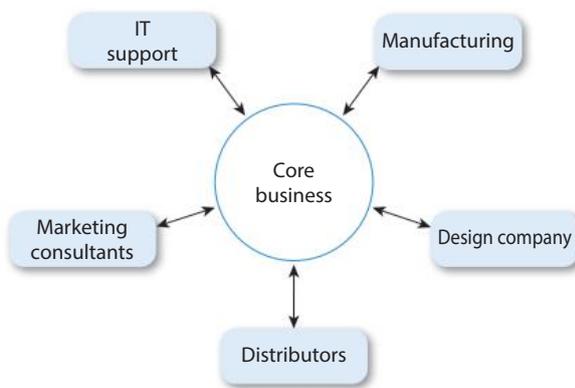


**SOURCE 5.10** Flatter organisational structure

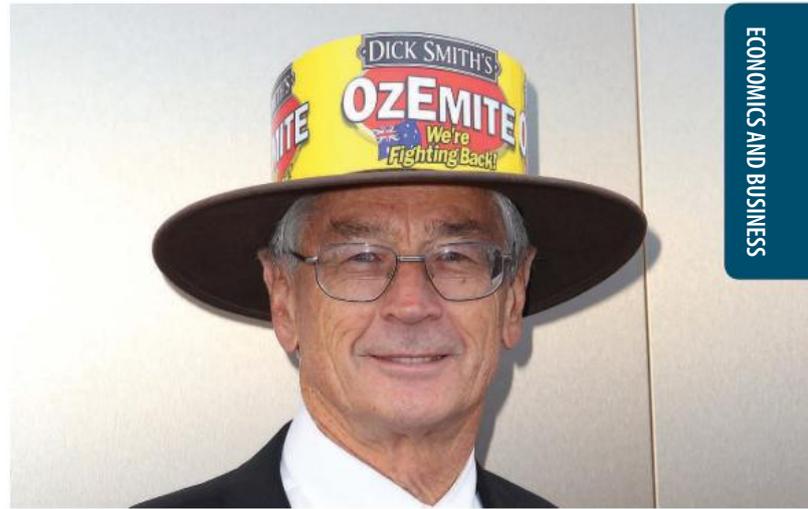
### Network structure

Other businesses are adopting a network structure in order to gain more flexible operations. A network structure means that the business outsources a number of its functions to outside businesses. Essentially, it creates its products in cooperation with others. There is a central or core business whose role is to exercise administrative control over the outside businesses to which it has outsourced its functions. Often this structure means the organisation is referred to as a virtual corporation. Network organisations are very flexible and can adapt quickly to changes in consumer demand and choices.

A business that you may be familiar with is Dick Smith Foods. While food appearing on



**SOURCE 5.11** Network structure



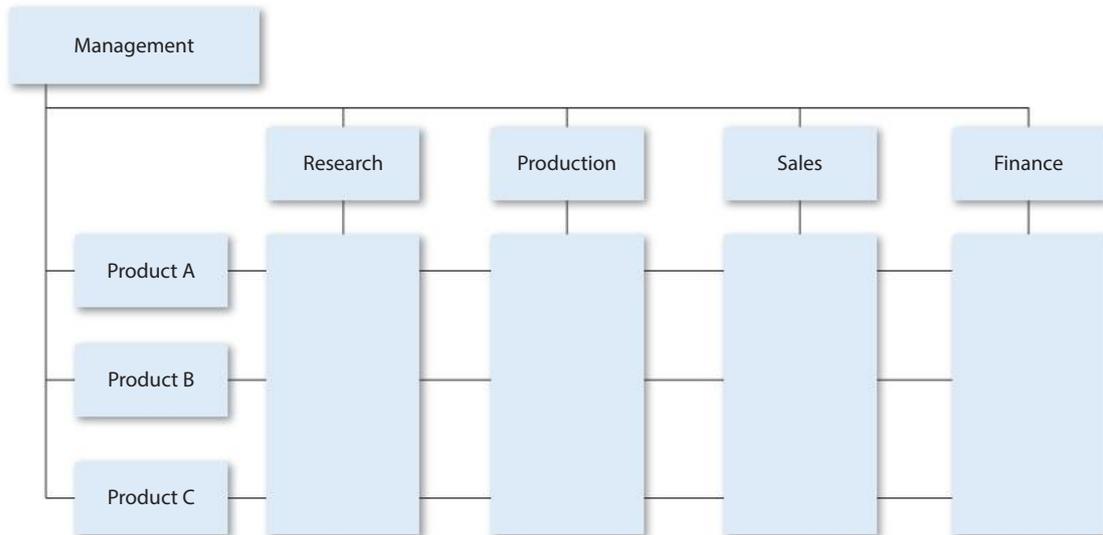
**SOURCE 5.12** Dick Smith Foods, which closed in 2018, was an example of a network structure business.

the supermarket shelves did so under the label of 'Dick Smith Foods', the manufacturing of its products, such as breakfast cereal, biscuits, and a variety of spreads and sauces, was outsourced to Australian manufacturers with the products packaged and sold under the Dick Smith Foods brand. Dick Smith Foods closed in 2018.

### Matrix structure

Within a business, a matrix structure is used when wanting to undertake a project or an assignment. The matrix structure is based on forming a team of specialists from different functional areas. For example, finance, marketing, research and development, and information technology are brought together as team members. While still being responsible to their original functional (department) manager, they are also responsible to their project manager. At times this situation can cause conflict. There are, however, many benefits that come from using this model, such as:

- improved communication channels developed across the organisation as employees are working outside their departments for a period of time
- interdepartmental rivalries are often observed to have reduced
- increased number of innovations being put forward due to 'cross-pollination' of ideas from employees coming from a broader range of perspectives rather than just one department.



**SOURCE 5.13** Simple matrix structure

### Business structures

### DEVELOPING YOUR UNDERSTANDING 5.2

Fill in the correct name for each business structure.

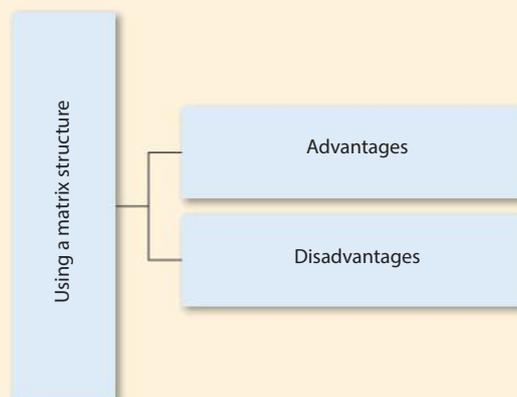
- 1 A \_\_\_\_\_ structure means that the business outsources a number of its functions to outside businesses.
- 2 A \_\_\_\_\_ structure has the workforce organised in layers, but with only a few levels between senior managers and frontline workers.
- 3 A \_\_\_\_\_ structure involves teams with specialists from different functional areas.
- 4 A \_\_\_\_\_ structure has employees arranged in layers from senior management down to frontline workers, with clearly identifiable organisational positions.



### ACTIVITY 5.2 Note this down

#### Matrix structures

Copy and complete the graphic organiser below to outline the advantages and disadvantages of using a matrix structure within a business.



Repeat the process for the other three types of structures discussed in this section.

### 5.3 How has technology helped businesses to be innovative?

In business, using technology is an important component of its operations systems with the objective of making any business more efficient and productive. The use of technology developments (both hardware and software) within a business can be very broad. For instance, technology may be used when manufacturing a product by introducing robotics into the production process. Alternatively, the implementation of an information system could assist employees with planning, analysing and keeping records to enhance smooth operations in all departments in that business.

It is not necessary for businesses to rely solely on inventing new technologies to improve their level of productivity; in fact, being innovative in the way they undertake their business practices is a more realistic option. For a business that could mean renewing, changing or creating a more efficient and effective process or product, or updating the way they conduct their business. Innovation can also be the starting point for growing the size of a business and its share of the marketplace.

Scanning equipment these days is used in many different areas of business life. Go into any shop and you will see barcodes on products placed there by the manufacturer. The retailer can then use these barcodes to scan and record your purchase. In many instances it can also trigger an electronic reordering of that product, saving a business time by not having to undertake the activity of creating a physical order of the product.

It is rare these days to see each product being individually priced by someone placing a sticky label on it and then having to manually key in the price at the checkout. This is certainly an example of a productivity gain directly related to the use of a technological development.

Businesses have been taking advantage of new technologies to become more innovative in their operations and work practices. Some examples of technologies and applications are robotics, big data, the cloud and 3D printers.

#### Robotics



The field of medicine is one that has experienced great technological inventions and advances. For example, in the late 1890s the use of X-rays



**SOURCE 5.14** A 3D printer is an example of a new and innovative technology.

was discovered by Wilhelm Conrad Röntgen; this then led to Elihu Thomson from General Electric (GE) building an electrical X-ray scanner for diagnosing bone fractures and locating foreign objects in the body. GE now has medical scanners that can produce detailed pictures of the skeleton and internal organs, such as the heart and carotid arteries.

Robotic surgery is now becoming more accessible as more Australian surgeons are being trained in how to use robots at the operating table at Sydney's Royal Prince Alfred Hospital's Surgical and Robotics Training Institute. The facility will have the capacity to offer robotic surgery training to 400 surgeons a year. This innovative use of new medical technology allows surgeons to perform complex procedures at a distance with great precision and control.



#### ACTIVITY 5.3 Research

##### GE reports

Using the GE Reports Australia and New Zealand website, choose one of the technological developments and discuss how it has driven and allowed innovations to be developed by businesses.

## Big data

Innovation for many industry sectors is now being seen in their handling of **big data**. The commercial application of big data is broad – it is used to create appropriate marketing strategies, and improve customer service, product development, business processes, supply chain management and human resources. The data is collected through a variety of methods such as call centre transcripts, social media, multimedia content (photographs and videos) and existing databases of businesses.

### GLOSSARY

**big data** using a wide variety of data sources to collect and analyse information

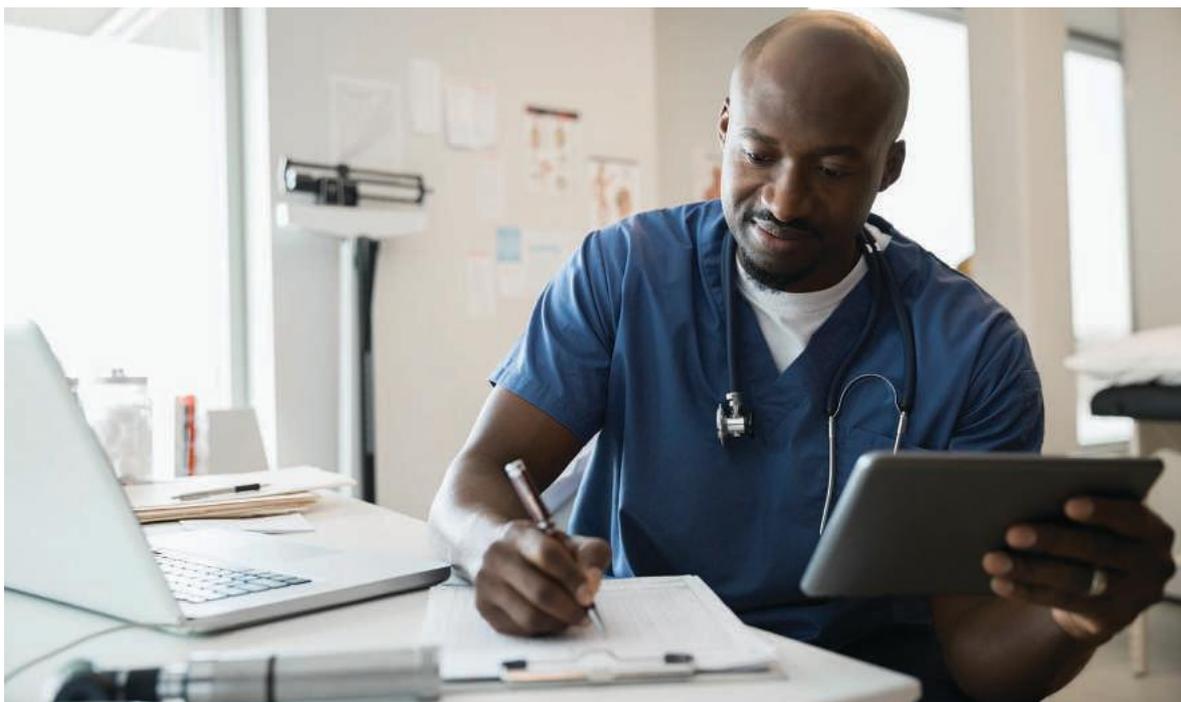
The healthcare sector is implementing innovative practices as they adopt big data to assist in providing quality patient care. Many within this sector now believe that using this data will assist healthcare to change by introducing proactive prevention strategies for patients rather than following the current crisis-management mode. For instance, if a patient with Parkinson's disease is provided with digital technology, such as a homebased sensor network and personal healthcare monitors, data can be collected from the patient every day. Adopting this innovative

practice means that a positive outcome is gained for the patient and the healthcare system as it helps to overcome inefficient and costly current monitoring practices, where a patient intermittently attends a clinic to have their condition monitored.

### ECONOMICS AND BUSINESS FACT

Big data has even been used to improve sport performance. Video analytics and equipment sensor technology provide feedback on a player's performance and help improve their game.

The major grocery retail store Woolworths also sees great worth in engaging this innovative practice of using big data. While it already collects and uses data about its customers from its loyalty program 'Everyday Rewards', it now wants to be able to better analyse the shopping habits not only of its own customers but all shoppers. One interesting result that has already been identified by Woolworths, when it combined its accident data from its insurance policies with data from its loyalty scheme, is that customers who drink lots of milk and eat lots of red meat are



**SOURCE 5.15** Adopting big data in providing quality patient care may assist in introducing proactive prevention strategies for patients, rather than following the current crisis-management mode.



**SOURCE 5.16** Businesses such as Qantas, Woolworths and Facebook have partnered with Quantum to access and analyse customer data.

very good insurance risks versus those who eat lots of rice, fill up their petrol at night and drink spirits. To assist Woolworths in implementing this innovative practice of using big data, in May 2013 it bought for \$20 million a 50% stake in data analytics firm Quantum, Australia's oldest and largest data business. This acquisition was aimed at assisting Woolworths to boost its customer analytics capabilities, and to tailor their pricing and promotions strategies. Other major business, such as Qantas, NAB, Foxtel and Facebook, have also partnered with Quantum to access and analyse customer data and provide insights in

consumer spending habits. These companies all seem to believe that using big data is an approach that will enhance the results of their individual business.

The entertainment streaming service Netflix gathers a wealth of data and analyses it to provide insight into the viewing habits of its millions of consumers around the globe. It uses this data to commission original program content, which will then have global appeal. It also purchases the rights to films and series box sets that data analysis tells them will appeal to certain audience demographics.

In the field of transportation, big data is also providing valuable information to transport manufacturers and operators. Transport authorities can use big data to assist them in their understanding of customer demand on different routes. It will provide them with the data to improve future train

### ECONOMICS AND BUSINESS FACT

Businesses using big data need to carefully consider the implications for customer privacy. Not only are data breaches always a risk, but there is also the possibility of the data being used in inappropriate ways. For example, retailers can use big data to predict the due date of pregnant shoppers, and base marketing activities on this information. This could cause problems if other family members have not yet been told of the pregnancy.



**SOURCE 5.17** Netflix uses data to commission original program content.

## CASE STUDY 5.1

### Bombardier Transportation Australia

Bombardier Australia is part of a multinational transport giant. In Australia it has a workforce in excess of 1000 employees and operates from 22 sites. Its extensive range of products and projects across Australia include: Queensland New Generation Rollingstock Project; Perth B Series EMU Project; VLocity DMU Train Project for Victoria; FLEXITY E-Class Trams Project for Melbourne; Gold Coast Light Rail Project; and A-City EMU Train Project for Adelaide.

Andrew Dudgeon, Managing Director of Bombardier Australia, believes that the generation of technology-driven millennials demand a more available, efficient and connected transport experience. Bombardier's innovative strategy is one of continuous development. It takes the assets (trains and trams) it manufactures from 'cradle

to grave' – these stages being product concept development, engineering process, manufacturing and finally maintenance of those assets.

Garry Bulgarelli, Head of Service Execution for Australia and Asia-Pacific, states that big data is the key to improving asset performance, reliability and aiding productive maintenance regimes. Digital technology is used to extract, record and analyse data from trains to monitor trends and vehicle performance during service. From the data, we can understand how things like doors and cooling/heating system modules are behaving during service. If required, we can then adjust them accordingly during maintenance. This approach directly impacts on a passenger's travel experience.

- 1 Describe Bombardier's operations in Australia.
- 2 Explain how Bombardier is utilising technology to assist the business to be innovative in the way it operates.
- 3 Visit the website for Bombardier and under Worldwide Presence search for the Australian website. Identify other ways that Bombardier is utilising technology in its business operations to improve its productivity.



routes, frequency of use of existing routes and size of trains required. It can also assist in predicting the optimal maintenance requirements of equipment – trains and tracks. Data on a customer's journey can also be understood, for example, where they accessed and exited the system or mode of transport such as train, tram or bus. In the event of a planned or unplanned event, big data can be used to find out what is the best way to reach customers – Facebook, Twitter or text messages.

## The cloud

The 'cloud' is a term used when referring to accessing computer, information technology (IT) and software applications through a network connection. Often this is done by accessing data centres using wide area networking (WAN) or internet connectivity. The 'cloud' referred to in cloud computing comes from the graphic representation of drawing the internet as a fluffy cloud in the middle of network diagrams. Cloud computing in more precise terms is the virtualisation and central management of data centre resources as software designed pools. For businesses wanting to use a public cloud provider they are required to pay either a subscription or fee based on services used.

This innovation in cloud computing offers advantages for a business in that it provides instant access to cloud resources from wherever the business has a connection, overcoming the need to be in a particular physical location or workplace of the business. The business also does not need to invest in new computer equipment or software.

There are various types of cloud service providers (CSPs); some examples are below.

- Software-as-a-Service (SaaS) is software that is provided and managed by the service provider. For example, Gmail is a web-based email where emails can be sent and received without any intervention by the business to manage future changes or improvements to the email system. The business also does not need to maintain the servers and operating system that the email program runs on.
- Platform-as-a-Service (PaaS) is a computing platform for developing or hosting applications. Platform as a service provides sets of services and workflows designed for



**SOURCE 5.18** Cloud computing is the virtualisation and central management of data centre resources as software designed pools.

developers to share tools and processes to accelerate the development, testing and use of applications. Software applications, such as Salesforce offers, Customer Relationship Management (CRM) using this service. Industries such as financial services, healthcare, retail and manufacturing provide PaaS clouds to enable their customers to build vertical applications.

- Infrastructure-as-a-Service (IaaS) provides an entire networking or computing infrastructure. This public cloud offers storage and computational services on a pay-as-you-use basis. Businesses using this service are Amazon Web Services, Microsoft Azure, Google Cloud Platform and IBM Cloud.

The popularity of businesses adopting the cloud delivery model is growing every day as they gain a greater understanding of this innovative form of technology and how it can improve their business operations and productivity.

## 3D printing

▶ Various forms of printing have been used for many years; however, the innovative technology associated with 3D printing has created many different opportunities for a variety of industries. 3D printing creates a solid three-dimensional physical object from a digital design by adding material layer by layer. There are more than 600 materials that can be used

in the 3D digital printing process. These can be categorised into the following broad groups: plastics (rigid, opaque, rubber-like, transparent), resin, nylon, sandstone, industrial metals and alloys. The application of this innovative technology has many users recognising the opportunities it creates. Users of this technology are manufacturers (automotive, aircraft, shoe, consumer products), engineers, medical professionals (doctors, dentists, prosthetists), product designers and architects.

As with any advance in technology, it is important that a business reviews the advantages and disadvantages of this innovation. Advantages are that there is the ability to create customised and complex designs. There would also be lower fixed costs to the business as they do not need to purchase expensive tools to make the individual or customised product. The 3D process should also create less waste. The main disadvantages of



### ACTIVITY 5.4 Research

#### 3D printing

- 1 Visit the website 3D Hubs, scroll to the bottom of the screen and select 'What is 3D printing'.
- 2 Choose two user groups of 3D printers.
- 3 Explain the way the chosen user groups are using 3D printing technology.
- 4 Identify the benefits and limitations of the 3D printing technology for that group.

using 3D printing is that it attracts a higher cost for the business if the production run needs to be large and that there are currently less choices in the materials, colours and finishes that can be used for the product being manufactured.

#### Technology

- 1 Give an example of an industry, aside from medicine, that has benefited from the use of robotics.
- 2 Explain what is meant by big data.
- 3 For each of the following cloud service providers, explain, with reasons, whether it is software-as-a-service, platform-as-a-service or infrastructure-as-a-service:
  - a Dropbox
  - b Airbnb.
- 4 List one advantage and one disadvantage for a business of using 3D printing.

#### DEVELOPING YOUR UNDERSTANDING 5.3

## 5.4 Triple bottom line philosophy for planning and reporting

Traditionally, businesses would plan their business activities and then report to their stakeholders based on its financial performance. This meant that the business concentrated on what revenue it earned and what expenses it incurred, and ultimately the profit was referred to as its 'bottom line'.

As a society, we are now expecting businesses to take a broader approach to the way they plan and report on their business activities. Organisations of all sizes (small, medium and large) are moving towards the approach of adopting **triple bottom line (TBL or 3BL)** reporting, which is based on three criteria.

- 1 Its financial or economic performance: this is usually measured by taking into account the organisation's financial returns from its normal operating activities, financing activities, and any investments it owns and controls.

#### GLOSSARY

**triple bottom line (TBL or 3BL)** the criteria used to measure success of business activities. The criteria include financial performance, social performance and environmental performance.



**SOURCE 5.19** Triple bottom line (TBL or 3BL) means reporting on social and environmental performance, as well as economic performance.

- 2 Its social performance: this is concerned with how people within the business (employees) and people outside of the business (community) are affected by the business.
- 3 Its environmental performance: this considers the total impact the business has on the natural environment.

This approach is often paraphrased as 'People, Profit, Planet'. This famous phrase was originally coined in 1997 by John Elkington in his book *Cannibals with Forks: the Triple Bottom Line of 21st Century Business* where he outlined his TBL philosophy.

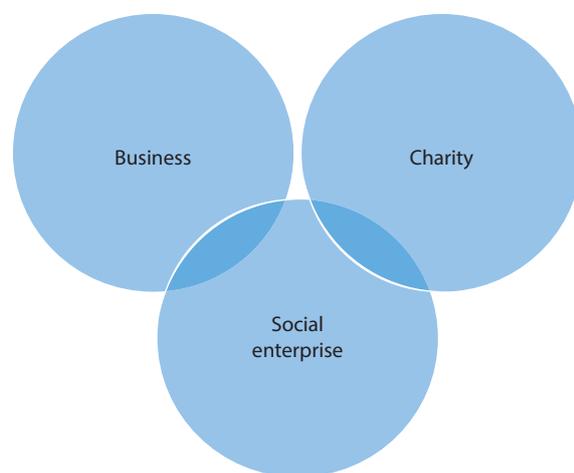
### Applying the triple bottom line principles

Any business applying the TBL principles needs to not only concentrate on planning its financial matters but to also act in a way that will benefit the community, and ensure that people are not being exploited or endangered by the operations of the business. Some of the social factors that should be considered are how workers' labour is being utilised, wages being paid, their working conditions and any contribution they make to the living standards of their community. The third principle relates to the business's total impact on the natural environment.

Where feasible, the business should aim to improve the environment or at least reduce the amount of negative impact it has. Rather than just focusing on environmental issues such as pollution, they should consider the total life-cycle impact of their products and services (i.e. sustainability).

### Social enterprises

There is an increasing trend in Australia for the creation of social enterprises. These businesses apply commercial strategies to maximise improvement in human and environmental wellbeing rather than maximising profits for external shareholders. It could be said that these businesses are adopting the philosophical approach referred to as TBL. Social enterprises can be structured as a for-profit or not-for-profit business and may take the form of a cooperative, a mutual organisation, a social business or a charity. One of these social enterprises is STREAT, which operates in the hospitality industry in Melbourne. Through its cafés, catering and coffee roasting businesses, which generate its funds, the business is able to



**SOURCE 5.20** Social enterprise model

provide homeless youth with the life skills, work experience and training required to start a career in the hospitality industry.

Not all Australian social enterprises are created to assist local people. For example, Pollinate Energy is a social business bringing life-changing products to millions of people who are living in poverty in India's urban slums. Visit the website of Pollinate Energy to gain an understanding of the interesting approach this social enterprise is taking to assist Indians living in the urban slums to experience better life outcomes.



The creation of a social enterprise is not the only way that a business can achieve its social

aims. A commitment to corporate social responsibility (CSR) implies that the business, when planning its operations, has the interests of society as an important objective. It demonstrates they intend to take responsibility for the impact their activities will have on all its stakeholders (employees, suppliers, customers, shareholders and communities) as well as the environment. CSR should not be seen just as a chance to sponsor a sporting team or donate money to a 'good cause' – it should be a core element in the financial sustainability of every business. By adopting a CSR approach, a business can enhance its reputation and image,



**SOURCE 5.21** Social enterprises may take the form of a cooperative, a mutual organisation, a social business or charity.



### ACTIVITY 5.5 Research

#### Social enterprises

Conduct independent research to find an example of two different types of social enterprises in your state or local area. For each of these businesses, answer the following questions:

- 1 What is the nature of the social enterprise?
- 2 Describe why and when it was started.
- 3 What types of products does it sell or what types of services does it provide?
- 4 From where does the social enterprise source its products?
- 5 Identify different initiatives it is undertaking to make sure it is ethical and socially responsible in its operations.
- 6 Make an assessment on the success of this enterprise using the TBL approach.

become an 'employer of choice' and attract the best employees, while also giving back to its community. Customers may also seek out and remain loyal to the business because of adopting this positive approach.

### Environmentally sustainable business practices

Businesses are beginning to see that there are advantages in adopting environmentally sustainable business practices. Pressures exerted by consumers, investors, governments and media are making businesses move towards adopting programs that will decrease their use of physical resources when creating goods, increase recycling of resources, redesigning operational processes to eliminate or reduce toxic by-products, decrease wastage of resources and provide greater protection and/or restoration to our natural environment.



**SOURCE 5.22** Businesses are encouraging environmentally sustainable practices such as recycling.



#### ACTIVITY 5.6 Research

##### Sustainability in Australian companies

*This Activity is available in the online version of the textbook.*



#### Triple bottom line

- 1 List the three criteria of TBL reporting.
- 2 What is a social enterprise?
- 3 List one thing a business could reduce and one it could increase to become more environmentally sustainable.

#### DEVELOPING YOUR UNDERSTANDING 5.4

## 5.5 Business ethics

Behaving in an ethical manner is an important requirement for any organisation. It is essential that managers at all levels, whether they are holding senior, middle or frontline positions, provide positive role modelling and demonstrate leadership to ensure that ethical behaviour and related values are incorporated into their business and the actions of employees. For individuals, **ethics** relates to our individual beliefs about what is right and wrong behaviour. Ethics are relative, not absolute, and they can vary between individuals, groups and societies over time.

### GLOSSARY

**ethics** a set of moral principles that a business needs to establish and follow

There are a range of pressures that impact on the ethical standards being adopted by a business. These include personal ethics, corporate culture and systems.

- Personal ethics: management and employees all bring their own attitudes, values and beliefs to their workplace.
- Corporate culture: the shared values and beliefs forming the corporate culture of the organisation is going to influence the policies, decision-making and behaviour of the organisation.
- Systems: the policies and procedures, which are already in place in the organisation, will also impact on ethical considerations and values.

### Code of Ethics or Code of Conduct

At a workplace, ethical issues can be resolved more easily if a Code of Ethics or Code of Conduct has been developed and implemented. Management and employees all need to be made aware of the content of these documents and the procedures that need to be followed if an ethical issue arises. A Code of Ethics provides written guidelines to its workers and management to help them conduct their actions in accordance with the values and ethical standards of that business. A

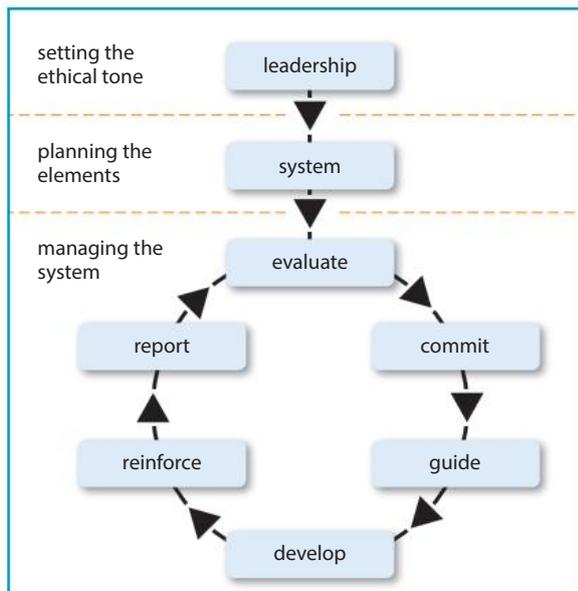
more detailed outline of specific do's and don'ts and explanations of acceptable and unacceptable conduct, either illegal (against the law) or legal but unethical, are contained in a Code of Conduct. The business then appoints an ethics committee or ethics officer whose role it is to oversee the system they have in place for encouraging and deterring unacceptable behaviour. Their role includes:

- collecting and monitoring information received via attitudinal surveys, staff turnover data and any other sources
- developing policies, procedures and keeping employees informed about ethical behaviours
- ensuring that ethics training occurs during staff induction and any development programs
- rewarding, recognising and promoting employees who exemplify the values and principles
- enabling employees to raise concerns about the application of desired values and principles.

This approach will only be successful if it has the commitment and leadership from the top person in the business, namely the chief executive officer (CEO) and the board of directors.

There are many relationships that occur in businesses between parties both internal





**SOURCE 5.23** It is important to manage the ethics system in an organisation.

(management, employees and shareholders) and external (customers, suppliers, community, government bodies, trade unions, financial institutions) to the business. All of these should be handled in an ethical manner. A very important relationship is the one the business has with its employees. There is potential for this relationship to be adversely affected or handled in an unethical manner in the following instances:

- recruiting and selecting employees (i.e. hiring)
- terminating employees (i.e. dismissing/firing)
- allocation of jobs, tasks or duties to employees
- providing career development and promotion opportunities



**SOURCE 5.24** Interactions between internal and external parties to the business should be handled in an ethical manner.

- undertaking performance appraisal
- determining fair working conditions
- equal opportunity, discrimination, bullying and harassment
- privacy
- occupational health and safety (OH&S).

On the positive side, however, for employees working in an ethical workplace, the benefits are immense. They know they will be working with other employees who are ethical in the way they conduct themselves in the workplace, and also feel good about their work and about the integrity and good reputation of the organisation.

### Ethics and values of organisations

Describe how the following situations reflect the ethics and values of the organisation:

- 1 An employee was not considered for a promotion because the department manager stated that she did not wear clothes that were sufficiently 'corporate' in style and she spoke with a foreign accent and therefore was not sending the 'right corporate image'.
- 2 A recent performance appraisal conducted by a manager of a member of his department over-emphasised the personal characteristics of the job holder rather than appraising the performance of the tasks required for that job. The job holder was subsequently overlooked when seeking applicants to attend an important conference directly related to his job.

### DEVELOPING YOUR UNDERSTANDING 5.5

## CASE STUDY 5.2

### KPMG

#### Unethical conduct a growing concern for employers

Global business advisory group KPMG conducted a survey in 2010 asking organisations what types of unethical behaviour they had experienced in the past year. Some examples provided were:

- unauthorised use of the internet or disclosure of information via the internet
- falsely claiming sick leave or absenteeism
- conducting business transactions in a way that earned unwarranted personal gain/ advantage (i.e. getting kickbacks)
- unauthorised disclosure of confidential or sensitive information
- lavish gifts or entertainment bought at company expense and not brought to the attention of management
- unauthorised use of corporate assets
- showing favouritism to suppliers and/or improperly gathering information on a competitor.

**SOURCE 5.25** Extract from 'Unethical conduct a growing concern for employers', *HC Online*, HCA, 18 November 2010

Access the Ethics and Compliance program of KPMG – 'Above all we act with integrity' at <http://cambridge.edu.au/redirect/8094> and complete the following:

- 1 Outline the statement that KPMG provides which establishes its commitment to ethics and integrity.
- 2 Identify the various aspects of KPMG's business practices required for it to regard itself as 'doing the right thing in the right way'.
- 3 Does KPMG have a formal Code of Conduct?
- 4 Identify the methods and process KPMG uses to ensure that employees know, understand and apply the values and Code of Conduct of the business.
- 5 Describe the methods and process that can be followed in the event of either an employee or employer having concerns about the conduct of either party.
- 6 Does KPMG provide protection for an employee in the event of there being possible retaliation if they report an unethical behaviour or work practice? If yes, describe the form of protection.
- 7 Undertake a web search to investigate if there have been any recent breaches to KPMG's Code of Conduct. Outline the breach and how it was resolved.

## 5.6 When economic conditions improve: How do businesses respond?

Australia has relied very heavily on its mining sector to make a substantial contribution to our gross domestic product (GDP). This reliance will not be possible forever, and it is important that other business sectors ensure they respond and work towards Australia's best interests to maintain and improve our prosperity, productivity levels and standard of living. Chris Richardson from Deloitte Access Economics division co-authored a Deloitte study stating that 'our future prosperity will come from a more diversified spread of sectors, enabling Australia to remain the fastest growing developed Western nation in the world in the coming decade'. The Deloitte report outlined five advantages that Australia possessed:

- 1) our land, minerals and energy resources are world-class
- 2) the fastest growing markets in Asia are within close proximity
- 3) we use the language of global business (English)
- 4) our climate is temperate
- 5) the tax and regulatory regime is well understood.

**SOURCE 5.26** Five advantages that Australia possessed according to the Deloitte report

It is important that businesses not only recognise these advantages but also use them to their benefit. Some strategies that can be adopted are as follows.

### Increasing their research and development spend

Undertaking new product design and development is important to the survival and ongoing success of businesses. Businesses must respond to pressures placed on them by their customers and competitors if they want to retain or improve their market share and grow their business. Many businesses keep their research and development (R&D) activities under wraps as they want to be able to gain a competitive

advantage when they launch their product and not give their competitors an early 'heads up'.

Research and development is a costly exercise and does not reward a business with an immediate income stream. Fortunately, governments at both federal and state levels encourage and assist businesses to undertake research and development through the availability of grants. The federal government can also provide R&D Tax Incentives, which it does by providing tax offsets to eligible entities that undertake eligible R&D activities.

Funding is also available for a variety of business activities such as product development, market research and developing marketing strategies, incubation of an invention and development of software.

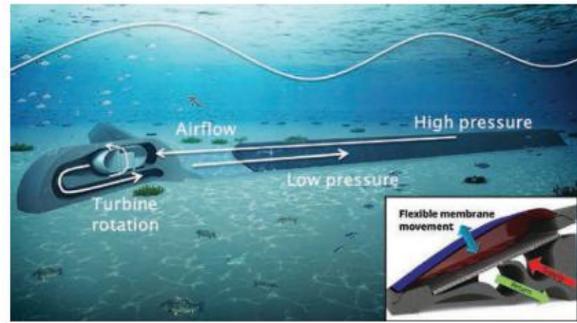
An important area for research and development is energy generation. There is an increasing global demand for clean energy. Opportunities exist for businesses that can develop technologies that generate and store energy based on NextGen solar, NextGen nuclear, Tesla battery system, clean coal or wave power.

In 2012 Bombora, a Western Australian business, lodged its first patents protecting the technology contained in the mWave converter. Since then it has gained recognition as an award-winning ocean energy company. As part of its expansion strategy into Europe, it has established operations in Portugal and Pembrokeshire, Wales, which is in the heart of a dynamic,



**SOURCE 5.27** An important area for research and development is energy generation.

wave and tidal energy-focused region. In 2017 the business gained a long-term multi-million dollar investment from Enzen, an innovative engineering services provider operating in the renewable energy, electricity efficiency and water sectors, to support the construction of first commercial sized mWave TM.



SOURCE 5.28 Bombora's wave energy converter



### ACTIVITY 5.7 Research

#### Clean energy

- 1 Search online to identify businesses in Australia now undertaking research and development into clean energy.
- 2 Explain what form of clean energy they are researching and developing.
- 3 Summarise how far the business has gone in its development of this new form of clean energy.

### Adjusting marketing strategies

Adopting traditional marketing strategies is still being relied upon by businesses in their quest to gain, expand and retain **market share**. (Refer to Chapter 4 for more detail on these strategies.)

#### GLOSSARY

**market share** the proportion of the market controlled by a business, based on value of total sales

The role of branding a product to gain market or brand leadership is of utmost importance, as correctly applied it will provide to the business a powerful asset capable of contributing enormously to the financial wealth of the business. In addition, the use of product placement is increasingly being used to gain prominence of a product in the consumer's mind; for instance, on television, in movies or on the internet.

The internet is increasingly gaining popularity as a tool to assist in developing **customer profile**. Businesses need to understand and be able to pitch their marketing directly to their **target market**. This strategy is far more cost effective for the business, as it means they can then specifically use marketing strategies appropriate to gaining and expanding their market share. Just think about when you browse the internet for a particular product for the first time and access a

whole range of websites during your search. Then when you do subsequent searches, you will notice advertisements appearing that target you based on your original search. Search engines, such as Google, analyse and classify your browsing patterns and then link these to specific web pages of their clients.

#### GLOSSARY

**customer profile** the range of variables that can be identified when defining a market to best suit a particular customer

**target market** the market at which a product or service is primarily aimed

Businesses are increasingly making use of social media as a marketing strategy to connect with consumers. Using social media can allow a business to increase the visibility of its brand, develop and grow relationships with potential and existing customers, publish and distribute original content that demonstrates the expertise of the business, and ultimately generate new leads and boost sales for the business.

### Improving the skills of your workforce

Australian workplaces are experiencing rapid change – some businesses are expanding, others are restructuring and, unfortunately, others are



**SOURCE 5.29** Businesses are increasingly making use of social media as a marketing strategy to connect with consumers.

downsizing or closing. For a business to have a chance of survival and be productive in this rapidly changing economic environment it is vital that its workforce is well skilled and that workers have the capabilities needed to perform their roles.

It is not only management that needs to have the requisite skills, all employees must be adequately skilled to complete the tasks associated with their jobs. Skilled workers are more likely to be productive workers. The skill set of the employees must not only be relevant and meet the standards of a particular business but also those required by their particular industry sector. Providing development opportunities for staff is a great motivational tool and will help to boost a business to gain a competitive edge, improve their productivity and increase their profit margin. Training for staff can be offered at the workplace (i.e. in-house) or by sending employees on external courses.

For a business to ensure its future productivity and competitiveness, it needs to ensure that employees possess a combination of hard and soft skills. For example:

- the ability to work in a diverse environment (i.e. social intelligence). The workplace of a business will often contain workers of very different ages and from a wide range of backgrounds.
- cross-cultural competency – possessing a global mindset with workers knowing how



**SOURCE 5.30** Providing development opportunities for staff is a great motivational tool.

to market, sell and communicate in a global marketplace. This also means having a knowledge of other cultures and awareness of their differences.

- flexibility and openness to learn something new. Being adaptive in how they think, not just rely on rote or rule-based learning.
- strong communication skills in all forms. In particular, the ability to critically assess and develop content using new forms of media.
- ability to analyse and translate vast amounts of data into abstract concepts and understand data-based reasoning.
- effective in conflict resolution. Due to the increased emphasis on team work, it has become important for workers and managers to be able to address issues as they arise and mitigate major conflicts.

## Stepping up production capacity

If businesses want to be competitive and improve their productivity, they must ensure that they have plant and equipment in place that will assist them in this pursuit. Replacing an outdated and poorly maintained plant and equipment is a costly exercise, particularly in the short-term, but in the long-term may reward the business. This reward will come in increased production capacity and productivity improvements.

### Business advantages

- 1 Outline, in your own words, the five advantages that Australia possesses according to the Deloitte report (referred to on p. 133).
- 2 Why do businesses sometimes need encouragement and assistance to undertake research and development?
- 3 Explain how a business can use the internet as part of its marketing strategy.

### DEVELOPING YOUR UNDERSTANDING 5.6

## REFLECTING AND CONSOLIDATING

### Chapter summary

- A primary objective of business is to enhance its operational efficiency and productivity.
- Productivity is the level of output obtained from a given level of input.
- There is a range of areas that can be worked on to gain productivity such as: investing in and implementing new technology applications; capital investment in equipment and facilities; just-in-Time (JIT) inventory system; managing materials and supply chain; training and upskilling their workforce.
- The structure of an organisation has changed over time. Previously, a multi-layered hierarchical structure was popular; in modern times, it has been found that a more flexible and efficient process is gained through adopting a flatter structure, a network structure or a matrix structure.
- Businesses are using technology developments (both hardware and software) in their quest to be innovative in the way they operate.
- The philosophy of triple bottom line (TBL or 3BL) has increased in popularity for business planning and reporting. TBL reporting is based on three criteria: financial performance, social performance and environmental performance.
- Social enterprises adopt the philosophical approach of the TBL.
- Business ethics is the set of moral principles that an organisation needs to establish and follow.
- Personal ethics, corporate culture and an organisation's systems all affect the ethical standards adopted by an organisation.
- A Code of Ethics or Code of Conduct is developed by organisations to provide guidelines to workers and management on how to conduct their actions.
- An ethical workplace has immense benefits for employees and the good reputation of the business.
- Businesses respond to improving economic conditions in a variety of ways such as: increasing their spend on research and development, developing and expanding their business operations, stepping up production capacity, improving the skills of their workforce, and adjusting their marketing strategies.

### Multiple-choice questions

- 1 Innovations in which of the following areas helped Intuitive Surgical to develop their business?
  - A Crystalline metallurgy
  - B Packaging
  - C Robotics
  - D Cryptography
- 2 Which of the following areas of a business does not fall under supply chain management?
  - A Procurement of supplies
  - B Research and development
  - C Distribution of finished products to customers
  - D Inventory management

- 3 Which of the following descriptions best matches the Just-in-Time (JIT) method?
  - A All operations are completed just before the next stage is ready to commence
  - B All operations are completed at once
  - C All parts are made and stored before moving to next stage
  - D Robots are eschewed in favour of human workers
- 4 Which of the following is not a feature of the hierarchical organisational structure?
  - A Employees arranged into layers and levels from senior management down to frontline workers
  - B Clearly identifiable organisational positions, roles, responsibilities and accountabilities
  - C Centralised decision-making
  - D An organisation that is highly responsive to change
- 5 Wilhelm Conrad Röntgen's discovery transformed which field?
  - A Logistics
  - B Finance
  - C Oil and gas engineering
  - D Medicine

### Short-answer questions

- 1 Define the following terms and demonstrate your understanding by incorporating each term in a sentence.
  - a productivity
  - b inventory control
  - c training
  - d innovation
  - e big data
  - f social media
- 2 Categorise the following statements as either true or false.
  - a Inventory only relates to the stock that you hold as finished goods.
  - b The only time you train an employee is when they first join your business.
  - c TBL reporting is often paraphrased as 'people, profit and planet'.
  - d One advantage of adopting a matrix structure is better decision-making outcomes.
  - e Innovation and invention are exactly the same thing.
- 3 'Unauthorised use of the internet' is regarded by organisations as being unethical behaviour. Discuss whether you believe this statement is correct by providing your viewpoint on this matter.
- 4 Describe the benefits that an organisation would gain in adopting a Just-in-Time (JIT) inventory management system.
- 5 Discuss the following statement: 'The only way Australian businesses are going to be competitive on the global market is to increase their level of productivity.'

### Extended-response question

Consider this statement: 'Adopting the philosophy of TBL planning and reporting is an increasing trend being adopted by Australian businesses.'

Analyse the implications for the following stakeholder groups if the TBL approach is adopted by an organisation:

- a employees
- b shareholders
- c community.



# Civics and citizenship

**SOURCE 6.1** A sausage sizzle has become a tradition at voting centres on election days. Social media has humorously nicknamed these 'democracy sausages'.

# Chapter 6

## Government and democracy

### Main focus

This chapter explores the concept of democracy and the particular features of the Australian democratic political system. To further understand Australian democracy, this chapter will also examine countries in Asia that operate under different political ideologies. The concept of good global citizenship will be investigated through Australia's involvement in the United Nations and in the delivery of foreign aid.

### Why it's relevant to us

This chapter develops a detailed understanding of the Australian political system and Australia's role in the international community. It is important for us to be informed voters and to have comprehensive knowledge of our role as global citizens.

### Inquiry

- What are the key features of the Australian Government?
- How do Australian and Asian countries' systems of government differ?
- What role does Australia play in the United Nations?

### Key terms

- Australian democracy
- bicameral
- capitalism
- communism
- democracy
- direct democracy
- electorate
- fascism
- foreign aid
- genocide
- global citizen
- governance
- Governor-General
- Human Development Index (HDI)
- human rights
- internationalism
- military junta
- monarchy
- multilateral
- non-government organisation (NGO)
- peacekeeper
- political ideology
- referendum
- representative democracy
- theocracy
- trade restrictions
- veto
- voting
- voting age
- Westminster system

### Let's begin

Australia is one small country in a big globe and we often assume that other countries will be similar to us. Not all countries are democratic or as politically stable as Australia. We are very lucky to live in a country that strongly values democracy and protects our rights to participate in the democratic process. On a broader global scale, we are a key member of global institutions that seek to protect human rights and maintain international peace and security. We play an important role in these organisations, which strengthens our relationship with other countries and our commitment to good global citizenship.

## 6.1 Political ideology

Imagine that you and 10 other people were stranded on a deserted island. As being rescued is very unlikely, you have all agreed to start new lives on the island. Who will be in charge? Who will make the rules? How will they be enforced? What kind of punishments will there be? Will everyone be treated the same way?

By answering these questions, you have outlined a **political ideology**. A political ideology is a set of beliefs and practices that outline the manner in which political decisions can be made for a particular society. For example, you may decide to allow people to vote for their leader in your desert-island scenario, whereas someone else may decide that the physically strongest person should be the leader and **voting** should not be allowed. You may want to avoid using corporal punishment (physical punishments) for any rule breaking, whereas a different person might decide that it is necessary. These different decisions are the foundation for different political ideologies.

### GLOSSARY

**political ideology** a system of beliefs and practices that determine the political decisions of a country or society

**voting** a political process in a democracy in which those eligible formally express an opinion on an issue or decide on political representation. In Australia, a person is eligible to vote if they are over 18 and hold citizenship (either through birth or naturalisation).

## Democracy

Like many other culturally similar countries, Australia follows a democratic political ideology. A **democracy** is a political ideology that respects the beliefs of the organisations and bodies that govern a country, and should represent and protect the needs of the country's citizens. The most important principle of a democracy is that the citizens of the country participate in the choice of representatives or leaders.

### GLOSSARY

**democracy** a form of government in which citizens of the country participate in the choice of leaders



**SOURCE 6.2** Australia is a democracy and its citizens participate in the choice of its representatives.

The concept of a democracy was created in ancient Greece and originally the term 'democracy' meant 'rule of the people'. The ancient Greeks employed a **direct democracy**, in which all eligible citizens were able to present their opinions and directly contribute to political decision-making. Today, Australia (and many other countries) employs a **representative democracy**, in which the citizens of the country vote for a person from their geographic area to represent their interests in government. In both forms of democracy, the key component is the inclusion of citizens in the political decision-making processes.

### GLOSSARY

**direct democracy** a form of government in which all eligible citizens are able to present their opinions and directly contribute to political decision-making

**representative democracy** a political ideology and practice in which the eligible voters select a representative to make political decisions on their behalf

## Other political ideologies: Fascism, monarchy and theocracy

There are many other political ideologies that are very different to democracy. The Nazi party (led by Adolf Hitler) employed a fascist political ideology in Germany during the 1930s and 1940s. **Fascism** involves a centralised power, in which a leader makes all the political decisions without

the participation of citizens. Generally, under a fascist ideology, any political opposition is not allowed and speaking out against the government is considered a crime.

A **monarchy** is a political ideology in which all political power lies with one family. The monarch is generally referred to as a king or queen. Only those born to the particular family are allowed to be the leader. As such, there is no inclusion of the opinion of the citizens. While many modern-day countries have a monarch (Australia is part of the Commonwealth and, hence, is under the British monarchy), very few monarchs have extensive political power. However, the monarchs in countries like Saudi Arabia and Qatar have a lot of political influence.

#### GLOSSARY

**fascism** an ideology that is built on a centralised power, in which a leader makes all the political decisions without the participation of citizens

**monarchy** a political ideology in which all political power lies with one family

Countries like Iran and the Vatican City are considered to be theocracies. A **theocracy** is a political ideology in which the beliefs and practices of a particular religion form the foundation of the country's laws and **governance**. Within a theocracy, the laws of a religion become the enforceable laws of a country.



**SOURCE 6.3** Vatican City is a theocracy and is overseen by the head of the Catholic Church, the Pope.

#### GLOSSARY

**theocracy** a political ideology where the beliefs and practices of a particular religion form the foundation of a country's laws and governance

**governance** the structures and processes that allow political decisions to be made. Governance can take place at a national or state level or within corporate or organised groups.

### Political ideologies

- 1 Define the terms 'fascism', 'monarchy' and 'theocracy'.
- 2 Highlight the difference between a direct and representative democracy.
- 3 **a** Create a list of 10 laws that you would enforce in your desert-island scenario.  
**b** Identify which political ideology your island most closely follows.

### DEVELOPING YOUR UNDERSTANDING 6.1



#### ACTIVITY 6.1 Note this down

##### Political spectrum

Research the definition of a political spectrum. Use this knowledge to draw the political spectrum in your notebook and plot democracy, theocracy, monarchy and fascism on it.



## ACTIVITY 6.2 Research

### Political ideologies

Use the internet to gather information about one of the following political ideologies:

- theocracy
- oligarchy
- monarchy
- anarchy
- fascism.

Create a one-page report on your chosen political ideology. The report should include a definition of the ideology, a list of countries or societies that employ the ideology and a detailed analysis of how the ideology differs from democracy. Include a brief reflection on how life would be different under your chosen ideology in contrast to present-day life in Australia.

## 6.2 Features of Australian democracy

There are many countries that follow a democratic political ideology. Each country has its own particular interpretation of the democratic system. Due to European settlement, the Australian democratic system closely mirrors the British system of governance and law. Many features of **Australian democracy** are directly derived from the British system. However, there are some features that are uniquely Australian and represent the cultural and social values of our country.

of Representatives are elected every three years. However, there are no limits on how many terms a person can serve. In the United States, the presidential elections are held every four years and a person can only hold the position of president for two terms (eight years). In contrast, there are no limits on how many times a member of the Australian parliament can hold a position. Sir Robert Menzies held the position of prime minister for 18 years collectively and John Howard served as prime minister for 13 years.

### GLOSSARY

**Australian democracy** a constitutional monarchy that means that Australia is part of the Commonwealth and also has a parliament that makes independent decisions

### Democratic elections

Access to an election is the marker of a truly democratic system. An election is the key way in which a citizen can express their political beliefs and actively participate in the decision-making process. In Australia, elections are held regularly to ensure that there are regular opportunities for voters to express their political opinion. For example, at a federal level, members of the House



**SOURCE 6.4** Members of the House of Representatives are elected every three years.



**SOURCE 6.5** In the US, the position of president can only be held for two terms. In Australia, there is no limit on how many times a member of the Australian parliament can hold a position.

The **voting age** in Australia is 18 and, unlike most Western countries, voting is compulsory. All Australian citizens are expected to vote in local, state and federal elections.

#### GLOSSARY

**voting age** the age at which a citizen is eligible to cast a vote; in many countries this is 18

#### CIVICS AND CITIZENSHIP FACT

Australia is one of only 10 countries that enforces compulsory voting. The other countries are Argentina, Brazil, Democratic Republic of the Congo, Ecuador, Luxemburg, Nauru, Peru, Singapore and Uruguay.

#### The head of state

The phrase ‘head of state’ refers to the highest political position within a country. The person who holds the position represents the country in global forums and provides leadership on domestic and international issues. Generally, the head of state is either called a president or a prime minister.

Australia has an unusual democratic feature because the prime minister is not technically the head of state. Australia is a member of the Commonwealth and was colonised by the British. As a consequence, Australia’s (and all Commonwealth countries’) head of state is Queen Elizabeth II. The Queen’s representative



**SOURCE 6.6** Australians voting in the 2016 federal election

in Australia is called the **Governor-General** and has the powers of a head of state. However, the prime minister is seen as a de facto head of state and operates as such. Only in times of extreme circumstances will the Governor-General intervene in Australian politics.

### GLOSSARY

**Governor-General** the official representative of the monarch of the Commonwealth in Australia and the official head of state (as outlined by the Constitution); the position is entitled (through law) to power over many different governing bodies, but it has become a convention that the role only intervenes in political actions or processes in rare circumstances

Some people are very critical of the role of the Governor-General because the position is appointed, not voted for. The Governor-General is appointed by the British monarchy (on advisement from the sitting government). Some people argue that the appointment of such an important role is contradictory to the principles of a democracy because the person has not been chosen by the majority of Australian citizens.

## The Westminster principle

The Australian system of parliament and government is based on the British **Westminster system** (or principle). The Westminster system is a style of government that is used by countries



**SOURCE 6.7** Prime Minister Malcolm Turnbull and the Governor-General of Australia Sir Peter Cosgrove

that are part of the Commonwealth, such as Australia. As well as having an appointed head of state (Governor-General), the Westminster principle is centred on the concept that the members of the government must be responsible to the people they represent. Members of the government are given portfolios that they bear ultimate responsibility for (i.e. the minister for health or the minister for education). The members of parliament can only hold their position for as long as they have the confidence from the people of their **electorate**.

### GLOSSARY

**Westminster system** originating from the British political system; all elected political members have a responsibility to serve their electorate and can only remain in power for as long as they have the support of the people; head of state is a representative of the monarchy, the de facto head of state is also the head of government (prime minister); the head of state can dissolve the parliament if appropriate

**electorate** a geographical area that a member of parliament represents; generally based on population numbers

The Westminster principle is based on a series of checks and balances. Various systems are in place to ensure that no person or institution can become too powerful to be overruled. The Australian parliament is an example of this. The parliament is **bicameral**, meaning two Houses of Parliament. In order to pass legislation (create a law) both houses must approve.



**SOURCE 6.8** The Australian system of parliament and government is based on the British Westminster system.



**SOURCE 6.9** The Australian Greens is a minor political party.

### GLOSSARY

**bicameral** a parliamentary system in which there are two houses (generally referred to as the upper and lower house). Each house has its own responsibilities, but both houses must pass legislation in order for it to become law.

## Two-party dominated system

Australian politics is dominated by two major political parties: the Labor Party (ALP), and the coalition between the Liberal and National

Parties (Coalition). There are some minor parties, such as the Australian Greens and the Australian Sex Party (re-registered as the Reason Party in late 2017), but the majority of the parliament seats are held by the two major parties. Some people argue that this is a limitation of the Australian political system. If there are only two major parties, then there are limited options for voters to choose from. In recent history, there has been a small increase in votes for the minor political parties. Some people have viewed this as an increasing disenchantment with the major parties.

### Australian democracy

- 1 Identify two political features that indicate that Australia is a member of the Commonwealth.
- 2 Outline the complications with the concept of 'head of state' in Australia.
- 3 In 2010, the Australian Greens party received 16.8% of the vote (largely from inner-city areas). In 2013 the party received 8.65% of the vote, while in the 2016 election, even though it won only one seat (the same as in the 2013 election), its percentage of the vote had increased to 10.23%. Interpret the trend in voters' political concerns based on these results.
- 4 Create a two-paragraph response to the following topic: 'Australia should eliminate compulsory voting'. Conduct some research to support your argument.

### DEVELOPING YOUR UNDERSTANDING 6.2

### 6.3 Comparing political systems: China

The People's Republic of China is very different to Australia in many ways. China is a very important trading partner for Australia, but it has a very different political system and ideology. It has

the largest population in the world, as well as the fastest growing economy in the world. It had its highest economic growth over the last decade and is moving towards being a developed country.



**SOURCE 6.10** China in relation to Australia

#### Communism in China

Historically, China has undergone many different political reforms. From 1949 until the late 1970s, China followed the political ideology of **communism** led by Chairman Mao. Communism is a political system in which all people are treated



**SOURCE 6.11** China followed the political ideology of communism led by Chairman Mao from 1949 to the late 1970s.

equally economically. The founding principle of communism is that society should be classless; that all factors that separate people into social classes (including wealth) should be eliminated. Under a purely communist system, all people would be paid the same wage and no one would own more than anyone else. In a purely ideological sense, a communist country would have no ownership of land or property. Instead, a centralised government would own all land and property (often referred to as a collective ownership) and would allocate housing to citizens.

#### GLOSSARY

**communism** a political ideology that advocates a classless, stateless and economically equal society. Communism involves collective ownership of land and means of production.

In practice, communism looks very different to the theory. Under strict communism in China

during the 1950s and 1960s, items that were considered luxuries (unnecessary for survival) were barely available. China became a heavily industrialised country that focused on building and creating the necessities of life. However, due to the large population and refusal to engage in international support and trade, many millions of Chinese people starved to death.

After the death of Chairman Mao, China went through a radical economic reform. The controversial country maintained the social aspects of communism (a centralised government, limited options for political opposition) but opened up economically and adopted **capitalism**.

As a result, China has boomed economically, with more and more people being able to afford their own homes and buy luxury items. However, the country remains politically communist and is unlikely to adopt a democratic system anytime soon.

#### GLOSSARY

**capitalism** an economic system in which production and trade is largely privately owned and controlled. Capitalism encourages a competitive market in which the government has limited control over the price and production of goods and services.

## Political participation in China

There is only one political party in China: the Chinese Communist Party (CCP), which has over 82 million members. There are elections in China, but it is always between members of the same party (the CCP). The power of the CCP is significantly more than the power of political parties in Australia. As there is no opposing party, the CCP rules China unchallenged. While political opposition is not officially banned, there are many mechanisms in place that prevent the rise of opposing political views. Membership to the CCP is greatly encouraged, particularly at universities. However, engagement in political activity that is seen to be against communism (such as a democracy movement) is discouraged. Reports of violence against pro-democracy activists occur regularly.

#### CIVICS AND CITIZENSHIP FACT

The population of China is approximately 1.412 billion. That is 57 times the number of people in Australia.



**SOURCE 6.12** The CCP is the only political party in China.

## CASE STUDY 6.1

### China and internet censorship

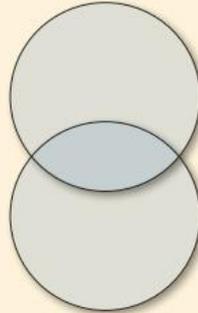
*This Case study is available in the online version of the textbook.*



#### ACTIVITY 6.3 Note this down

##### Australian and Chinese political systems

Using the graphic organiser below, outline the differences and similarities between the Australian and Chinese political systems.



#### The political system in China

- 1 Define the term 'communism' in your own words.
- 2 Identify two reasons why China went through economic reform in the late 1970s.
- 3 Outline three differences between the Chinese political system and the Australian political system.
- 4 Construct an argument in support of introducing democracy to China.

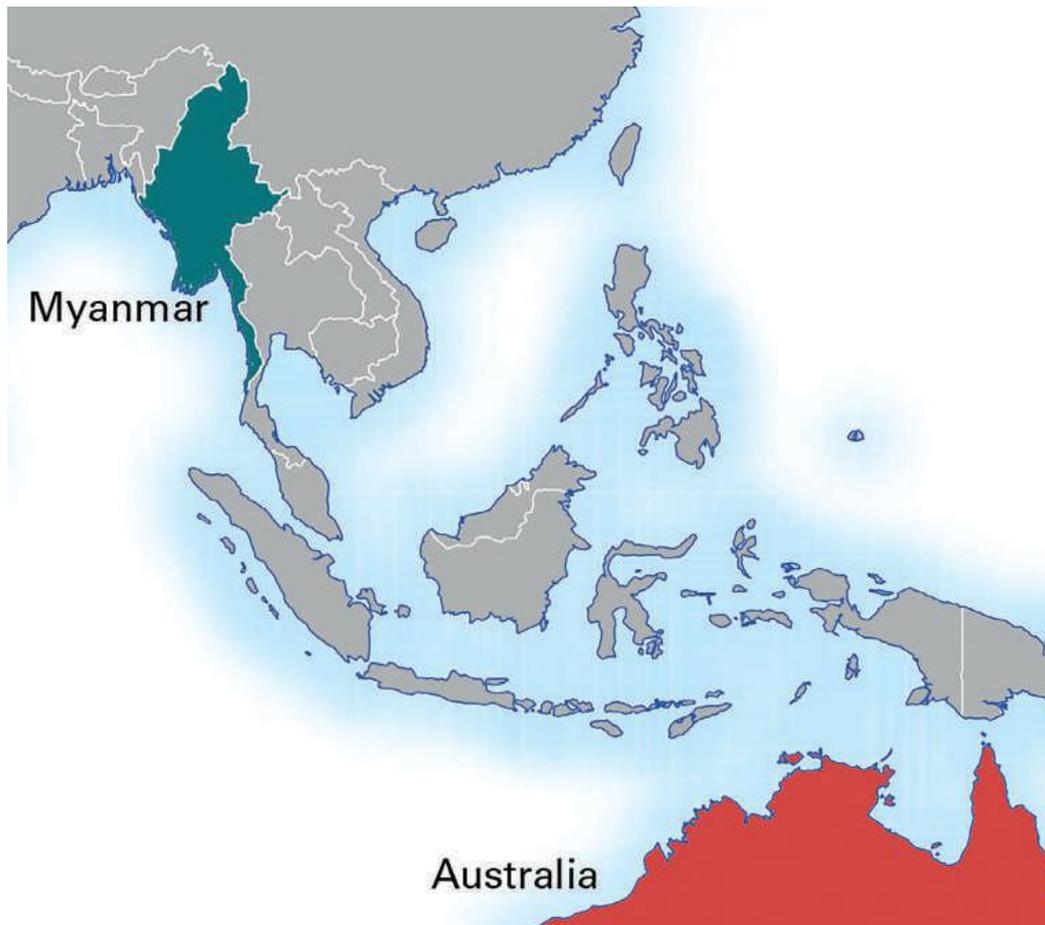
#### DEVELOPING YOUR UNDERSTANDING 6.3

### 6.4 Developing democracy: Myanmar

Myanmar (also known as Burma) is a very poor country in South-East Asia. It has a population of over 53 million and the very low Human Development Index (HDI) rank of 145th. For many decades, Myanmar was under military control, and the many different ethnic groups living there regularly faced violence and discrimination. Over the last few years, Myanmar has made significant steps towards becoming a functioning democracy.



**SOURCE 6.13** Myanmar is a very poor South-East Asian country working to become a functioning democracy.



**SOURCE 6.14** A map of Myanmar in relation to Australia

## Military junta

From the late 1960s until 2008, Myanmar had been ruled by a **military junta**. The junta enforced a socialist style of government onto Myanmar by creating a one-party system. The heads of government were all military leaders and while elections did take place, there were few positions in parliament that the people could vote for, and there were widespread reports of violence and intimidation at the polling stations. Under the military junta, many smaller ethnic groups suffered regular violence and dislocation (removal from land areas) and, in some cases, there have been reports of **genocide**.

### GLOSSARY

**military junta** a government led by the military or a committee of military leaders

**genocide** the deliberate and systematic elimination of a group of people who are bound together based on race, ethnicity, religion or nationality



**SOURCE 6.15** Myanmar was ruled by a military junta from the late 1960s to 2008.

## Aung San Suu Kyi

Throughout the military junta, Aung San Suu Kyi had been an international symbol of hope of future reforms for Myanmar. The daughter of a key leader prior the junta, Suu Kyi was placed under arrest in 1989 for being the leader of the democratic reform movement and opposing the junta's treatment of the people of Myanmar. She was under house arrest for 15 years and was released in November 2010. While under arrest, Suu Kyi received 59% of the votes in the 1990 election and has been treated as a global leader in **human rights** since. She has been often referred to as the rightful leader of Myanmar. While in prison, Suu Kyi was awarded the Nobel Peace Prize (1991) as well as many other awards for her stance on human rights and persistence to create a democratic Myanmar.

### GLOSSARY

**human rights** the automatic rights to which all people are entitled. These include basic rights such as the right to life and liberty, and the right to equality before the law.

After Suu Kyi's release, she successfully ran for a seat in parliament and her party now holds the majority in the lower house. Myanmar has a presidential system of governance. Suu Kyi became Myanmar's first State Counsellor, (a position akin to a prime minister) after leading her party to a majority win in the country's first openly contested election in 25 years in 2015.

## Political changes in Myanmar

International criticisms and **trade restrictions** on Myanmar created a lot of pressure on the junta to change and reform. In 2008, cyclone Nargis destroyed much of the country, but the



**SOURCE 6.16** Aung San Suu Kyi was awarded the Nobel Peace Prize while under house arrest.

### GLOSSARY

**trade restrictions** a process of limiting or denying trade to a particular country as a means of showing disapproval. Trade restrictions often have a significant impact on the country's economy and force the government to change offending policies.

junta refused outside assistance or aid from the international community. These factors led to a rise in public demonstrations and protests against the government.

Under United Nations observation, a democratic election was held in 2010. The military party claimed victory, but democratic changes began to take place. The military junta was officially dissolved in 2011 and a democratic parliamentary system began to develop. In 2010, an independent Human Rights Commission was established and 200 political prisoners were released. While change is taking place in Myanmar, it has been a very slow process. For example, there are ongoing conflicts involving ethnic minorities, such as the Rohingya.



### ACTIVITY 6.4 Research

#### Rohingya

One of the difficulties currently being faced by the young democracy in Myanmar is the Rohingya crisis. Research this issue, commenting on the pressures democracy is facing due to the crisis from the viewpoint of the country and its leader.

### Changes in Myanmar

- 1 Define the term 'military junta' in your own words.
- 2 Outline three aspects of Myanmar's political ideology under the junta that are different to an Australian democracy.
- 3 Using the internet, identify the Human Development Index from the following countries: Australia, China, the US, Egypt, Peru and Uganda.
- 4 Outline the reason why Myanmar refused assistance after cyclone Nargis.
- 5 Describe the importance of Aung San Suu Kyi to democratic reform in Myanmar.
- 6 Analyse the impact democratic reform will have on the lives of the people living in Myanmar.

### DEVELOPING YOUR UNDERSTANDING 6.4

## 6.5 Australia, the global citizen

Over the last 50 years, the countries of the world have become increasingly interconnected. Australia, and a vast majority of other countries, is connected around the globe through economics, trade, resources and culture. The idea of an isolated and completely self-sufficient country is outdated. As a consequence, governments are required to consider global markets and global consequences when making a political decision. Australia, and all countries of the world, should act as a good **global citizen** and consider the consequences of any political decisions at a global level.

### GLOSSARY

**global citizens** those people or countries that understand their obligations at a global level

### Australia in the global economy

The buying and selling of goods and services now extends far beyond our borders. Most of the products an average family will have throughout a home will have been produced internationally. In order for Australian companies to remain competitive they must sell their product overseas. The strength of the Australian economy relies on the continuation of international trade. The sale of Australian



**SOURCE 6.17** Countries have become increasingly interconnected through economics, trade, resources and culture.

minerals is a key form of revenue for Australia, particularly in the form of taxation revenue and employment opportunities. The mineral export trade is dependent on China (and other countries) purchasing Australian minerals. If China stopped or slowed down its purchase of minerals, there would be serious economic consequences. As such, the Australian Government must make carefully considered decisions regarding the mining industry and its relationship with China.

## Australians overseas

While Australia is geographically very isolated, Australians are known as great travellers throughout the world. Over 372 000 Australians currently work and live overseas. Over 50% of the Australian population has a passport and every year an additional 1.96 million are issued. In comparison, in the US, 46% of the population hold a passport.

Over the last decade, Australia has become known as a desirable location for overseas university students. Expensive advertising campaigns have been used to highlight the benefits of studying in Australia. The use of the media to promote this view has been very successful, as 24.3% of university students in Australia are from overseas. Of the student population at Monash University, 34.3% are overseas students. At the University of Queensland, 23.6% of students are overseas students, while at the University of Western Australia the percentage is 20.3.

As well as being known as global travellers, Australians are also known for their impressive contributions to the global community. Over 1500 Australians currently work overseas to deliver much-needed aid to some of the poorest people in the world.

## Hugh Evans: Young Australian of the Year

At the age of 20, Hugh Evans was awarded Young Australian of the Year for his work helping to



**SOURCE 6.18** Over 372 000 Australians currently work and live overseas.

reduce global poverty. Based in Melbourne, Evans co-founded a **non-government organisation (NGO)**, Oaktree Foundation, which provides aid and development to some of the poorest countries across Asia and Africa. The foundation is operated by young Australians aged between 16 and 26. Since receiving his award in 2003, Evans has been involved in numerous global poverty campaigns, including Make Poverty History and the Global Poverty Project. He has also been a Youth Ambassador for World Vision and the Australian Youth Representative at the United Nations. Evans is an excellent example of an Australian acting as a good global citizen over a considerable period of time.

### GLOSSARY

**non-government organisation (NGO)** an organisation that seeks to assist people (particularly with regard to human rights) without government intervention

### Australia as a global citizen

- 1 Outline three examples that highlight how Australia is a global citizen.
- 2 Identify the reasons why Australia needs to be involved in the global market.
- 3 Highlight the reasons why international students wish to study in Australia.
- 4 Explain the reasons why Hugh Evans reflects good global citizenship.

### DEVELOPING YOUR UNDERSTANDING 6.5



**SOURCE 6.19** Images being projected onto the Sydney Opera House as part of the Make Poverty History campaign



### ACTIVITY 6.5 Research

#### Notable Australians

Use the internet to gather information about one of the following notable Australians who have acted as good global citizens:

- Trooper Mark Donaldson – Younger Australian of the Year 2010
- Tim Costello – CEO World Vision
- Fred Hollows – doctor and founder of the Fred Hollows Foundation.

**1** Create a one-page report or 10-slide Microsoft PowerPoint presentation on your chosen Australian.

**2** Outline what they have achieved and how their accomplishment represents the concept of global citizenship.

## 6.6 Australia and foreign aid

Australia is a very lucky country and is considered very wealthy compared to many other countries in the region. One way in which Australia acts as a responsible global citizen is through the contribution of **foreign aid** to underdeveloped countries. Foreign aid is often based on the relative wealth of the country. As such, Australia provides approximately \$4 billion per year in foreign aid.

#### GLOSSARY

**foreign aid** the transfer of resources (money, medical supplies, etc.) from one country to another without any expectation of repayment or a reciprocal relationship

#### AusAID

Previously, AusAID was the principal government body that provided foreign aid. The organisation's primary goal was to work on international development by reducing poverty. AusAID was an independent government body, which meant that they could operate without government intervention. However, as of 31 October 2013, the Abbott government merged AusAID with the Department of Foreign Affairs and Trade (DFAT) and has taken a greater interest in the distribution of aid. As a consequence of the elimination of AusAID, the government can have a say in where aid can be allocated and the amount.



## CASE STUDY 6.2

### Australian aid and Indonesia

Australia's aid program for Indonesia is not only important for reducing poverty, but also for maintaining a positive relationship with a key trading partner.

Australia provided \$357 million in aid to Indonesia in 2016–17 and plans on providing \$356.9 million in 2017–18. A majority of the aid goes towards providing education, effective governance and supporting infrastructure projects.

**SOURCE 6.21** Adapted from DFAT, Aid fact sheet: Indonesia

While Indonesia has experienced steady economic growth in recent years and achieved substantial development progress, growth is now slowing and inequality is high. At least 100 million people in Indonesia continue to live on \$2 or less per day. This context makes our work in Indonesia all the more important, because sustainable and inclusive economic growth in Indonesia benefits Australia and contributes to regional growth and stability.

**SOURCE 6.23** DFAT, Overview of Australia's aid program to Indonesia

As a result of Australia's aid program, about 9 million people have access to improved water facilities (such as piped water into houses and public taps), and more than 8 million people have access to improved sanitation facilities (such as flush toilets or improved pit latrines).

**SOURCE 6.22** Adapted from DFAT, Effective economic institutions and infrastructure in Indonesia

- 1 Outline two reasons why Australia provides aid to Indonesia.
- 2 Identify the total increase or decrease in aid to Indonesia across 2016–18.
- 3 Outline three positive outcomes from Australia's involvement in Indonesia.

## Aid dependency and alternative methods of development

Many development experts argue that directly giving aid (as in monetary funds) is an ineffective approach to development. It can be argued that giving money does not result in long-term development, but rather creates a dependency on aid. This can have very detrimental effects on a developing country. Instead of investing in long-term development strategies, the money is used for short-term needs. In some cases, corruption prevents the funds reaching the people who need it most. Alternative methods of development are becoming more and more common. Instead of providing unconditional funding, development takes the form of long-term projects that will provide jobs and substantial benefits for a particular community. For example, the Australian Government funds a program in Cambodia that provides extensive irrigation to farmers. As a result, the farmers are



**SOURCE 6.24** The Australian Government funds a program in Cambodia that provides extensive irrigation to farmers.

able to increase their annual crop yield to feed their family and make greater profits from the sale of produce. This program offers a long-term solution to help develop farmers out of poverty.

### Foreign aid

- 1 Outline two objectives of foreign aid.
- 2 Study the map in Source 6.20 (on p. 154). Is there a noticeable pattern of the locations Australia gives foreign aid to?
- 3 Outline the major changes to the AusAID organisation under the Abbott government.
- 4 Identify the issues of providing aid as unconditional funds instead of creating sustainable programs.

### DEVELOPING YOUR UNDERSTANDING 6.6

## 6.7 Australia and the United Nations



After the devastating impact of World War II and the Holocaust, the major countries of the world joined in creating an organisation to support global peace. This organisation is the centre point of global politics today and is called the United Nations (UN). The UN had 51 members at its creation in 1945 and now has 193 full members and two observer members. The UN remains the primary location for decisions surrounding peace, conflict and development between countries across the globe.

### CIVICS AND CITIZENSHIP FACT

The most recent country to join the UN was South Sudan (14 July 2011). South Sudan became an autonomous country from Sudan after a **referendum** in 2011. Prior to South Sudan, the most recent member was Montenegro on 14 July 2006.

### GLOSSARY

**referendum** the legal process for changing or amending the Constitution. A majority of voters must agree with the proposed change for the change to take place.



**SOURCE 6.25** The United Nations General Assembly (UNGA) in New York City – all member countries have a seat. The UNGA is a place in which issues on international peace and development are discussed.

## Founding principles

The UN is founded on the principle of **internationalism** – that all countries have the same worth as each other and should cooperate to find **multilateral** solutions to global problems. Internationalism is best observed in the General Assembly, in which all members have an equal vote on important global decisions.

### GLOSSARY

**internationalism** an ideology that argues that all countries are members of the same community and therefore no country is of more worth than another. It argues that all countries should work together in order to find solutions to global problems.

**multilateral** three or more countries working together

The UN has the primary purpose to:

- maintain peace and security
- promote human rights
- encourage social and economic development
- protect the environment
- provide humanitarian assistance and aid.

There are six major organs of the UN that function to achieve these aims. See Source 6.26 below.



**SOURCE 6.26** The six major organs of the UN



**SOURCE 6.27** António Guterres is the current Secretary-General and public face of the UN.

## The Charter

The Charter of the UN is a document that all members must sign. It outlines the organisation's principles, structure and jurisdiction.

### Preamble

We the peoples of the United Nations determined

- to save succeeding generations from the scourge of war, which twice in our lifetime has brought untold sorrow to mankind, and
- to reaffirm faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women and of nations large and small, and
- to establish conditions under which justice and respect for the obligations arising from treaties and other sources of international law can be maintained, and
- to promote social progress and better standards of life in larger freedom,

And for these ends

- to practice tolerance and live together in peace with one another as good neighbours, and
- to unite our strength to maintain international peace and security, and
- to ensure, by the acceptance of principles and the institution of methods, that armed force shall not be used, save in the common interest, and
- to employ international machinery for the promotion of the economic and social advancement of all peoples

**SOURCE 6.28** The Preamble to the Charter of the UN

## CIVICS AND CITIZENSHIP FACT

Dr Herbert Vere Evatt (known as 'Doc Evatt') was a very influential Australian lawyer who played a major role in the creation of the UN. He helped draft the Universal Declaration of Human Rights and was the third President of the General Assembly (1948–49).

## The United Nations in action

Most conflicts in the world have some form of involvement from the UN, whether through peacekeeping, reconstruction or sanctioning intervention. However, the UN is not designed to primarily be a response to conflict. The UN is also the primary source of international development and is responsible for many international programs that provide aid. Organisations such as the World Food Programme, United Nations Children's Fund (UNICEF) and the World Health Programme are all agencies of the UN. The United Nations High Commissioner of Refugees (UNHCR) is responsible for providing food and shelter for over 65.6 million forcibly displaced people worldwide, 22.5 million who are classified as refugees. In 2016 the UNHCR Agency resettled 189 300 refugees.

(Source: UNHCR, The UN Refugee Agency, Figures at a glance.)

## Australia's involvement in the UN

Australia is one of the founding members of the UN. Despite Australia's comparatively small population, it has been heavily involved in many

### The United Nations

- 1 Identify three functions of the UN.
- 2 Outline the reasons why the UN was created.
- 3 Highlight two ways that the UN can be seen in action.
- 4 Use the internet to locate an image of the UN flag. Analyse the flag and interpret the meaning of the three major symbols employed.
- 5 Research into the six organs of the UN and identify each organ's function and purpose.

## DEVELOPING YOUR UNDERSTANDING 6.7



**SOURCE 6.29** UNICEF is an agency of the UN that provides humanitarian and developmental assistance to children and mothers in developing countries.

different operations and programs that the UN and its special agencies run.

All members of the UN are required to pay membership fees. The fees constitute a vast majority of the UN's funding. Each country's fee is a percentage of its overall wealth and relative to its population size. Australia is the 13th largest contributor. In 2017 its contribution to the UN regular budget was \$59 million. During times of global crisis, Australia contributes a larger sum of money. For example, during 2004–06, Australia contributed over \$80 million.

The funding is divided between the UN's many programs and organisations. Some countries have not paid their membership fees for many years. For example, at the end of 2010 the US owed \$1.1 billion in membership fees. The US regularly refuses to pay membership fees if the UN is undertaking some form of action that the US does not approve of.

### Australia and the Security Council

The Security Council is the organ of the UN that discusses and addresses global peace and security. This normally takes the form of UN intervention into the global and national conflicts. There are only 15 members of the United Nations Security

Council (UNSC): five permanent members and ten rotating members.

The rotating members are elected by the General Assembly. For many years, Australia has attempted to become a member of the UNSC and was successfully elected in 2013 for a two-year term. Having completed that term, the campaign for another bid in 2029 has already begun.



**SOURCE 6.30** Australia was elected as a member of the UNSC in 2013 for a two-year term.

The initial bid and election to the UNSC was controversial. First, the five permanent members have the right to **veto** any resolution (decision) that the General Assembly or the UNSC makes. Some people have argued that this means that Australia's involvement is very limited and ineffective. Second, the bid to become a member of the UNSC was very costly. The bid to become a member took five years and cost approximately \$25 million. Some people argue that this money could be spent more effectively in other ways.

### GLOSSARY

**veto** the right to overrule a decision (most commonly used in parliament and law)



**SOURCE 6.31** The removal of landmines is very expensive and difficult. The UN and Australia dedicate money and personnel to this important cause.

### Disarmaments and arms control

Australia is a signatory to many international treaties on the issue of disarmament and arms control. These treaties were negotiated through the UN. Australia is a signatory to the Treaty on the Non-Proliferation of Nuclear Weapons, commonly known as the Non-Proliferation Treaty (NPT), which seeks to disarm all nuclear weapons in the world. Similarly, Australia is a member of the Mine Ban Treaty, which seeks to find and destroy all landmines as well as stop the production and stockpiling of the deadly

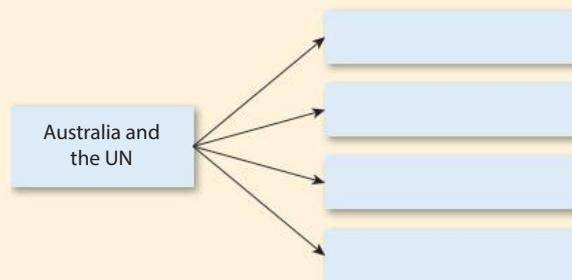
weapon. Australia is one of the many states that provide funding to disarm and remove landmines from the 58 countries that still suffer from the dangerous weapon. Landmines are often called 'persistent killers' because a landmine can exist unexploded long after a conflict has ended. Most victims of landmines are people who are not directly involved in the conflict (sometimes long after the conflict has ended), such as farmers and children.



### ACTIVITY 6.6 Note this down

#### Australia's involvement in the UN

Using the graphic organiser below, summarise what you have learnt about Australia's involvement in the UN. Conduct your own research to complete the task.



### Australia's involvement in the UN

### DEVELOPING YOUR UNDERSTANDING 6.8

- 1 Suggest two reasons why Australia contributed over \$80 million to UN funds in 2004–06.
- 2 Identify two criticisms of Australia's election to the UNSC.
- 3 Interpret two reasons why the US has not paid membership fees to the UN for many years.
- 4 Outline the reasons why landmines are known as 'persistent killers' and the reason why Australia and many other countries want all landmines to be found and destroyed.
- 5 Create an argument for or against the continued involvement of Australia in the UN.

## 6.8 International peace and security

The first goal of the UN is to maintain international peace and security. Australia is committed to this goal and seeks to achieve it in many different ways.

The UN does not have its own standing army. It is not designed to be a military body; rather it depends upon its members for military action and personnel.

 The UN does, however, have access to **peacekeepers**. A peacekeeper is a trained person whose role is to maintain peace and security, monitor elections, assist in law and order, aid in reconstruction and development and provide support. A peacekeeper attempts to create the conditions for prolonged peace in a conflict zone or after a conflict has ended.

### GLOSSARY

**peacekeeper** an officer entrusted with ensuring prolonged peace and security

Peacekeepers can be trained soldiers or police officers, but they can also be teachers, doctors, construction and development workers, and scientists. There are approximately 90 000 active peacekeepers around the globe. Peacekeepers wear a military uniform with a blue helmet or hat. The blue is a sign that the person is a member of the UN and should not be targeted in a conflict. It is considered a significant crime to injure, capture or kill a peacekeeper.

### Australian peacekeepers

Like most of the members of the UN, Australia contributes funding and personnel to missions that require peacekeepers. Australian peacekeepers have been involved in over 50 UN and other multinational peace and security operations since 1947. There are Australian peacekeepers operating currently in countries and regions as diverse as the Middle East, Guatemala and the Solomon Islands. The online version of the textbook contains an interactive map and timeline of Australian involvement in peacekeeping. 



**SOURCE 6.32** Peacekeepers can be trained soldiers or police officers, but they can also be teachers, doctors, construction and development workers, and scientists.



**SOURCE 6.33** In 2017, a memorial to Australian Peacekeepers was inaugurated. Located in Canberra, it honours the work they have done in support of international peace and security, and recognises their courage and professionalism.

**Peacekeeping**

- 1 Identify two ways that a peacekeeper is different to an army soldier.
- 2 Highlight how the use of peacekeepers helps to enforce the UN's goals.
- 3 Outline the reasons why peacekeepers wear blue helmets or hats.
- 4 Present two arguments as to why Australia should continue to contribute to peacekeeping regions.

**DEVELOPING YOUR UNDERSTANDING 6.9****CASE STUDY 6.3****Australia Peacekeeping in the Solomon Islands**

The Regional Assistance Mission to Solomon Islands (RAMSI) was an Australian-led peacekeeping mission running from 2003–17. The Solomon Islands consist of six large islands and over 900 smaller islands east of Papua New Guinea. In the latter half of the twentieth century, a large number of people from the Malaita island moved to Honiara, the capital of the Solomon Islands on the island of Guadalcanal. As Malaitans became the majority ethnic group in Honiara and reached high positions of business and government, resentment built within the native Guadalcanal community. From 1998 to 2003, there was a period of brutal ethnic violence. Thousands fled and hundreds were killed. The prime minister of Australia at the time (John Howard) had been reluctant to engage with the situation for many years. But in 2003, the Governor-General of the Solomon Islands made a request for international aid and Australia answered. Academics have argued that the decision to finally intervene with a peacekeeping effort was only done because of pressure in a post-9/11 world to take part in the 'War on Terror'. Australia had also recently led a peacekeeping mission in Timor-Leste, and there were concerns that any further interventions in the Pacific region would agitate the Indonesian government. Regardless of the reason, RAMSI went ahead. The peacekeeping mission to help restore stability to the islands was led by Australians and New Zealanders, along with representatives of other Pacific Island nations. Due to their efforts, violence dropped dramatically and most of the militia's weapons had been destroyed within a matter of weeks. Peacekeepers helped

the community with the rebuilding of public services and infrastructure as well as providing support to the government and police force of the islands. There was also a strong focus on teaching the community the skills needed to take over peacekeeper roles, although the amount of time it took to do this concerned some of the population. Australian government spending on RAMSI is estimated at \$2.6 billion over the course of its 14 years.



**SOURCE 6.34** Australian troops and federal police arriving at Henderson Airport near Honiara on 24 July 2003

- 1 Identify two reasons why Australia was hesitant to become involved in the conflict.
- 2 Outline three ways that Australian peacekeepers helped support peace in the Solomon Islands.
- 3 How important is it that peacekeepers educate people to take over their roles?
- 4 Analyse Australia's involvement in the Solomon Islands. Does the RAMSI mission reflect the objectives of the UN and the principle of internationalism?

## REFLECTING AND CONSOLIDATING

### Chapter summary

- There are many different forms of political ideologies that shape the government and political interactions within a country.
- The Australian democratic political system is based on the Westminster principle, which includes the rule of the people through regular elections.
- Australia's head of state is the Governor-General. This is a controversial position as it is appointed, not elected.
- The political system and government of China is considerably different to Australia. The Chinese government limits political participation and freedom of speech.
- Australia is part of a vast global network of countries and often acts as a global citizen through providing foreign aid and contributing to (and leading) peacekeeping missions.
- Australia is a key member of the UN and contributes to international programs and treaties regularly.

### Multiple-choice questions

- Voting in elections in Australia is
  - not compulsory.
  - compulsory.
  - compulsory but not enforced.
  - only for people over the age of 25.
- Which of the following ideas is the Westminster principle based on?
  - That everyone is of equal importance
  - That the leaders should be able to have no restriction on the number of terms they serve in parliament
  - That all countries should assist each other in creating common solutions to global problems
  - That the members of parliament are responsible to the people they represent
- The amount of foreign aid that Australia provides annually is
  - \$4.5 billion.
  - \$4.5 million.
  - \$45 million.
  - \$450 000.
- The key principle that the UN was founded on is
  - democracy.
  - fascism.
  - the Westminster principle.
  - internationalism.
- Australia has recently sought to become a member of the UN organ of
  - the General Assembly.
  - the Human Rights Council.
  - the World Food Programme.
  - the International Court of Justice.

### Short-answer questions

- 1 Outline the features of the Australian democratic political system.
- 2 Compare the Chinese and Australian political systems. Include a comparison of the different governments' approaches to censorship and political opposition.
- 3 List three political features Myanmar should attempt to include to become a more democratic country.
- 4 Identify three reasons why Australia is a member of the UN and outline the motives for Australia continuing to be a member in the future.
- 5 Analyse the current Australian democratic system and outline two features that you think need to be changed for the future.

### Extended-response question

Construct an essay on the question: 'Australia acts as a good global citizen'. In your essay, ensure you include the following ideas.

- a Consider the role Australia plays in the global market, the UN and providing foreign aid.
- b Include evidence in your response in the form of dates, statistics and quotations.
- c Follow a clear essay structure of an introduction, three different body paragraphs and a conclusion.
- d Consider following the TEEL structure for the body paragraphs: T – topic sentence, E – explanation, E – evidence and L – linking to the overall contention.

# Chapter 7

## Laws and citizens

SOURCE 7.1 The High Court of Australia in Canberra

### Main focus

This chapter focuses on the role of the High Court of Australia, and on the international laws and treaties Australia is subject to.

### Why it's relevant to us

This chapter places our community into a broader global context, and highlights our rights and responsibilities at an international level. It also highlights the contributions that Australians make overseas and why it is important to follow international law.

### Inquiry

- What is the role of the High Court of Australia?
- What is international law and does it need to be followed?
- How does Australia contribute to and adhere to international law?
- How does international law protect and preserve the rights and culture of Indigenous Australians?

### Key terms

- appeal
- asylum seeker
- citizenship
- common law
- constitution
- conventions
- customary international law
- customary law
- free trade
- globalisation
- gross national income (GNI)
- identity
- international law
- judiciary branch of government
- plebiscite
- precedent
- self-determination
- subsidies
- sweated labour
- tariff
- treaty law

Refer to the online version of the textbook for a downloadable document listing all the acronyms used in this chapter.

### Let's begin

There are two key focuses to this chapter: the role of the High Court of Australia and Australia's obligations under international law. The section exploring the High Court will outline the jurisdiction of the court and explore some famous decisions made by High Court judges. The High Court is also the place in which international laws are tested and adhered to. The section of the chapter on international law will explore the sources of international law, and the difficulty in enforcing and monitoring law at a global level. Some of the international treaties that Australia is a member of will be explored, particularly regarding human development and the environment.

## 7.1 The law and the courts

The court system plays a crucial role in our society, as well as in all effectively functioning democratic countries. It is in the courts that laws are tested and justice is delivered. The courts are one of the three key areas of power in Australia. They form the **judiciary branch of government** – the other two branches are the legislative (parliament) and the executive (head of state). The judiciary branch of government is extremely important because no person or organisation is above the courts' ability to make a judgment. All members of the community can go before the court, including people in powerful positions (such as the prime minister) and people who are very wealthy or famous.

### GLOSSARY

**judiciary branch of government** one of the three branches of power in a democracy in which laws are tested and justice is delivered through a court system. The other two branches are the legislative (parliament) and the executive (head of state).

### Common law and precedent

Apart from legislative-made law (law made through parliament), the courts are a key source of creating and evolving laws. When someone has broken a law, the courts will closely examine the already existing law, and test its legitimacy and appropriateness based on the details of the particular dispute being heard. The outcome of a



**SOURCE 7.2** The courts are one of the three key areas of power in Australia.



**SOURCE 7.3** A judge's decision on a law can create a legal precedent.

court hearing can create **common law**. Common law is the interpretation or evolution of a law based on the ruling of a judge. A judge's decision on a law can create a legal **precedent** that will affect the interpretation of that particular law for the future. A legal precedent is a court's decision on a law, either legally binding or not, which will impact on all future decisions in regards to that particular law.

### GLOSSARY

**common law** laws made by judges as they issue rulings known as judgments on cases that come before them

**precedent** a decision on a law that has an impact on all future decisions on that law

### The 'snail in the bottle'

One of the most famous examples of precedent is the case of *Donoghue v Stevenson*, commonly referred to as the 'snail in the bottle' case. In 1928, Mrs Donoghue was drinking a bottle of ginger beer in a café in Paisley, Scotland, when she found a dead snail in the bottom of the bottle and became very ill and went into shock. Mrs Donoghue sued the manufacturer of the ginger beer (Mr Stevenson) and won. This case established a legal precedent in which a manufacturer has a duty of care to the consumers of their products. Prior to cases like this one, only the law of contract could be relied upon and since there was no contract between an ultimate user of a product and the manufacturer, recourse to this area of law was unsuccessful – there was no legal obligation. This case is used often as an example of establishing an important legal precedent.

## Court hierarchy

There is a court hierarchy at both the federal and state level in Australia – all of the courts are ranked in order of importance. If a case is originally heard in a lower court, and the losing party believes there has been an error of law, they may be able to **appeal** to a higher level court. If the higher court finds in their favour, this will overrule the lower court.

Each court has a clear jurisdiction that dictates the types of cases the court can hear and pass

judgment on. The following chart outlines the original jurisdiction (power to hear a case for the first time) of three of the courts in the hierarchy of New South Wales.

### GLOSSARY

**appeal** the process of taking a court ruling to a higher court in order to be overruled

Court	Civil law	Criminal law
Supreme Court of New South Wales	Unlimited amount in damages	Serious criminal offences, such as murder, attempted murder, major conspiracy and drug-related charges
District Court of New South Wales	Unlimited amount in damages for personal injuries arising from motor vehicle accidents. Other civil cases up to \$750 000, or more if both parties agree.	All indictable offences, except murder, treason or piracy
Local Court and Magistrates' Court	Up to \$100 000 in damages	Minor offences such as offensive behaviour, obstructing traffic or minor assault – these are known as summary offences. More serious offences (known as indictable offences – for example, theft, sexual assault, manslaughter and murder) can also be brought. However, in these cases the magistrate will only hear an outline of the evidence, in order to determine if the case is strong enough to go to the District Court or Supreme Court.

**SOURCE 7.4** The court hierarchy of New South Wales

### Law and courts

- 1 Define the term 'judiciary branch of government' and explain why it is a very important source of power in Australia.
- 2 Highlight the difference between common law and law made through parliament.
- 3 Explain how the 'snail in the bottle' case demonstrates the concept of legal precedent.
- 4 Construct two scenarios in your daily life that explain the concept of precedent (they do not need to be legal scenarios – consider your school and home life in your response).

### DEVELOPING YOUR UNDERSTANDING 7.1

**ACTIVITY 7.1 Research****State court hierarchy**

- 1 Research the court hierarchy (original jurisdiction) of an Australian state.
- 2 Create a visual diagram of the court hierarchy (original jurisdiction) that could be used in a primary school. Be creative and colourful in your presentation.

## 7.2 The High Court of Australia

The High Court of Australia is a federal court and is the highest court in which a case can be heard.

### Interpreting the Constitution

The High Court hears cases involving interpretations of the Australian **Constitution**; it is the only court with the authority to perform this role. In settling disputes about the meaning and application of the words in the Constitution, the High Court is said to be making law. The High Court does not change the actual words in the Constitution – only their meaning and application. Constitutional disputes tend to be about whether legislation made by the federal or a state parliament is within the powers given to them by the Constitution. There have been many famous cases involving the High Court interpreting words in the Constitution to determine the constitutional validity of laws made by parliaments. Some examples are:

- *Brislan's Case (R v Brislan 1935)* which dealt with changes to technology since the time the Constitution was written;
- *Tasmanian Dams Case (Commonwealth v Tasmania 1983)* which dealt with whether the Commonwealth could stop a state from taking an action that was in conflict with an international treaty;
- *Roach's Case (Roach v Electoral Commission and Anor 2007)* which dealt with the right to vote.

**GLOSSARY**

**constitution** a legal document that outlines the fundamental principles of a country or an organisation. A constitution contains a legal outline of the specific powers and responsibilities of the different branches and levels of government or governing structures.

### Other jurisdiction of the High Court

The High Court is also the final court of appeal. The High Court hears appeals from the Supreme Courts of the states and territories in Australia. The subject matter of the appeal can come from many different areas of law including criminal law, tax law, copyright law, property law and family law. An appeal to the High Court is not automatic – the High Court has to grant permission – therefore a hearing takes place to determine if the case is unique or special enough to go to the High Court. The decisions made at the High Court are binding above all other courts in Australia – if a lower court hears a case that deals with a similar point of law, it must follow the High Court's decision, even if the judge does not agree with it.

As well as constitutional interpretations and appeals, the High Court can also hear cases surrounding compliance to international treaties, a case between Australian states or territories, matters involving representatives from other countries and matters in which the Commonwealth is being sued by a person.

**ACTIVITY 7.2 Research****High Court rulings on the Constitution**

Use the internet to research one of the following High Court rulings:

- *R v Brislan (1935)*
- *Commonwealth v Tasmania (1983)*
- *Roach v Electoral Commission and Anor (2007)*.

Complete a report of up to one page, providing the relevant section of the Constitution, and outlining the details of the case.

## CASE STUDY 7.1

### Susan Mary Kiefel AC

*This Case study is available in the online version of the textbook.*



#### The bench

The bench of the High Court refers to the seat of the judge and the number of judges on the court. A High Court judge is referred to as a justice. There are seven justices in total, the Chief Justice of Australia and six other justices. A High Court justice is appointed by the Governor-General of Australia, generally on the recommendation of the sitting prime minister and the Cabinet. There are no formal qualifications required of a High Court justice other than having been practising the law for at least five years and having served as a judge for either a federal, state or territory court. However, the judges chosen are generally considered to be experts in their fields and are highly regarded by their peers and broader society. Once appointed, a High Court justice cannot be removed from the bench unless both Houses of Parliament instruct the Governor-General to do so (and it must be on the grounds of misbehaviour or incapacity). A justice can only serve until they are 70 years old, at which point they are required to retire their position.

Decisions on cases are not announced straight after the matter has been presented

to the court. Instead, the justices will independently reach a verdict and then meet together to discuss the outcome. If the decision is not unanimous, the majority decision will be followed. Constitutional matters will have a full bench to hear the case (seven justices), whereas other issues can have as little as two justices. There must be at least two justices for all cases heard at the High Court.

#### Judges' attire

When we think of a judge, we often picture them in a black cloak and white curly wig. This is very old-fashioned attire for a judge, although it is still worn in some countries and in some courts.



**SOURCE 7.5** A High Court judge is referred to as a justice.



**SOURCE 7.6** In Australia, the wig has not been worn in the High Court since 1988.

### The High Court of Australia

- 1 List the jurisdiction of the High Court of Australia. Include all the circumstances in which a case can be heard at the High Court.
- 2 Outline the criteria for an appointment to the High Court of Australia.
- 3 Since the court's creation in 1901, there have been 13 chief justices and 42 justices. Identify the reason why there have been so few justices over the last 100 years.
- 4 Identify the reasons why the attire of the High Court justices has changed over time.

### DEVELOPING YOUR UNDERSTANDING 7.2

In Australia, the wig has not been worn in the High Court since 1988. Instead, the contemporary judges wear a normal business suit or attire underneath a tailored black cloak that zips at the front. Prior to 1988, the High Court justices wore a black silk cloak, wigs and lace cuffs.

### Famous High Court decisions

The High Court of Australia is closely followed and scrutinised by the media and the public. Therefore, most of the High Court's decisions are widely reported on and discussed. There have been many famous (or maybe infamous) High Court rulings that have been of national interest.

### The Malaysian Solution

In 2011, there was a highly politicised and contentious debate surrounding the processing of **asylum seekers** within Australia. An asylum seeker is a person who has had to flee their country of origin due to fear of persecution, violence and death but who has not yet been granted refugee status. Due to the geography of Australia, some asylum seekers arrive in Australia via boats without appropriate legal documentation. During Julia Gillard's prime ministership, this issue was hotly debated and many solutions were proposed for the growing number of boat arrivals.

In May 2011, Prime Minister Gillard announced that she had negotiated a deal with the Malaysian government in which they would swap asylum seekers from Australia with processed refugees from Malaysia. Malaysia is not



**SOURCE 7.7** Former prime minister Julia Gillard faced backlash after negotiating a deal with the Malaysian Government in which they would swap asylum seekers from Australia with processed refugees from Malaysia.

a signatory to **international law** surrounding the treatment of asylum seekers and has been accused of publicly beating and generally mistreating asylum seekers.

#### GLOSSARY

**asylum seeker** someone who has fled their country due to fear of persecution, violence or death but who has not yet been granted refugee status

**international law** laws that govern the interaction between countries and that outline the obligations of a country's government towards its citizens (such as human rights and environmental protection)

The 'Malaysian Solution' (as the deal was known) and the minister for immigration and **citizenship** were taken to the High Court of Australia by human rights lawyer David Manne. Manne was acting on behalf of a minor who would have been sent to Malaysia as part of the deal. The High Court found the Malaysian Solution to be against international law and struck down the deal. The High Court found that it was illegal for Australia to send asylum seekers and refugees (particularly children) to a country that was not a signatory to international laws regarding their safety and treatment.

### GLOSSARY

**citizenship** a legal status that entitles a person to certain rights and responsibilities, which is granted by place of birth or through naturalisation (the process of living in a country different to the one of birth). Citizenship can involve rights such as protection from the government, access to a passport and political participation (such as the right to vote). Citizenship can also include responsibilities such as obeying the law, defending the country and participating in a jury.

### The Marriage Act 1961

On 16 September 2013, the Australian Capital Territory (ACT) government passed legislation legalising marriage between same-sex couples. The law became known as the *Marriage Equality (Same Sex) Act 2013*. Shortly after the bill was passed through the ACT legislative assembly, the federal government challenged the legitimacy of the law in the High Court of Australia. The federal government argued that the territory law was contradictory to federal laws surrounding marriage and family. The High Court ruled that the ACT law was invalid on the 12 December 2013, making same-sex marriages illegal within the ACT. The debate surrounding same-sex marriage continued to be a highly contentious one; particularly as several countries, including New Zealand and the United Kingdom legalised same-sex marriages.

Despite the political and social debate surrounding the issue, the role of the High Court is to interpret, test and uphold the law. It is not the role of the High Court to politicise or provide social commentary. The High Court found that in order for same-sex marriage to be legalised without being challenged, the decision must be made on federal laws surrounding marriage and family.

A shift in community and political opinion in Australia from approximately 2011 eventually

saw political parties move toward the need for legal recognition of same-sex marriage, with calls for the community to decide via referendum or **plebiscite** or for the voice of parliament to decide on the issue. A plebiscite eventuated in late 2017 and a resounding 'yes' vote (nearly 80%) by the Australian voters saw Prime Minister Malcolm Turnbull indicate that parliament would now legislate for the change to the Marriage Act to allow same-sex marriage. The *Marriage Amendment (Definition and Religious Freedoms) Bill 2017* was passed in early December 2017 and the new laws commenced in early January 2018.

### GLOSSARY

**plebiscite** a vote by citizens on a matter of national significance but which does not affect the Constitution. The results of a plebiscite are advisory to the government.



### ACTIVITY 7.3 Research

#### High Court rulings

Use the internet to research one of the following High Court rulings:

- *Cesan v The Queen* (2008)
- *Pape v The Commissioner of Taxation of the Commonwealth of Australia* (2009)
- *Williams v The Commonwealth* (2014).

Complete a report of up to one page outlining the details of the case and the ruling.



**SOURCE 7.8** The *Marriage Amendment (Definition and Religious Freedoms) Bill 2017* was passed in December 2017 and the new laws commenced in 2018, allowing same-sex couples to marry.

**High Court jurisdiction**

- 1 Outline the reasons why the rulings of the High Court of Australia are closely followed by the media and the public.
- 2 Explain why the High Court had the jurisdiction to make a ruling on the Malaysian Solution.
- 3 Outline the reasons why the Malaysian Solution was deemed to be illegal.
- 4 Identify the reasons why it was within the High Court's jurisdiction to provide a ruling on the *Marriage Equality (Same Sex) Act 2013* of the ACT.
- 5 Analyse the outcome of the ruling on the *Marriage Equality (Same Sex) Act 2013*. Consider the role of the High Court in your response.
- 6 The people and the parliament finally decided the issue of same-sex marriage in Australia. Research what the new law says and compare it to the law as indicated in the *Marriage Act 1961*. Draw conclusions.

**DEVELOPING YOUR UNDERSTANDING 7.3****7.3 Obligations under international law**

There are lots of laws that govern how we interact with each other and that keep our community safe. However, what laws govern the way countries interact? What laws exist that stop a country's government attacking its own citizens? Who decides what should and should not be against the law at an international level?

All of these questions are very difficult to answer. There are laws at an international level, but they come from a few different sources. There are international organisations that negotiate and write international law. However, there are not many methods available to force countries to follow international laws. There is no global police

force that can arrest countries when they break the law, so other methods have to be put in place.

**Customary international law**

The oldest form of international law is called **customary international law**. This refers to laws that have been established through precedent over a lengthy period. These laws are called customary because it has been custom for a particular society or community to follow these laws for a long time, regardless of whether they have been officially written down or legitimised. These laws are only considered customary if a vast majority of countries agree that they are legitimate laws and if the practice has been generally observed for a long period of time. Some examples of customary international laws are the laws surrounding warfare and immunity for visiting leaders of countries. Most customary international laws were written and agreed upon long after countries began following them. For example, condemning the use of torture was a common practice for a long time before it was officially agreed upon in 1949.



**SOURCE 7.9** Who decides the law at an international level?

**GLOSSARY**

**customary international law** international law that has been followed by most countries for a significant amount of time; it is often followed long before the law has been officially written down



**SOURCE 7.10** The International Court of Justice applies international law in arriving at its decisions.

## Treaty law

**Treaty law** is a signed agreement between two or more countries, or global organisations. Treaty law is the most common form of international law. Treaties can be about lots of different aspects of international relations, including trade, development, war, weapon control and disarmament, and social and cultural development. For a treaty to be effective, the countries involved need to sign and ratify the agreement. If a country just signs a treaty, the country does not have to put the treaty into effect immediately but is clearly agreeing with the ideas behind it. If a country

ratifies a treaty, it is agreeing to put in place all the details of the treaty. Since 1900, Australia has ratified 479 treaties but has signed over 2300 treaties. A treaty between two countries is called a bilateral treaty. A treaty between more than two countries is called a multilateral treaty.

### GLOSSARY

**treaty law** an agreement between two or more countries or global organisations. A treaty can be about a number of different issues, including trade, human rights or the environment.

## CASE STUDY 7.2

### Piracy

Historically, one of the major issues that international law sought to address was piracy. Pirates are people who conduct robbery and/or criminal violence at sea. There is evidence to suggest that piracy has existed since the fourteenth century. However, it is generally assumed that for as long as people have used the sea to transport goods there has been piracy. One of the earliest forms of customary international law emerged due to issues surrounding pirates and piracy. Even before countries were as connected as they are now, preventing and punishing piracy was an agreed upon custom between countries. Pirates would be publicly tortured and hanged in order to discourage further piracy. Piracy presented a significant challenge to trade and expansion for all countries.

In the eighteenth century, a bilateral agreement between England and Holland was created to try to combat piracy. Each country took control

of half of a commonly used water channel and would police and punish pirates regardless of which of the two countries' ships the pirates had attacked. This is an early example of the use of international cooperation to address a common problem and create international law.

Piracy is (and has been) viewed as a breach of *jus cogens*. This Latin phrase means peremptory norm or a foundation principle of international law. Piracy peaked during the seventeenth to eighteenth centuries, at which time extensive trade took place between countries through ocean travel. However, piracy still exists today around the world. A significant number of pirates originate from the Philippines or Somalia. Under the treaty the United Nations Convention on the Laws of the Seas, piracy only takes place in international waters (parts of the ocean that are not within the boundaries of a country). An act of piracy within a country's maritime borders is often addressed by the country's national laws.



**SOURCE 7.11** Piracy still exists today and a significant number of pirates originate from the Philippines and Somalia.

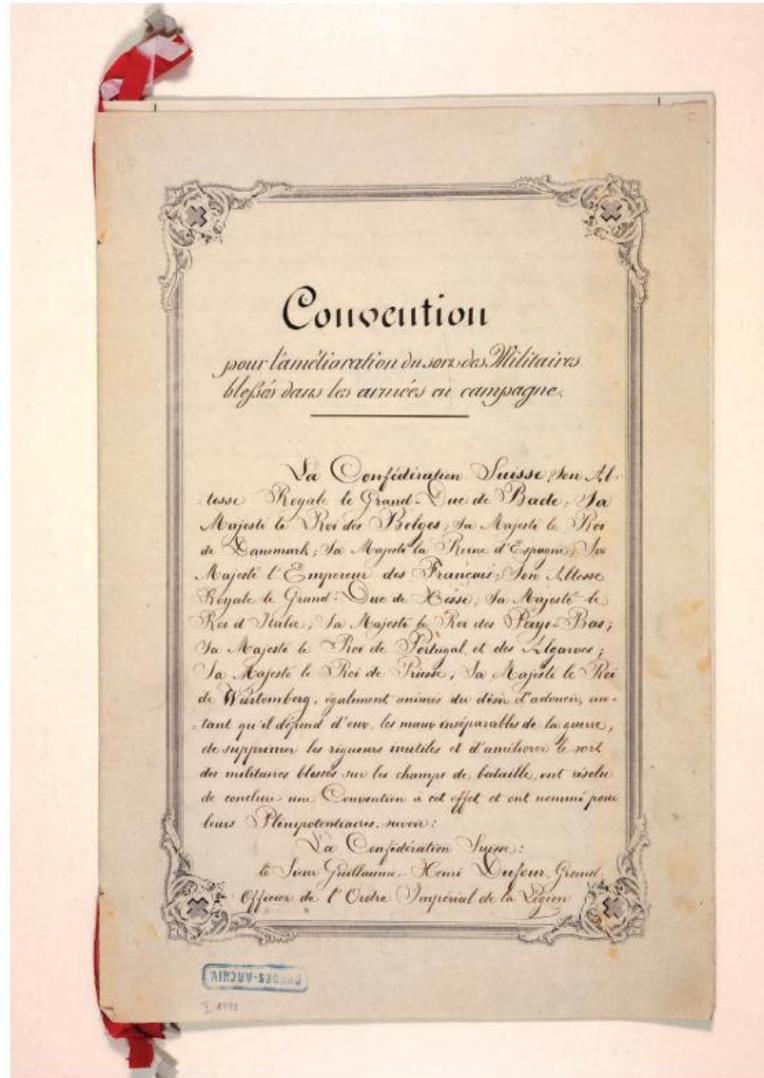
- 1 Explain how the origins of international law and piracy are connected.
- 2 Define the term *jus cogens* and explain how it relates to piracy.
- 3 Identify the reasons why piracy was considered an important issue during the seventeenth to eighteenth centuries.
- 4 Outline how international law combats contemporary pirates.

## Australia and international treaties

Australia is a member to numerous international treaties and laws that focus on protecting trade, human rights, developing social and cultural understandings, and protecting the environment. Australia has been a key member of global organisations that share the same values of respect and freedom. The international laws and treaties that Australia is a member of shape the national laws and political decisions made in federal and state parliament. It is important to note, therefore, that the obligations of any international treaty only take effect in Australia if and when they are implemented by legislation of either Commonwealth or state parliaments.

## International law and the High Court of Australia

The international treaties and laws that Australia has signed and ratified fall under the jurisdiction of the High Court of Australia. If there is a breach of a treaty within Australia, the High Court will make a ruling to ensure that the country is still compliant with the conditions of the law. As discussed earlier, in 2011 the High Court ruled against the Gillard government's attempt to send asylum seekers to Malaysia based on the international treaty: the Convention Relating to the Status of Refugees (CRSR). Some international treaties are called **conventions**, covenants or agreements.



**SOURCE 7.12** The Geneva Convention sets out rules to be applied during times of armed conflict and seeks to protect vulnerable individuals.

### GLOSSARY

**conventions** widely accepted practices within a community or political procedure that are not formally written. Conventions are accepted by the broader community without written documentation and can even challenge the written law in place (such as the Constitution).

### International laws

- 1 Define the term 'customary international law' and provide two examples.
- 2 Outline Australia's participation in international law, including membership to international treaties.
- 3 Highlight the difference between signing and ratifying a treaty.
- 4 Explain how international law can impact on the national laws of Australia.
- 5 Identify the issues surrounding enforcement of international laws at a global level.

### DEVELOPING YOUR UNDERSTANDING 7.4

## 7.4 Trade law and Australia

A majority of international treaties and laws are focused on trade arrangements between two or more countries. In our increasingly globalised and interconnected world, countries need to trade goods and services with each other to remain economically prosperous. As a consequence of **globalisation**, countries and large corporations need to buy and sell goods overseas. In order to create a successful trade relationship, many countries will enter into a trade agreement (also known as a treaty). The treaty might outline exclusive trade with a particular country (buy or sell a particular good from only one country) or outline the **tariff** rate on imports and/or exports.

### GLOSSARY

**globalisation** the increasing interdependence of countries and people. Globalisation is experienced in many different aspects of life, including trade, politics, economics, cultural practices and social identity.

**tariff** a tax placed on goods imported or exported

### Free trade

While there is a lot of debate surrounding how to fairly and ethically trade between countries, it is generally agreed that the more trade a country can engage in, the more likely it is to develop a strong economy. **Free trade** is a trading philosophy in which there is little to no regulations on international trading. This can include reducing or removing tariffs, removing fixed prices and having less government intervention. Free trade is a very controversial idea, with strong arguments both for and against. Those in support of free trade argue that it encourages more trade (because it is cheaper and easier to do) and therefore encourages employment opportunities in countries that produce the desired product. There is no limit to the amount of financial success a company can make when engaged in free trade, which should benefit the countries involved in the trading relationship. Those against free trade argue that unregulated trade encourages low-cost manufacturing in countries that employ poor working conditions and even **sweated labour**. Some people argue that free trade has a negative impact on the people who live in developing



**SOURCE 7.13** Wool is one of Australia's main exports.

countries as it maintains poor working conditions and very low wages. Free trade benefits large corporations that dominate the market and makes it very difficult for small businesses to compete.

### GLOSSARY

**free trade** trade with very little government intervention in the form of taxation or tariff. Free trade is conducted without restriction or regulation.

**sweated labour** working conditions that are against international standards. Often referred to as 'sweatshops', sweated labour working conditions include low to no payment, dangerous use of machinery, long hours and use of child labour or even slave labour.



**SOURCE 7.14** Some people argue that free trade has a negative impact on people in developing countries.

These competing views on free trade have been widely debated over the last 50 years or more. Both sides have strong arguments and see the economic and social benefits of their position.

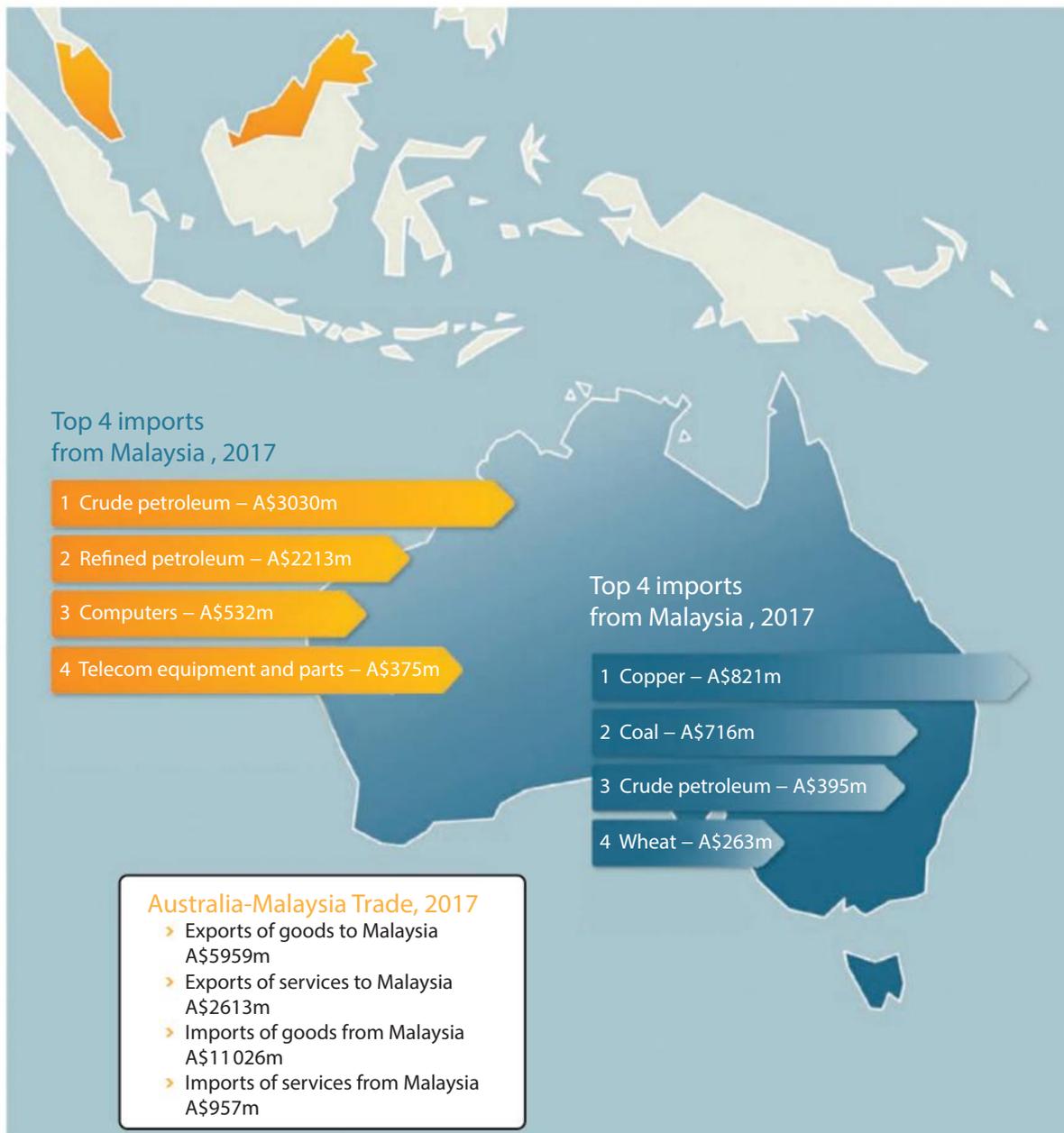
It is difficult to know which trading philosophy is better for the global economy. However, over the last 30 years there has been a strong trend towards free trade agreements between countries.



### ACTIVITY 7.4 Research

#### Fairtrade

Fairtrade is an organisation that identifies products that have been produced under the fair trade principles. Using the Fairtrade website, create a one-page report or a Microsoft PowerPoint presentation outlining what fair trade is, how it is different to free trade, what products are labelled as fair trade and one detailed story of the impact of fair trade on a farmer from a developing country.



**SOURCE 7.15** The import and export relationship between Australia and Malaysia (Source: DFAT Fact sheet, Malaysia, December 2017.)

## Australia and Malaysia Free Trade Agreement

Malaysia is an important trading partner with Australia. The two countries are geographically close to each other (making trade much easier) and are currently engaged in approximately \$19.2 billion worth of trade. Malaysia is Australia's tenth largest trading partner and a key contributor to the Australian economy. The Malaysia and Australia Free Trade Agreement (MAFTA) was signed in 2012 and is focused on cutting tariffs on 99% of all exports to Malaysia and the removal of all tariffs of goods imported from Malaysia. The agreement focuses on goods such as milk, automotive parts, wine, rice and steel. The agreement also allowed greater Australian investment into Malaysia's education, telecommunications and financial services. Additionally, the agreement outlines changes to visa conditions for both countries, making it easier for Australian and Malaysian business professionals to travel and stay for extended periods of time between the two countries.

Many Australian businesses have benefited from the MAFTA, as the agreement makes it easier and cheaper to trade with Malaysia. The agreement could potentially help encourage

economic growth in Malaysia, as more Australian businesses will want to purchase their products from the South-East Asian country.

### CIVICS AND CITIZENSHIP FACT

Australia currently has ten free trade agreements in force. These are with Malaysia, New Zealand, the US, Singapore, Thailand, Chile, ASEAN (Association of South-East Asian Nations), Korea, Japan and China. There are currently nine more free trade agreements under negotiation.

## Australia and the World Trade Organization

The World Trade Organization (WTO) is a global governance group that seeks to liberalise trade and encourage economic growth in underdeveloped countries by creating and enforcing international trade treaties. Australia has been a member of the WTO from its creation in 1995. The WTO is founded on an international treaty called the



**SOURCE 7.16** Australia currently has 10 free trade agreements in force.

Marrakesh Agreement (it is named after the city it was signed in), which outlines regulations of trade between countries. The WTO also settles trade disputes between members. As a member of the WTO, Australia has been involved in a series of trade negotiations surrounding the lowering of agricultural **subsidies** in Western countries in order to encourage more trade for farmers in developing countries. If developing countries have access to more trading partnerships, it is more likely that the country can move out of

poverty. Australia also donates money through the WTO to help advance developing countries through training programs. In September 2017, Australia donated an additional \$1.4 million to the WTO to further help developing countries.

#### GLOSSARY

**subsidies** financial support from either the business or government sector to support an industry

#### Trade law

- 1 Identify two international treaties Australia is party to that have been explored in this section.
- 2 Highlight the arguments for and against the use of free trade.
- 3 Outline the details of the MAFTA and explain the benefits for both Malaysia and Australia.
- 4 Infer two potential criticisms of the MAFTA. Focus your response on the potential negative impact on Malaysia.
- 5 Identify two ways that Australia helps developing countries through the WTO.
- 6 Construct a one-paragraph argument either in support of or against free trade. Include evidence from these pages in your response.

#### DEVELOPING YOUR UNDERSTANDING 7.5

## 7.5 World Heritage sites and Australia

The United Nations Educational, Scientific and Cultural Organization (UNESCO) is the global body that advocates for global access to education,

pursuing scientific cooperation and protecting World Heritage sites. World Heritage sites are structures or naturally occurring landscapes that are considered to be of great beauty, or cultural or historical significance.



**SOURCE 7.17** UNESCO's headquarters in Paris

Heritage is our legacy from the past, what we live with today, and what we pass on to future generations. Our cultural and natural heritage are both irreplaceable sources of life and inspiration. Places as unique and diverse as the wilds of East Africa's Serengeti, the pyramids of Egypt, the Great Barrier Reef in Australia and the Baroque cathedrals of Latin America make up our world's heritage.

**SOURCE 7.18** UNESCO's statement on World Heritage

World Heritage sites are not just protected for the country they are in, but for the entire global community to share, enjoy and conserve.



Australia has been a member of UNESCO since it was created in 1945. There are 19 sites in Australia that have been World Heritage listed. Some of these are natural

landscapes (such as Uluru and Lord Howe Island), some have historic significance (such as convict sites in Tasmania) and some are unique and culturally significant buildings (such as the Sydney Opera House). All members of UNESCO (including Australia) must protect World Heritage listed sites so they can be enjoyed in the future.



**SOURCE 7.19** There are 19 sites in Australia that have been World Heritage listed. Uluru is listed for both natural and cultural values.



**SOURCE 7.20** Fremantle Prison is World Heritage listed due to its historic significance.

## CASE STUDY 7.3

### The Great Barrier Reef

The Great Barrier Reef in Queensland is a national treasure because of its natural beauty, size and diverse wildlife and ecology. It is a popular destination for both international tourists and Australians to visit and explore. The Great Barrier Reef has been on the World Heritage list since 1981 because it is the world's most extensive coral reef ecosystem. The reef covers 348 000 square kilometres and in some areas is near the surface of the water, and in others is over 2000 metres deep. The reef has always been used for mixed purposes, including commercial uses and tourism.

However, over time, this has placed a lot of pressure on the reef. Rising sea temperatures and extensive shipping in the area have caused irreversible damage to the coral and marine life. In 2010, UNESCO inspectors discovered damage caused to the reef due to large container ships travelling too close to the protected area. Over 7.5 kilometres of the reef was damaged. In 2012, UNESCO expressed serious concerns about the possibility of opening a natural gas processing facility near the reef. In June 2012, UNESCO released a report claiming that the Australian Government must take action to protect the reef or risk it being removed from the World Heritage list. A prime concern was that the extensive tourist developments around the reef were causing significant damage to the area and the marine life. An action plan to protect the Great Barrier Reef for the future needed to be put in place before 2015. Reports have also been released indicating that due to rising sea temperatures, several sections of the reef are undergoing a bleaching process and have lost their vibrant colours. In December 2013, the environment minister approved

dredging for shipping channels near the reef. In 2014, the Queensland Government passed a law to restrict further port development along the Great Barrier Reef, and by 2016 moves were made by the federal government to ban the disposal of dredge spoil on the reef. The Queensland Government then committed to do the same. These moves, and others, came as a result of the UNESCO threats to remove the Great Barrier Reef from the World Heritage list. The federal government took their actions further by the prioritisation of the drafting and finalisation of the Reef 2050 long-term sustainability plan – a recommendation of the Senate 2014 report on the Management of the Reef. At the 2017 annual meeting of the World Heritage Committee of UNESCO, the Great Barrier Reef was spared listing as 'in danger status' when the committee was satisfied that progress was being made on the 2050 plan. It nevertheless registered concerns about the progress toward water quality targets.

This government action illustrates how its policy with regard to World Heritage listed sites in Australia has been shaped and put into place.



**SOURCE 7.21** Coral bleaching in the Great Barrier Reef will spread unless action is taken soon.

- 1 Outline the reasons why the Great Barrier Reef is considered a World Heritage site.
- 2 List the activities that have had a detrimental impact on the reef.
- 3 Infer the consequences of continued destructive behaviour to the reef area.
- 4 Create a one-paragraph response to the statement: 'The Great Barrier Reef belongs to all members of the global community and should be protected'. Use evidence in your response.

**World Heritage treaties**

- 1 List the types of treaties (other than trade treaties) that Australia is a member of.
- 2 Identify the criteria for a World Heritage site.
- 3 Outline the responsibilities of the country and the global community for the protection of World Heritage sites.
- 4 Interpret the impact of Australia's membership to UNESCO on national political decisions.

**DEVELOPING YOUR UNDERSTANDING 7.6****7.6 United Nations Development Goals and Australia**

In 2000, the countries of the UN met at a summit to consider global issues around poverty and social inequalities. The result was the United Nations Millennium Development Goals (UNMDG): eight targets for member countries of the UN to achieve by 2015. Australia has undergone national policy changes in order to reach the agreed upon targets.

number of people living in absolute poverty (less than \$1 a day), was achieved in 2008. This target was met largely due to a reduction of poverty in China and India.

In Africa, the goal of achieving universal primary school education has seen some significant progress. For example, in Kenya 7.2 million additional children now attend school every year.

**The eight Millennium Development Goals**

The eight goals addressed issues of poverty, inequalities, sustainability, cooperation and healthcare. Each country had to achieve the outlined targets for each goal. Some of the goals were achieved either globally or by selected countries. The first target for goal number one, of halving the

Some of the goals have had very limited success. In particular, the goals that address gender inequality have not been met in parts of the Middle East, sub-Saharan Africa and Asia. Some political academics have argued that the goals have always been unrealistic because they follow a 'one-size-fits-all' approach without any consideration for different countries' cultural, social and political situations.



**SOURCE 7.22** Australia's former foreign minister Kevin Rudd addresses the Millennium Development Goals Summit at the UN headquarters in New York in 2010

## The seventeen Sustainable Development Goals

From 2012–15 the UN established a framework for the development of post-2015 goals. Commencing in 2016, 17 Sustainable Development Goals (SDGs) were to be targeted.

### Australia and the development goals

Australia was a member of the UNMDG from the beginning of the goals. As a developed country, Australia has focused on providing assistance to underdeveloped and developing countries in the Asia–Pacific region in order to achieve the targets. Australian assistance has significantly improved the lives of people around the world. Since 1996 Australia supported the immunisation of over 1.5 million children in Papua New Guinea. From 2006–11, Australia funded the creation of over 2000 junior secondary schools in Indonesia, ensuring that over 300 000 additional children can attend secondary school.

Developed countries have been encouraged to increase the amount of foreign aid provided to countries that are struggling to meet the eight goals. The amount of foreign aid a country gives is based on a percentage of the country's **gross national income (GNI)**. The UN suggests that

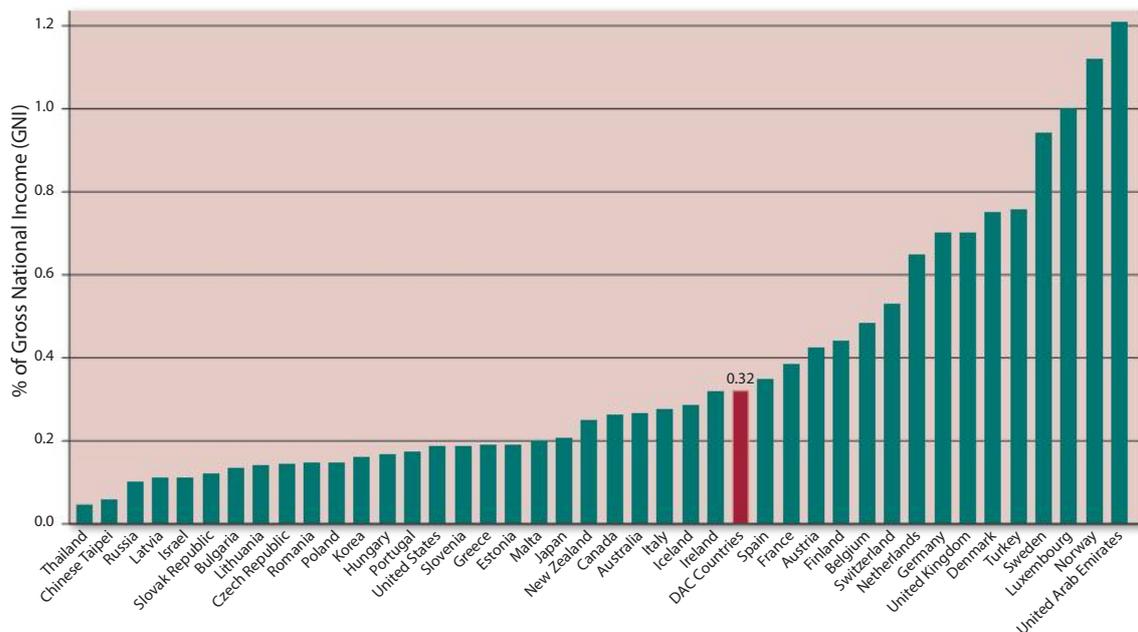


**SOURCE 7.23** Since 1996, Australia has supported the immunisation of over 1.5 million children in Papua New Guinea.

all developed countries aim for the goal of 0.7% GNI as part of the efforts to reach the eight goals. In the early part of the century, Australia was giving 0.34% GNI in foreign aid, and both the government and opposition had promised to lift the figure to 0.5% GNI by 2015. Sadly,

#### GLOSSARY

**gross national income (GNI)** a measurement of the wealth of a country



**SOURCE 7.24** This graph highlights the amount of foreign aid given (GNI) around the globe. The UN wants all countries to give 0.7% GNI towards foreign aid. (Source: OECD, data from 2016. Development Assistance Committee (DAC) countries include Australia, New Zealand, Japan, South Korea, Canada, the US, the UK and 22 other countries from Europe.)



**SOURCE 7.25** The United Nations Sustainable Development Goals are a set of post-2015 goals to end poverty, protect the planet and ensure prosperity for all.

this was not achieved and in 2017 it had reduced to 0.22%. The UNMDG obligations can have an impact on national policy decisions and political debate. Many Western countries have not reached the goal of 0.7% GNI and attribute the lower foreign aid commitment to recent global financial pressures and crises. The human rights organisation ActionAid has claimed that Australia has failed to meet its obligations to the UNMDG by not increasing foreign aid to 0.7% GNI.

While the UNMDG is considered an agreement, it is not enforceable like other sources of international treaties or laws. The UNMDG has not been tested in the High Court of Australia but it is very unlikely that it would be upheld as a law.

### Aboriginal and Torres Strait Islander peoples

While Australia's foreign aid contributions towards helping developing countries reach the UNMDG targets have been praised, there has been some criticism of the government's actions towards meeting the targets at home. As Australia is a developed country, it is easy to assume that the issues that the UNMDG are trying to address are not relevant to the Australian community. However, Global Health and Development Professor Anthony Zwi argues that the limited access to appropriate healthcare, and the significant difference in health and wellbeing of Aboriginal and Torres Strait Islander people and non-Indigenous Australians, suggest that Australia has not met all the targets outlined by the UNMDG.



Life expectancies of Indigenous and non-Indigenous males and females			
Jurisdiction	Indigenous	Non-Indigenous	Difference
<b>Males</b>			
NSW	70.5	79.8	9.3
Qld	68.7	79.4	10.8
WA	65.0	80.1	15.1
NT	63.4	77.8	14.4
Australia (unadjusted)	67.4	79.8	12.4
Australia (headline)	69.1	79.7	10.6
<b>Females</b>			
NSW	74.6	83.1	8.5
Qld	74.4	83.0	8.6
WA	70.2	83.7	13.5
NT	68.7	83.1	14.4
Australia (unadjusted)	72.3	83.2	10.9
Australia (headline)	73.7	83.1	9.5

**SOURCE 7.26** This table from the Australian Indigenous Health Info Net highlights the gap between life expectancies of Indigenous and non-Indigenous males and females, 2010–12.

Notes:

- 1 This table includes two estimates for Australia. The 'headline' estimate includes adjustments based on Australia-wide Census-related information. These estimates should be used in all situations except those requiring comparisons with the estimates for the states and territories, for which Australia-wide Census-related information could not be applied. The unadjusted Australian estimate should be used in situations requiring such a comparison.
- 2 Australian estimates are based on deaths in all states and territories.
- 3 Differences are based on unrounded estimates.

### United Nations Development Goals

### DEVELOPING YOUR UNDERSTANDING 7.7

- 1 List the eight United Nations Millennium Development Goals. Compare these to the 17 Sustainable Development Goals (SDGs), and report on similarities and differences.
- 2 Outline Australia's contribution to the goals at home and overseas.
- 3 Explain what is meant by the 'one-size-fits-all' criticism of the goals.
- 4 A survey was conducted in 2011 that found that 80% of Australians would support an increase to foreign aid to 0.7% GNI. Identify the reasons why this increase has not yet been achieved.
- 5 Highlight some of the successes and limitations Australia has achieved while pursuing the targets of the development goals.

## 7.7 Children's rights and Australia

The United Nations Convention of the Rights of the Child (UNCRC) is a human rights treaty setting out the civil, political, economic, social, health and cultural rights of children, which came into effect in 1990. It is now ratified by 196 countries (all UN members except the US). Compliance is monitored by a UN committee of the Rights of the Child, and countries that have ratified the treaty are required to report to and appear before that committee every five years. Australia is next due to report in 2018. The committee cannot legally enforce the Australian Government to implement any of its recommendations. In 2016 UNICEF, on behalf of the Australian Child Rights Taskforce, issued the *Australian Child Rights Progress Report*. This report looked at the progress made in the 25 years since Australia had ratified the UNCRC, and also considered issues that still exist. A copy of the report is available on the UNICEF website. Among other things, the report was critical of the progress being made by the Australian Government on the progress of equal rights for Aboriginal and Torres Strait Islander children.



**SOURCE 7.27** The Australian Government needs to make more progress on equal rights for Aboriginal and Torres Strait Islander children.

### Australian Child Rights Progress Report

Refer to Chapter 1 of the *Australian Child Rights Progress Report* on the UNICEF website to answer the following questions.

- 1 List the five groups of children and young people found to be facing barriers.
- 2 Describe one area of progress identified.
- 3 Explain why improvement in government co-ordination is important.

### DEVELOPING YOUR UNDERSTANDING 7.8



#### ACTIVITY 7.5 Research

#### Implementation of the UN Convention of the Rights of the Child

Research Australia's progress in implementing the Convention of the Rights of the Child. Choose one category (for example, disability, health, asylum seekers) and report on five issues where Australia is not fulfilling its obligations in this area. Finally, identify recommendations to address each issue.

## 7.8 Indigenous Australians and international law

There are international laws that seek to protect and maintain the rights and cultures of the indigenous peoples of the world. The UN reporter and investigator for indigenous people, James Anaya, has argued there have been some significant developments to protect and provide advocacy for the indigenous people of the world. Over the last two decades, many forms of international law have been created to respect and protect indigenous people's rights and cultures, including laws surrounding intellectual property rights, the environment and self-determination.

### International Convention on the Elimination of All Forms of Racial Discrimination

The International Convention on the Elimination of All Forms of Racial Discrimination (ICERD) is one of the first human rights treaties adopted by the UN. The convention was created in 1969 and has 27 ratifying members and 87 signatories. Australia ratified the Convention in 1975. Provisions are implemented nationally through the *Racial Discrimination Act 1975*. The details of the Convention include outlawing 'hate speech' and criminalising membership of organisations



**SOURCE 7.28** International and national laws seek to protect the culture of Indigenous Australians.



**SOURCE 7.29** The International Convention on the Elimination of All Forms of Racial Discrimination (ICERD) outlaws 'hate speech' and criminalises membership of organisations that encourage racism.

that encourage racism. The Convention also outlines an international tribunal in which cases of racial discrimination can be heard and ruled upon.

In 2003, human rights activist Stephan Hagan brought Australia to the international tribunal over the naming of a stand at a rugby oval in the rural town of Toowoomba, Queensland. The town had named the stand the ES 'Nigger' Brown Stand after a well-known local rugby player from the 1920s. Brown was given the offensive nickname due to an association with his last name. The international tribunal found that the name was racist and offensive and the stand had to be renamed.

Australia's action on the Convention has been the splitting of the 'Human Rights' component from the Australian Human Rights and Equal Opportunity Commission (AHRC) and continuation of membership of the UN Human Rights Council. In 2010 the AHRC published the Australian Human Rights Framework. Some of the policies that had been created were:

- all federal legislation to be accompanied by a statement of compatibility with human rights
- rules relating to the human rights of asylum seekers
- social inclusion agenda
- the 2008 national apology by the Prime Minister to the stolen generation children (see p. 190)
- the 2009 endorsement of the Declaration of the Rights of Indigenous People.

Among other things, important priorities for Indigenous Australians were noted as:

- a priority of closing the gap between Indigenous and non-Indigenous Australians in a number of areas
- the need for constitutional reform to recognise Indigenous peoples in the preamble of the Australian Constitution.

## Declaration on the Rights of Indigenous Peoples

The United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) was adopted by the UN in 2007. The UNDRIP is not a source of international law, but rather a statement on the rights of indigenous people that establishes a global standard that all countries should aim to meet. There are over 370 million indigenous groups globally and the UNDRIP seeks to recognise and protect indigenous culture, language, **identity** and education.

### GLOSSARY

**identity** the values and sense of belonging a person has towards their community and their own view of themselves. Identity can refer to a geographic place (country or region) and to a person's cultural practices and beliefs. Identity is achieved through developing a sense of belonging to a particular group.

Australia originally opposed the declaration on the basis that it upheld the right to **customary laws** of indigenous groups. In Australia, customary law is a very contentious issue and in 2007 former prime minister John Howard claimed that Australia could not endorse the use of two different legal systems within Australia. In 2008, former prime minister Kevin Rudd endorsed the declaration and presented the well-known 'Sorry' speech regarding the Stolen Generations.

### GLOSSARY

**customary law** the practices and customs of an indigenous culture that may not be part of formal legal structures and written laws. In Australia, this refers to the customary laws of Aboriginal and Torres Strait Islander peoples. Customary laws acknowledge the traditional culture and structures that organise indigenous communities. However, in many cases customary laws are overruled by constitutional and common law.





**SOURCE 7.30** In 2008, the Stolen Generations accepted an apology from former prime minister Kevin Rudd on Sorry Day.

### Apology to Australia's Indigenous peoples

The time has now come for the nation to turn a new page in Australia's history by righting the wrongs of the past and so moving forward with confidence to the future.

We apologise for the laws and policies of successive parliaments and governments that have inflicted profound grief, suffering and loss on these our fellow Australians.

We apologise especially for the removal of Aboriginal and Torres Strait Islander children from their families, their communities and their country.

For the pain, suffering and hurt of these Stolen Generations, their descendants and for their families left behind, we say sorry.

**SOURCE 7.31** An extract from former prime minister Kevin Rudd's 'Sorry' speech, 2008

## Self-determination

One of the fundamental human rights that the UN and several international laws seek to protect is the right to **self-determination**. This refers to the right for a person to have personal choice in the manner in which they live their life. At this point, self-determination has a very vague definition, which can encompass the right to choose many different aspects of everyday life. However, generally it refers to the right of an

individual to make autonomous decisions and control their own destiny without extensive government intervention.

In August 2013, human rights activist James Anaya wrote a condemning report of several intervention policies in place in Indigenous communities in Australia. He also claimed that several of the policies were in breach of the right for self-determination. Anaya claimed that the banning of alcohol in some Indigenous communities was discriminatory and racist. This has been a highly contentious issue in Australia, as the current and previous governments have argued that it has been necessary to ban alcohol to address alcohol abuse-related health issues and crime in some Indigenous areas.

### GLOSSARY

**self-determination** the right for a person to actively choose the direction of their life and control their destiny

## Indigenous Australians

### DEVELOPING YOUR UNDERSTANDING 7.9

- 1 List two international treaties that address the rights of Indigenous Australians.
- 2 Identify why the name of the stand in Toowoomba was considered racist by the international tribunal.
- 3 Interpret the effectiveness of the ICERD based upon the number of ratifying members.
- 4 Outline the criticism of Australian policy regarding Indigenous Australians presented by Anaya. Do you agree with these criticisms? Explain why or why not.
- 5 Imagine the impact that signing the UNDRIP and the 'Sorry' speech would have had on Indigenous Australians and the Australian community as a whole. Why do you think these two events were important steps towards reconciliation and cultural diversity in Australia?



**SOURCE 7.32** Some interventionist policies in Indigenous communities in Australia have been criticised as breaching the right to self-determination.

## REFLECTING AND CONSOLIDATING

### Chapter summary

- The High Court of Australia has jurisdiction over international laws, constitutional interpretations and the final court of appeal.
- The High Court's role is to interpret the law, not to politicise or present a political agenda.
- International law comes largely from treaties made between two or more countries. International law can cover issues surrounding trade, human development, the environment and arms control.
- Australia is a member of many international laws and treaties, but not all are enforceable by law.
- The international treaties that Australia is a member of have an impact on the national politics and policy decisions of the government and parliament.
- Australia has several UNESCO World Heritage sites, some of which are under threat of being damaged.
- The United Nations Millennium Development Goals were created to fight global poverty and inequality. Australia has made some contribution to the progress of meeting the set goals. The follow-up Sustainable Development Goals (SDGs) are likely to follow a similar pattern of progress.
- There is an increasing number of international treaties that address the rights and culture of indigenous peoples. The treaties focus on promoting and protecting indigenous language, culture, identity and education.

### Multiple-choice questions

- How many judges sit on the full bench of the High Court of Australia?
  - 2 or more
  - 7
  - 5
  - 9
- What is the criterion for a High Court judge?
  - At least five years of practising the law and a position as a judge
  - There is none
  - At least 10 years as a judge at a federal or state level
  - Must have received the Companion to the Order of Australia
- What is gross national income a measure of?
  - The size of a country
  - The amount of wealth of the politicians of a country
  - The overall income of a country
  - The population of a country
- Are international treaties a source of law?
  - Yes
  - No
  - Only if all countries sign the treaty
  - Only if tested in a court and upheld as such
- International law protects what aspects of indigenous life?
  - Just language
  - Arts and craft
  - Culture, language, identity, intellectual property, law and education
  - None

### Short-answer questions

- 1 Outline the jurisdiction of the High Court of Australia and two famous decisions made by the court.
- 2 Explain the term 'precedent' and why it is important for the Australian legal system.
- 3 Outline three sources of international law and include detailed examples in your response.
- 4 Highlight three ways that international law seeks to protect the rights of children and indigenous peoples, and to fight racism. Provide one example of Australia complying with international law on these issues.
- 5 Analyse the legality of international law in Australia. Include examples of laws that have been upheld by the High Court of Australia and laws that would be unlikely to be legally enforced.

### Extended-response question

Create an essay response to the question: 'How does international law shape the national laws and policy decisions within Australia?'

Your response should include the following factors:

- a A clear structure, including an introduction, at least three body paragraphs and a conclusion
- b A clear position on the topic (also known as a contention)
- c Detailed case studies and evidence to support your arguments. You can use information from this chapter.
- d Two different points of view by including examples in which national laws and decisions have been changed to suit international laws and when this has not happened.



# Chapter 8

# Citizenship, diversity and identity

**SOURCE 8.1** Organised crime and police corruption threaten civil society in Australia.

## Main focus

This chapter explores the concept of a 'civil society' and investigates the people and events that challenge law and order in our community.

## Why it's relevant to us

As members of the Australian society, we need to understand the things that challenge the law in our community and have an impact on the 'common good' of all. It is also important for us to understand our rights and how we can resolve conflicts in our community.

## Inquiry

- What is a cohesive society?
- What are the events and activities that challenge our Australian society?
- How are our rights protected?
- How are disputes resolved in our community?

## Key terms

- arbitration
- civil society
- civil society organisation (CSO)
- civility
- common good
- conciliation
- corruption
- ethos
- judicial determination
- mediation
- multicultural
- negotiation
- organised crime
- social cohesion
- vested interest

## Let's begin

In order for a community to function effectively there needs to be a shared understanding of the groups' values and morals. Organised crime and corruption challenge a successful community as these illegal activities act out of self-interest and do not benefit the 'common good'. Even the media can be accused of acting out of vested interest and not considering the impact of biased reporting on our community. At a smaller level, disputes between individuals can also impact the broader community. Therefore, there are a few ways of resolving disputes without resorting to the courts.

## 8.1 What is a cohesive society?

### Civil society

To act with **civility** towards another person refers to being polite, courteous and conscientious towards a member of your community. Your school community will probably place a high value on these qualities as they are needed in order to run a successful and productive school or organisation. However, the phrase **civil society** has a more specific meaning in regards to the organisation of a country or a broader community. A civil society is a crucial component of a democratic, equitable and cohesive society. So one important component of a civil society is that it is also one of **social cohesion**. Where the people of a given civil society feel a sense of acceptance and belonging, and have shared values and the strength of a shared identity, there is the existence of social cohesion in that society.

The term ‘civil society’ has origins in ancient Greece. The philosopher Aristotle used the phrase to refer to a community that shares the same values and **ethos**, and places importance on law and order. The present-day understanding of a civil society encompasses the characteristics highlighted by Aristotle but can also include valuing democracy, social cohesion and freedom of speech. Programs that encourage volunteering or giving back to the community can also be a sign of a socially cohesive society.

### The common good

A concept that is linked to civil society, but is not the same, is the idea of the **common good**. Much like civil society, there is no clear definition

of what is meant by the term ‘common good’. Generally, this term refers to ensuring that political, social, cultural and ecological decisions are made with the best interests of the community in mind, and for the maintenance of social cohesion within that society. This idea assumes that a community is a shared space and in order for it to operate effectively, all decisions should take into consideration the consequences to the members of a community. For example, some people would argue that incarcerating a person who is dangerous and has acted violently is for the common good of the community.

#### GLOSSARY

**common good** there are many possible meanings for this phrase; however, generally it refers to acting in a way that best represents the needs of the entire community, not just the individual. This can refer to the sharing of resources fairly throughout a community (such as the distribution of tax-funded resources like education and healthcare). The philosophy behind the phrase is that the greatest possible good for the greatest possible number of individuals should be enacted as opposed to the good for just one individual at the expense of a society or community.

What is considered to be the common good can change over time. For example, during the 1950s building lots of factories was considered a good decision for the common good as it provided much-needed employment for a booming population. However, a post-2000 community might not consider the creation of more factories a good thing because of the environmental impact it could cause.

**SOURCE 8.2** Volunteering and community programs are signs of a cohesive society.

#### GLOSSARY

**civility** acting towards others with courtesy and respect. Civility plays an important role in ensuring a functioning society and community.

**civil society** a community or nation that values civility as well as supporting organisations that give back to the community or nation (such as through volunteering)

**social cohesion** the state of the members of a given society bonding together

**ethos** a Greek word meaning ‘character’; commonly used to refer to values or beliefs that identify a community



## Civil society organisations

As there is no one clear meaning of civil society, the term can mean different things to different people. However, most definitions have an emphasis on including volunteering and non-government organisations (NGO) in a community. Due to the impact of globalisation and a greater global focus of all countries, the number of NGOs has dramatically increased. In 1990 there were approximately 5000 global NGOs; by 2006 there were over 50 000. It is now estimated that there are over 10 000 000 global NGOs.

Similarly, there has been a dramatic increase in the number of organisations that could be labelled as a **civil society organisation (CSO)**. A CSO is an organisation that contributes to the creation of public policy (including laws) and ensures that all members of society are treated equally and fairly. CSOs also provide support for

social services (healthcare and education) to post-war countries and provide natural disaster relief. According to the World Bank, CSOs contribute over \$15 billion per year to international aid and development.

### GLOSSARY

**civil society organisation (CSO)** an organisation that lobbies or provides advice on policy issues regarding human rights issues, such as healthcare and education. CSOs also contribute to international aid and development.

## (Un)civil societies

Many countries of the world do not have the same quality of life or the stable government of Australia. As a consequence, a civil society is very difficult to achieve. For example, the Democratic



**SOURCE 8.3** Due to the impact of globalisation and a greater global focus of all countries, the number of NGOs has dramatically increased.



**SOURCE 8.4** The DRC contains a great deal of mineral wealth and most of the conflicts are centred on controlling mines and distribution of precious minerals.

Republic of the Congo (DRC) has been plagued by civil and international conflict for many generations. At the height of the conflict in 1998, the DRC conflict was identified as the most violent (both physically and sexually) in modern history with over 5 million people killed in just one year. Over 90% of the people who live in the DRC do not die from the ongoing conflict but rather from diseases such as malaria

and malnutrition. The DRC contains a great deal of mineral wealth so most of the conflicts are centred on controlling mines and distribution of precious minerals. Many NGOs and CSOs work hard to try to bring stability to the troubled country and attempt to create a cohesive society. One of the many concerns of the DRC is the lack of respect of the law and general lawlessness outside the major cities.

### Civil society

- 1 There is no one definition of 'civil society'. Construct your own definition that encompasses the characteristics outlined by Aristotle and the modern-day usage of the term.
- 2 Highlight the difference between the terms 'civil society' and the 'common good'.
- 3 Explain why a socially cohesive society is one of the crucial elements of a civil society.
- 4 Outline the difference between a NGO and a CSO.
- 5 Identify three reasons why the DRC cannot be considered a civil society.
- 6 Create a list of three changes that would need to take place in the DRC in order to create a civil society.

### DEVELOPING YOUR UNDERSTANDING 8.1

## 8.2 Threats to democracy

As you saw in Chapter 6, Australia follows a democratic political ideology. There are challenges to sustaining a resilient democracy. These primarily gravitate around activities against the laws that are designed to protect cohesive society, such as organised crime, corruption and vested interests.

### Organised crime

**Organised crime** can be a leading factor in preventing a functioning socially cohesive society. Organised crime refers to large-scale criminal communities that engage in regular illegal activities for monetary profit. Generally, organised crime syndicates make money through the sale of illegal drugs, weapons, prostitution and gambling. There are many global organised crime syndicates, such as the Yakuza in Japan or the Russian mafia (sometimes referred to as Bratva), but there are also crime groups that operate primarily in only one country. Organised crime presents a direct challenge to the concept

of a cohesive society as the groups directly disobey laws, do not share the same values as the other members of society and do not contribute to the wellbeing of the members of a community.

#### GLOSSARY

**organised crime** a group or organisation that is involved in regular criminal activity for financial profit

### Organised crime in Australia

▶ There is organised criminal activity in Australia, but there is no one organised crime family or syndicate that dominates. As well as multiple national-based organised crime groups, Australia also suffers from the presence of global organised crime syndicates (particularly from Asia). Some motorcycle gangs in Australia have also operated as organised crime syndicates and recently have become the centre of debates surrounding tougher laws to address organised crime.



**SOURCE 8.5** Generally, organised crime syndicates make money through the sale of illegal drugs, weapons, prostitution and gambling.

## CASE STUDY 8.1

### Outlaw motorcycle gangs in Australia

Australia is home to many outlaw motorcycle gangs, such as the Bandidos, Rebels, Hells Angels and Comancheros. They are often associated with illegal activities such as extortion, drugs, intimidation and violence. In general these 'bikie gangs' follow a code to keep their turf disputes in-house and out of the public eye. However, in the late 2000s violence spilled out onto the streets. In 2008, there were 13 cases of bikie-related shootings in Sydney in the space of two weeks. In 2009, a Hells Angel member was beaten to death by Comanchero members in public view of Sydney Airport. State governments across the country responded with a crackdown on bikie gangs. In Queensland and New South Wales, anti-association legislation was put in place that

made it an offence to 'participate' as a member of an organised criminal group. From 2012–16, 8556 warnings were issued to 2412 people for breaching anti-association laws in New South Wales alone and five people were sentenced to jail. In 2015, a Brisbane librarian was almost arrested for going to the pub with her partner, believed to be a member of the Life and Death motorcycle club. Whilst the police believed these measures were necessary to prevent further violence and illegal activity, motorcyclists have protested these laws across the country for being an attack on their rights. These disputes continue to this day, with Tasmania considering implementing similar laws to New South Wales and Queensland.



**SOURCE 8.6** Motorcyclists have protested these laws for being an attack on their rights.

- 1 What illegal activities are outlaw motorcycle gangs accused of being involved with?
- 2 Identify the response made by the New South Wales police. Do you believe anti-association laws are an effective deterrent?
- 3 Analyse the impact the bikie killings would have had on the concept of a cohesive society.



**SOURCE 8.7** In Australia, the cost of fighting organised crime is estimated to be over \$36 billion a year.

### Fighting organised crime

Organised crime is very difficult to combat or control because the organisations tend to be very wealthy, and members of criminal families are extremely loyal (possibly due to fear of the consequences). The impact of, and the cost of, fighting organised crime in Australia is high: the Australian Criminal Intelligence Commission's

report, *Organised Crime in Australia 2017*, gives a figure of over \$36 billion a year (estimated in December 2015 report). Other than the laws the criminal groups break regularly, police organisations have attempted to fight organised crime in a few different ways. Several police taskforces have been established to infiltrate and destroy criminal families.

#### Organised crime

- 1 Define the term 'organised crime'.
- 2 Highlight the ways in which organised crime syndicates challenge the concept of a socially cohesive society.
- 3 Outline two ways that Australia experiences organised crime.
- 4 Analyse the reasons why it is very difficult for the police to fight organised crime syndicates and families.

#### DEVELOPING YOUR UNDERSTANDING 8.2

### Corruption

A significant challenge to a functioning democracy is the existence of **corruption** in organisations that are charged with maintaining law and order and protecting people's rights. Corruption is when a person acts or makes a decision for personal gain instead of upholding the responsibilities of their position and duties. For example, corruption in law

and order could be a police officer taking a financial bribe instead of charging someone with speeding.

#### GLOSSARY

**corruption** an illegal activity in which someone makes a decision for a personal gain in contradiction to the role or position they occupy

## CASE STUDY 8.2

### Corruption in Australian Border Force

An Australian Border Force (ABF) officer and a former customs officer were charged in August 2017 over their role in an alleged international criminal conspiracy to illegally import massive amounts of drugs and tobacco into Australia. A spokesman for the ABF said that the challenge for the ABF was now just as much about ensuring that public confidence and trust in the ABF were not seriously damaged, as much as about ensuring secure outcomes.

- Eight people were arrested in Sydney, and one in Dubai as part of the operation.
- One of them formerly worked for the ABF while another worked for customs.
- Allegedly those arrested had been helping an alleged crime syndicate run by Sydney's Jomaa family for some years.

Police allege the syndicate members were part of a conspiracy to import 200 kilograms of MDMA via sea cargo, responsible for smuggling 50 million cigarettes into Australia, and actively engaged in money laundering activities. The ABF officer was charged with illegally importing tobacco, receiving a bribe, abusing public office to gain advantage, accessing data with intent to commit an offence, dealing with the proceeds of crime, and committing an offence at the direction of an organisation. The officer allegedly used his position to assist the syndicate in avoiding law enforcement detection, as well as a number of other related offences. He worked in ABF's operational support area in Customs House.

(Source: Hall, L. (2017). 'Police swoop on alleged corruption inside Australian Border Force', *ABC News*, 10 August 2017.)



**SOURCE 8.8** The existence of corruption in organisations that are charged with maintaining law and order is a significant challenge to a democracy.

- 1 Identify the behaviour in the case study that would constitute corruption.
- 2 Explain the consequences of the arrest for the ABF.
- 3 Analyse the implications of ABF corruption to Australian democracy. How would society be challenged by ABF corruption?

## CASE STUDY 8.3

### Corruption in unions

*This Case study is available in the online version of the textbook.*



#### Vested interests

If it was announced today that the legal age for voting and driving will rise to 25, you and many of your classmates might be very upset. You might feel anger and disappointment. You and your friends might complain that the change is unfair. However, a person in their 50s is unlikely to be anywhere near as upset as you. They might even agree with the change. The difference in attitude is called a **vested interest**. You and your classmates are at an age where changes to driving and voting laws are of interest to you because the changes directly affect you, whereas a person in their 50s is less likely to take an interest in these issues because the change would have no direct effect on them.

#### GLOSSARY

**vested interest** a strong personal interest in an issue or event due to a possible advantage gained

In politics and business, acting on a vested interest can be very controversial. If the vested interest is beneficial to the electorate or the business the person is representing, then it is considered a very positive thing. However, if the vested interest only benefits the person in a powerful position and not their broader community or business, then it is considered to be negative. For example, a politician is meant to represent their electorate. However, if they make a decision that only benefits themselves, such as favouring their own business interests over that of the community, they have acted on a vested interest in a negative way. A politician is only meant to use their position in parliament for the benefit of their electorate, not themselves.

#### Media ownership and regulation in Australia

The Australian media is relatively small compared to other countries, and laws have been put in place to ensure that the media remains in the ownership of Australian companies. There are three major television stations that are not funded by the government and two stations that are either fully or partially funded by the government. Currently only 20% of the Australian television broadcast can be owned by foreign investors; the remainder must be owned by Australian investors.

There is little regulation in Australian media laws. There is content regulation (based on a rating system, such as PG and M) and the press has a self-regulating body that encourages freedom of speech. Despite the limited amount of media regulation, generally reporting on news and current affair issues should be done in an unbiased manner.



**SOURCE 8.9** Currently only 20% of the Australian television broadcast can be owned by foreign investors.



**SOURCE 8.10** The reporting of news should be just the facts of a situation, not the opinions or biases of the person or organisation that is providing the information.

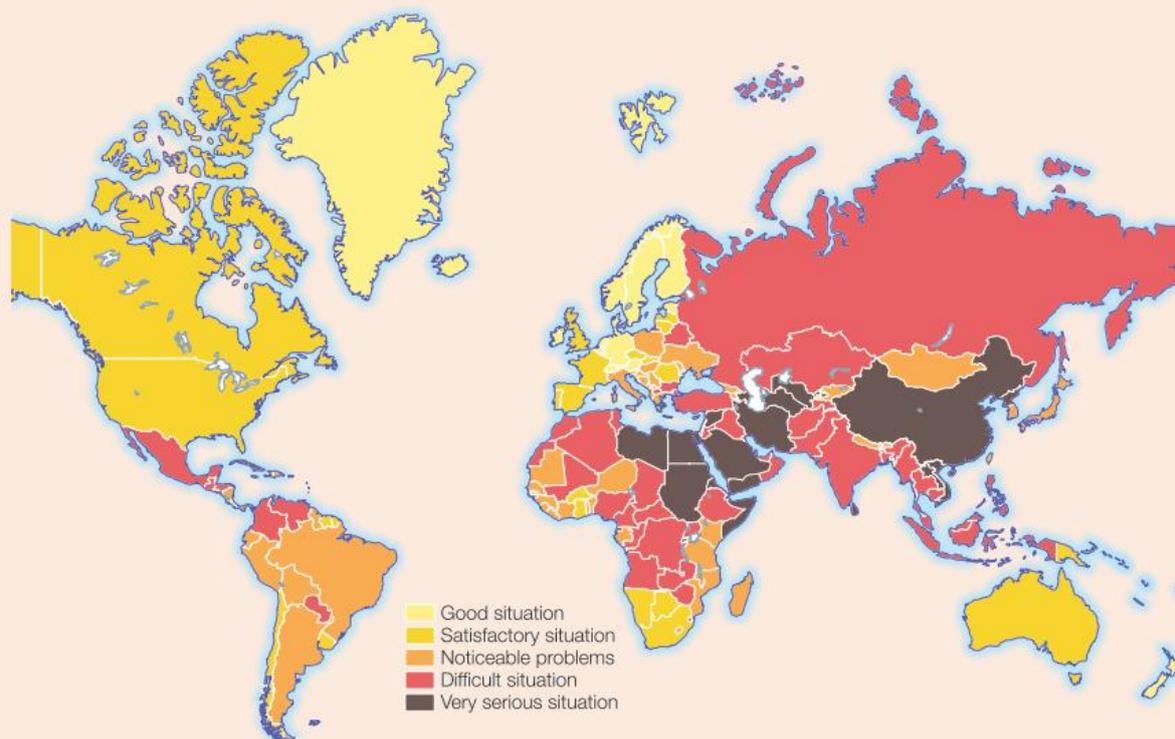
The reporting of news should be just the facts of a situation, not the opinions or biases of the person or organisation that is providing the information.

This is because the media is a very powerful source of information and can shape the community's views on a particular issue.

## CIVICS AND CITIZENSHIP FACT

Reporters Without Borders is an organisation that ranks all the countries of the world for the ability of the press to freely publish and access information. Australia was ranked 19th for 2017. The top three countries, in order, were Norway, Sweden and Finland.

(Source: Reporters without borders, 2017 World Press Freedom Index.)



**SOURCE 8.11** Reporters Without Borders: World Press Freedom Index

### News Corporation and Rupert Murdoch

Australia has very different media ownership than most countries of the world; it has the highest concentration of media ownership of all Western countries. There are two major companies that own a vast majority of Australia's media: Fairfax Media and News Corporation. However, in July 2018 Fairfax Media announced a merger with Nine Entertainment Co. Holdings Limited. At the time this book went to print the merger had not been finalised, but it was anticipated to take place by the end of 2018, with the new company to be called Nine. News Corporation newspapers control 64.2% of the circulated publications in Australia. The company was founded in Adelaide by Rupert Murdoch, who was the chairman and CEO until June 2014. News Corporation is now a global corporation with media ownership around the world, including the United Kingdom and the United States. The major broadsheet newspaper *The Australian* is owned by News Corporation and has been accused several times of presenting biased information. In 2010, *The Australian* was accused of editorialising news about the Australian Greens political party by presenting



**SOURCE 8.12** News Corporation newspapers control 64.2% of the circulated publications in Australia.

unfair criticism of the party's leader, Bob Brown. A study was undertaken by Robert Manne into *The Australian* newspaper's coverage of climate change over a seven-year period. Manne found that *The Australian* published 180 articles in support of action against climate change and 700 articles arguing against climate change science.



### ACTIVITY 8.1 Research

#### Hackgate

Using the internet, research into the *News of the World* phone hacking scandal (2005–11), sometimes referred to as 'Hackgate'. Present an overview of the scandal and the ethical issues surrounding the phone hacking. Outline the people *News of the World* had illegal access to. Highlight how this case study demonstrates the term 'vested interest'.

### Media

### DEVELOPING YOUR UNDERSTANDING 8.3

- 1 Explain the term 'vested interest' in your own words and create two scenarios in which a person is acting based on a vested interest.
- 2 Outline the reasons why the media can have a significant impact on the opinions of the public.
- 3 Analyse the possible reasons why Australia is only ranked 19th in 2017 for open reporting by Reporters Without Borders.
- 4 Identify the impact that *The Australian* newspaper's coverage of climate change and the Australian Greens party could have on the opinions of readers of the publication.

## 8.3 Protecting Australia's democratic system and society

In order to have a state of social cohesion, including shared values and the strength of a shared identity, there needs to be mechanisms in place to protect the rights of members of the community and punish those who break the law. As well as the police and the court system, there needs to be other organisations that monitor and ensure that all community members are treated fairly and equally.



**SOURCE 8.14** Emeritus Professor Gillian Triggs was the president of the Australian Human Rights Commission from 2012–17.

### Australian Human Rights Commission

The Australian Human Rights Commission was created in 1986 to act as an organisation that protects and promotes human rights within Australia. The organisation is funded by the federal government but operates independently. This means that the Commission can investigate into government legislation without impacting on their funding.

The mission of the Australian Human Rights Commission is outlined in Source 8.13.

#### Mission

Leading the promotion and protection of human rights in Australia by:

- making human rights values part of everyday life and language;
- empowering all people to understand and exercise their human rights;
- working with individuals, community, business and government to inspire action;
- keeping government accountable to national and international human rights standards.

We do this by:

- listening, learning, communicating and educating;
- being open, expert, committed and impartial;
- fostering a collaborative, diverse, flexible, respectful and innovative workplace.

**SOURCE 8.13** The aims of the Australian Human Rights Commission

The Commission deals with human-rights-abuse complaints, investigates into legislation that could infringe on human rights, educates Australians about their rights, provides advice to government bodies and provides legal advice to the courts.

The Commission also provides advice and assistance to other countries in the region. The Commission has a particular focus on creating a human rights dialogue with China.

### Protecting Australians

 The Australian Human Rights Commission will investigate into any complaint lodged anywhere in Australia. It does not cost anything to lodge a complaint or to have it resolved. The complaints are generally about discrimination, harassment or bullying based on a person's sex, age, race, disability and sexual preference. The complaints are resolved through a process known as **conciliation**. Conciliation is a legal dispute resolution process in which both parties discuss the complaint with an impartial member of the Commission. The discussions are informal and can be had either in person, over the phone or through letters of communication. The outcome of the conciliation process is generally an apology, reinstatement of work, compensation for lost wages or a change of policy in a particular workplace.

#### GLOSSARY

**conciliation** a form of dispute resolution in which the parties involved individually meet with an independent conciliator. The purpose of conciliation is to settle a dispute by lowering tension.



**SOURCE 8.15** Bullying does not have to be in person – it can also take place online.

### CIVICS AND CITIZENSHIP FACT

In 2016–17, the three most common forms of complaints received by the Australian Human Rights Commission were discrimination based on an impairment disability (equally in employment and through the provision of goods, services and facilities), sexual discrimination in employment, and discrimination based on race.



**SOURCE 8.16** Failure to provide adequate access for those with a disability can be considered a form of discrimination.

## CASE STUDY 8.4

### Australian Human Rights Commission on Aboriginal and Torres Strait Islander peoples' issues

The Australian Human Rights Commission runs several programs designed to protect and promote the rights of Indigenous Australians. In December 2013, the Commission released an article expressing concern over plans to cut funding to the Aboriginal and Torres Strait Islander Legal Service (ATSILS). The ATSILS has existed for over 40 years and has provided legal assistance for Indigenous Australians and advised on government policy. The Australian Human Rights Commission is greatly concerned about the cuts to the ATSILS funding as it will impact the organisation's ability to provide free legal assistance and to conduct research into the high rates of incarceration of Aboriginal and Torres Strait Islander people. Despite being funded by the federal government, the Australian Human Rights Commission is

able to criticise the federal government for decisions the Commission does not agree with. The Commission views the funding cuts as discriminatory against Aboriginal and Torres Strait Islander peoples and as counterproductive for achieving the goal of 'closing the gap'. Closing the gap is a commonly used phrase that refers to policies that attempt to address the significant gap between the life expectancy of Aboriginal and Torres Strait Islander people and non-Indigenous Australians. Substantial funding cuts of \$13.41 million did occur through the 2013/14 budget, with another \$4.5 million cut in the 2016/17 budget. The government did, however, restore \$16.7 million to ATSILS in the 2017/18 budget.

(Source: NATSILS, Media release, 9 May 2017.)



**SOURCE 8.17** Protecting Aboriginal and Torres Strait Islander peoples' rights is an important part of the Commission's work.

- 1 Explain the concern the Australian Human Rights Commission has with the funding cuts to ATSILS.
- 2 Outline the form of discrimination highlighted in this case study.
- 3 Explain the term 'closing the gap' and highlight why the term is important for the Australian Human Rights Commission.
- 4 Analyse how this case study highlights the importance of the Australian Human Rights Commission operating independently of the government.

### Australian Human Rights Commission

- 1 Outline the mission of the Australian Human Rights Commission in your own words.
- 2 Define the term 'conciliation' and outline how the Commission uses this dispute resolution process.
- 3 The Commission focuses not only on human rights in Australia. Highlight the organisation's role in the Asia–Pacific region.

### DEVELOPING YOUR UNDERSTANDING 8.4

## 8.4 Resolving conflict

In all communities, there will always be conflict between parties that needs to be resolved. Your class is a community and your teachers will have their own ways of resolving conflict that arises. In a broader society, there are a few different options for resolving a conflict between two or more people. Involving the police and going to a court is a conflict resolution method that is generally reserved for serious crimes that involve criminal offences or large sums of money.

### Judicial determinations

A **judicial determination** is the decision made through the court system. This can either be from a judge or a jury. The dispute needs to be criminal or a civil issue for a significant amount of money. The process of going to court can be very expensive and traumatic. Therefore, there are some alternative methods of dispute resolution available.

#### GLOSSARY

**judicial determination** the court's finding on an issue or dispute



**SOURCE 8.18** The process of going to court can be very expensive and traumatic.

## Negotiation

**Negotiation** is where two or more parties talk through an area of conflict, with the intention of coming to an agreement that will suit everyone. Negotiation works best when all parties are considerate of others' views, and are willing to compromise where necessary. Negotiation can be quite informal, without involving third parties, or other systems or processes.

### GLOSSARY

**negotiation** a discussion between parties aiming to resolve a conflict in a way that is acceptable to all concerned

## Mediation

**Mediation** is a form of dispute resolution that involves a discussion between the two parties and a neutral third party (the mediator). The mediator assists in the process of negotiating and reaching an appropriate outcome through clearly outlining the discussion structure and timetable, and ensuring that each party is able to be heard. The mediator does not offer suggestions on how to resolve the dispute. The outcome of mediation as decided by the parties to the dispute can be legally binding but often is not. Disputes around workplaces, family and commercial issues can go through mediation (however, this list is not exhaustive). Mediation is often chosen as an alternative to judicial determination as the processes are confidential, less intimidating and take less time than through the courts. In Australia, there is some concern surrounding multiculturalism and mediation. Australia has a very rich **multicultural**

community and it can sometimes be difficult to effectively mediate between people of different cultures. The main concerns are that there may be a perceived power imbalance between the two parties, or that the mediator may not be culturally sensitive enough to effectively resolve the issue.

### GLOSSARY

**mediation** a dispute resolution method in which a neutral third party will aid in negotiations of the two disputing parties to enable them to settle a dispute

**multicultural** refers to the preservation of different cultures and cultural identities within a unified society (such as Australia)

## Arbitration

**Arbitration** is similar to mediation in some ways. The process of arbitration is outside of the courts and involves discussing the issue with a neutral third party. However, unlike mediation, the outcome of arbitration is decided by the arbitrator and is legally binding. Arbitration is generally used to resolve disputes to do with commercial activities, such as businesses and transactions. Unlike mediation, the process of arbitration is not to get both parties to agree to a middle ground on the issue. Instead, the arbitrator will hear both parties' views on the issue and then make a decision that is legally binding and enforceable.

### GLOSSARY

**arbitration** a dispute resolution process with a neutral third party who makes a legally binding decision



## CASE STUDY 8.5

### The Fair Work Ombudsman

The Fair Work Ombudsman is an organisation that seeks to settle issues and disputes surrounding working conditions, employment issues, and compliance with workplace laws and regulation. An ombudsman is a person who has been appointed by the government to represent members of the public regarding issues surrounding different types of rights. The Fair Work Ombudsman is free and does not represent any particular biases or vested interests. The Ombudsman can settle disputes

surrounding wages, superannuation, leave, workplace bullying, unfair dismissal, being forced to do something against your will or discrimination. As well as settling disputes, the Ombudsman conveys information to the public regarding employment conditions, such as wage rates and access to leave. The Fair Work Ombudsman also offers free online courses on building skills around dispute resolutions. The Ombudsman can investigate an issue up to six years after it took place.



**SOURCE 8.19** The Fair Work Ombudsman is free and does not represent any particular biases or vested interests.

- 1 Identify the jurisdiction of the Fair Work Ombudsman.
- 2 Explain what form of alternative dispute resolution the Fair Work Ombudsman would be considered as.
- 3 List the types of disputes the Fair Work Ombudsman can assist with.
- 4 Visit the Fair Work Ombudsman's website and find the legal wages for three different jobs. (The relevant section will probably be called 'Pay rates calculator'.)

## Conciliation

The process of conciliation involves the conciliator meeting separately with the parties involved and discussing the issue. The goal of conciliation is to reach reconciliation between the two parties. The conciliator can offer suggestions on how to resolve the dispute, but the final decision is up to the parties involved. Conciliation is not legally binding and the conciliator has no legal authority. The benefit of conciliation is that it generally lowers tension between the parties and improves communications. The parties rarely meet face-to-face during the conciliation process. Conciliation is most commonly used for divorce and family issues.



**SOURCE 8.20** The benefit of conciliation is that it generally lowers tension between the parties and improves communications.

## Collaborative law

Collaborative law, also known as divorce law or family law, is the process of ending a marriage through the assistance of lawyers but outside of the court system. The process involves ensuring that both parties' needs are met and that decisions

surrounding any children are appropriate. At the end of the process, the parties sign a legally binding contract. Most divorces are resolved in this manner and only involve the courts when no straightforward outcome can be reached.



### ACTIVITY 8.2 Note this down

#### Alternative dispute resolutions

For each of the alternative dispute resolutions outlined in this section, complete a SWOT (strengths, weaknesses, opportunities and threats) analysis by completing the table below.

	Strengths	Weaknesses	Opportunities	Threats
Mediation				
Arbitration				
Conciliation				
Collaborative law				

## Mediation, arbitration and conciliation

### DEVELOPING YOUR UNDERSTANDING 8.5

- 1 Define the terms 'arbitration' and 'collaborative law' in your own words.
- 2 Highlight the difference between mediation and conciliation.
- 3 Explain the potential issues surrounding mediation in Australia.
- 4 Identify the reasons why two parties might seek alternative forms of dispute resolution.
- 5 Analyse the reasons why alternative forms of dispute resolution might be used on an issue such as divorce, and identify what form of alternative dispute resolution the couple might use.

## REFLECTING AND CONSOLIDATING

### Chapter summary

- A civil society is a community that has shared values and morals, and also supports volunteerism.
- Where the people of a given civil society feel a sense of acceptance and belonging, and have shared values and the strength of a shared identity, there is the existence of social cohesion in that society.
- The common good is a concept that requires the members of a community to consider the impact of their actions to all members of their group.
- Illegal activities, like organised crime and corruption, have a detrimental impact on an effectively operating community.
- The press is meant to report the news and current affairs neutrally and avoid political biases.
- The Australian media is owned primarily by two large companies: Fairfax Media and News Corporation. In July 2018 Fairfax Media announced a merger with Nine Entertainment Co. Holdings Limited, with the new company to be called Nine. News Corporation owns one of the most successful newspapers in Australia. News Corporation has been accused of editorialising on the issue of climate change and the Australian Greens party.
- The Australian Human Rights Commission promotes and protects human rights in Australia and the Asia–Pacific region. The Commission is funded by the federal government but acts independently. When appropriate, the Commission will criticise the government for policy and legislation decisions.
- Many people choose an alternative form of dispute resolution to avoid the time, cost and intimidation of the court process.
- There are many different forms of dispute resolution available to Australians, including arbitration, mediation and conciliation.

### Multiple-choice questions

- The term 'civil society' originally comes from
  - Australia.
  - ancient Greece.
  - ancient Rome.
  - nobody knows.
- The extent of organised crime in Australia is
  - non-existent.
  - only from overseas.
  - motorcycle gangs.
  - family-based syndicates, motorcycle gangs and from overseas groups.
- The Australian Human Rights Commission has recently been critical of the federal government because
  - the government has cut the Commission's funding.
  - the government has cut funding to the ATSILS.
  - the Australian Human Rights Commission is not allowed to be critical of the government.
  - the Australian Human Rights Commission has cut funding to the ATSILS.
- The Australian media is
  - completely unregulated.
  - regulated by Rupert Murdoch.
  - regulated to an extent, including a self-regulating press.
  - heavily regulated.
- If a couple wants to get a divorce but does not want to go to court, they could use
  - conciliation.
  - mediation.
  - collaborative law.
  - all of the above.

### Short-answer questions

- 1 Outline the extent of organised crime in Australia and highlight how it impacts on civil society.
- 2 Detail two instances of corruption from case studies explored in this chapter.
- 3 Explain the role of the Australian Human Rights Commission and outline the most common forms of complaints the Commission receives.
- 4 Analyse the media ownership laws in Australia. Consider the protection of media ownership in Australian and the dominance of two media corporations in your response.
- 5 Create three hypothetical scenarios in which it would be better to resolve the issue through an alternative form of dispute resolution. Outline the reasons why it would be easier to avoid the courts.

### Extended-response questions

- 1 Use a word-processing program to create an opinion piece for a daily newspaper on organised crime in Australia. Your piece should contain factual information as well as your opinion. It should be written in an appropriate format and include at least one accompanying visual. Consider including the following points in your response:
  - a the extent of organised crime in Australia and the impact of organised crime from overseas
  - b the rise of motorcycle gangs engaging in organised crime and the impact of the Melbourne gangland killings
  - c the cost of fighting organised crime every year.
- 2 Write a short paragraph on how difficult or easy you found the task to be.

# Glossary

**ad hoc** a makeshift or unplanned approach

**affluent** wealthy; of an individual, group or entity

**appeal** the process of taking a court ruling to a higher court in order to be overruled

**arbitration** a dispute resolution process with a neutral third party who makes a legally binding decision

**asylum seeker** someone who has fled their country due to fear of persecution, violence or death but who has not yet been granted refugee status

**Australian Bureau of Statistics (ABS)** the official statistical organisation for Australia. The ABS provides statistics on a number of issues that cover economics, society and the environment.

**Australian democracy** a constitutional monarchy that means that Australia is part of the Commonwealth and also has a parliament that makes independent decisions

**Australian Government** sometimes referred to as the Commonwealth Government or the federal government. It was established by the Australian Constitution at the time of Federation and is divided into three arms: legislature, executive and judiciary

**Australian Productivity Commission** an independent body that advises the government on microeconomic policy, regulation and a range of other social and environmental issues

**average weekly earnings (AWE)** the average amount a person who works full time earns in a week

**Better Life Index** an index used to assess the quality of life in a country based on a number of different indicators

**bicameral** a parliamentary system in which there are two houses (generally referred to as the upper and lower house). Each house has its own responsibilities, but both houses must pass legislation in order for it to become law.

**big data** using a wide variety of data sources to collect and analyse information

**budget** a record of the income coming in and the money going out (expenditure) for an individual

**budget deficit** when a government spends more money than it receives in revenue from taxation and other sources

**business cycle** the fluctuations (or changes) in economic activity in an economy over a period of time

**capitalism** an economic system in which production and trade is largely privately owned and controlled. Capitalism encourages a competitive market in which the government has limited control over the price and production of goods and services.

**casual employee** an employee who is not ongoing and works when required by the business; the employee receives a slightly higher hourly rate instead of holiday and sick leave

**cessation** brought to an end, either completely or temporarily

**citizen** a person who has citizenship of a particular country; has the responsibility to obey the laws of that country and participate in the political process of that country (such as through voting)

**citizenship** a legal status that entitles a person to certain rights and responsibilities, which is granted by place of birth or through naturalisation (the process of living in a country different to the one of birth). Citizenship can involve rights such as protection from the government, access to a passport and political participation (such as the right to vote). Citizenship can also include responsibilities such as obeying the law, defending the country and participating in a jury.

**civil society** a community or nation that values civility as well as supporting organisations that give back to the community or nation (such as through volunteering)

**civil society organisation (CSO)** an organisation that lobbies or provides advice on policy issues regarding human rights issues, such as healthcare and education. CSOs also contribute to international aid and development.

**civility** acting towards others with courtesy and respect. Civility plays an important role in ensuring a functioning society and community.

**classical economics** the economic theories of the eighteenth and nineteenth centuries, which were based around free market ideals

**common good** there are many possible meanings for this phrase; however, generally it refers to acting in a way that best represents the needs of the entire community, not just the individual. This can refer to the sharing of resources fairly throughout a community (such as the distribution of tax-funded resources like education and healthcare). The philosophy behind the phrase is that the greatest possible good for the greatest possible number of individuals should be enacted as opposed to the good for just one individual at the expense of a society or community.

**common law** laws made by judges as they issue rulings known as judgments on cases that come before them

**communism** a political ideology that advocates a classless, stateless and economically equal society. Communism involves collective ownership of land and means of production.

**comprehensive (insurance)** a form of insurance that provides cover for accidental loss or damage to your vehicle up to an agreed value (amount set by owner and insurer) or market value (cost of replacement vehicle), legal liability for damage to other people's property and in limited circumstances the death or bodily injury caused using your car

**conciliation** a form of dispute resolution in which the parties involved individually meet with an independent conciliator. The purpose of conciliation is to settle a dispute by lowering tension.

**constitution** a legal document that outlines the fundamental principles of a country or an organisation. A constitution contains a legal outline of the specific powers and responsibilities of the different branches and levels of government or governing structures.

**consumer price index (CPI)** measures changes in the average percentage prices of a 'basket' of consumer goods and services purchased by households

**consumption** the use of goods and services by consumer spending

**conventions** widely accepted practices within a community or political procedure that are not formally written. Conventions are accepted by the broader community without written documentation and can even challenge the written law in place (such as the Constitution).

**corruption** an illegal activity in which someone makes a decision for a personal gain in contradiction to the role or position they occupy

**cost-benefit analysis** involves determining the benefits of a given situation with the costs associated with taking this action then being subtracted

**customary international law** international law that has been followed by most countries for a significant amount of time; it is often followed long before the law has been officially written down

**customary law** the practices and customs of an indigenous culture that may not be part of formal legal structures and written laws. In Australia, this refers to the customary laws of Aboriginal and Torres Strait Islander peoples. Customary laws acknowledge the traditional culture and structures that organise indigenous communities. However, in many cases customary laws are overruled by constitutional and common law.

**customer profile** the range of variables that can be identified when defining a market to best suit a particular customer

**debt cycle** a result of not keeping on top of debt payments and therefore accumulating more debt through interest and extra borrowing

**democracy** a form of government in which citizens of the country participate in the choice of leaders

**depreciation** relates to the reduced value of an asset over time

**direct democracy** a form of government in which all eligible citizens are able to present their opinions and directly contribute to political decision-making

**economic performance indicators** key statistics that indicate the direction of an economy

**Economist Intelligence Unit (EIU)** a United Kingdom-based independent business offering forecasting and advisory services

**egalitarian** the belief that all people are equal and should receive equal rights and treatment

**electorate** a geographical area that a member of parliament represents; generally based on population numbers

**employment rate** the percentage of people in the workforce who are in part-time or full-time work

**equitable** fairly and equally distributed and available

**ethics** a set of moral principles that a business needs to establish and follow

**ethos** a Greek word meaning 'character'; commonly used to refer to values or beliefs that identify a community

**externality** when an action taken by one person directly affects the welfare of someone else in a non-monetary way

**fascism** an ideology that is built on a centralised power, in which a leader makes all the political decisions without the participation of citizens

**fiscal policy** the way in which a government changes its spending levels and taxation to monitor and influence the economy of the country

**fly in, fly out (FIFO)** a type of employment where employees are sent to their worksite for a set amount of time, then sent home again, rather than permanently relocating

**foreign aid** the transfer of resources (money, medical supplies, etc.) from one country to another without any expectation of repayment or a reciprocal relationship

**free market** a market economy based on supply and demand with little or no government intervention

**free trade** trade with very little government intervention in the form of taxation or tariff. Free trade is conducted without restriction or regulation.

**full employment** the percentage of the labour force that is employed in a job (usually more than two hours per week in Australia)

**full-time employee** an employee who is ongoing and works 38 hours per week

**GDP per capita** the total GDP figure divided by the number of people in a country

**genocide** the deliberate and systematic elimination of a group of people who are bound together based on race, ethnicity, religion or nationality

**Gini coefficient** a statistical indicator of the degree of inequality; the higher the coefficient, the more inequality there is within the economy or society

**global citizens** those people or countries that understand their obligations at a global level

**globalisation** the increasing interdependence of countries and people. Globalisation is experienced in many different aspects of life, including trade, politics, economics, cultural practices and social identity.

**governance** the structures and processes that allow political decisions to be made. Governance can take place at a national or state level or within corporate or organised groups.

**Governor-General** the official representative of the monarch of the Commonwealth in Australia and the official head of state (as outlined by the Constitution); the position is entitled (through law) to power over many different governing bodies, but it has become a convention that the role only intervenes in political actions or processes in rare circumstances

**gross domestic product (GDP)** a measure of the total value of production of goods and services in an economy over a period of time (usually one year)

**gross national income (GNI)** a measurement of the wealth of a country

**happiness index** a measurement of happiness of a country according to various criteria (officially called Your Better Life Index)

**Happy Planet Index (HPI)** an index of the sustainable wellbeing of each country's population that provides an overview of whether we are living on a happy planet

**household debt** the level or amount of debt in each Australian household

**Human Development Index (HDI)** a ranking of all the countries in the world based on several factors, including life expectancy, infant mortality, education and income. HDI can be used as a measurement of a country's development beyond just economic issues.

**human rights** the automatic rights to which all people are entitled. These include basic rights such as the right to life and liberty, and the right to equality before the law.

**identity** the values and sense of belonging a person has towards their community and their own view of themselves. Identity can refer to a geographic place (country or region) and to a person's cultural practices and beliefs. Identity is achieved through developing a sense of belonging to a particular group.

**inflation** the rate of increase in the price of goods and services

**inheritance** to receive property, money or other assets from a relative/ancestor by legal succession or will

**innovation** the introduction of new things or methods; improving the current work practices, procedures and products

**interest rate** the amount paid by a lender to a borrower for the use of assets

**international law** laws that govern the interaction between countries and that outline the obligations of a country's government towards its citizens (such as human rights and environmental protection)

**internationalism** an ideology that argues that all countries are members of the same community and therefore no country is of more worth than another. It argues that all countries should work together in order to find solutions to global problems.

**inventory** the holding or storage of raw materials, component parts, work in progress and finished goods

**inventory control** a system of overseeing the contents of an inventory. It involves maintaining correct stock levels as well as averting stock loss and theft.

**judicial determination** the court's finding on an issue or dispute

**judiciary branch of government** one of the three branches of power in a democracy in which laws are tested and justice is delivered through a court system. The other two branches are the legislative (parliament) and the executive (head of state).

**Just-in-Time (JIT)** an inventory management system that aims to avoid holding any stock (inputs or finished goods). Supplies arrive just as needed for production and finished products are immediately dispatched or sold to customers.

**law** the system of rules that are recognised by countries and communities, which regulate the actions of the people and can be enforced by penalties and sanctions

**living standards** the level of material welfare of a community, class or person

**Lorenz curve** a graphical representation of the distribution of wealth and income in a country

**market share** the proportion of the market controlled by a business, based on value of total sales

**media** the collective term for the primary means of mass communication (including television, radio, the internet and social media). Media is central in democracies as it informs and influences the people by communicating an array of viewpoints.

**mediation** a dispute resolution method in which a neutral third party will aid in negotiations of the two disputing parties to enable them to settle a dispute

**migration** movement of people from one country to another for permanent resettlement

**military junta** a government led by the military or a committee of military leaders

**minimum wage** an employee's base rate of pay for the ordinary hours worked

**monarchy** a political ideology in which all political power lies with one family

**monetarism** the economic theory of having little government intervention and supplying money in direct proportion to productivity

**monetary policy** policy aimed to influence interest rates and manage the total amount of money in circulation in a country

**multicultural** refers to the preservation of different cultures and cultural identities within a unified society (such as Australia)

**multilateral** three or more countries working together

**negative externality** when an act by a person or business imposes a cost or imposition on other people

**negotiation** a discussion between parties aiming to resolve a conflict in a way that is acceptable to all concerned

**New Deal** the economic measures implemented by F. D. Roosevelt, which involved massive public works and a large-scale granting of loans to counteract the effects of the Great Depression in the US

**non-government organisation (NGO)** an organisation that seeks to assist people (particularly with regard to human rights) without government intervention

**opportunity cost** the alternative you have to go without in a choice between two competing things or events

**Organisation for Economic Co-operation and Development (OECD)** an association of nations around the world, which was established to promote economic growth, prosperity and trade

**organised crime** a group or organisation that is involved in regular criminal activity for financial profit

**part-time employee** an employee who is ongoing but works less than 38 hours per week

**peacekeeper** an officer entrusted with ensuring prolonged peace and security

**pension** a regular payment made by the government to people

**personal earnings** one's total earnings, including wages, investments

**plebiscite** a vote by citizens on a matter of national significance but which does not affect the Constitution. The results of a plebiscite are advisory to the government.

**political ideology** a system of beliefs and practices that determine the political decisions of a country or society

**positive externality** when there is a benefit for third parties that indirectly results from a private act of a person or business

**precedent** a decision on a law that has an impact on all future decisions on that law

**price** the amount of money paid by customers for a product or service

**price elastic** when the demand for a product has a large drop-off because the price of the product increases

**price inelastic** when an increase in price has little or no impact on the demand for the product

**private sector** part of the economy owned and operated by individuals and companies

**procurement** the action of buying or obtaining something

**productivity** the amount of output produced from a given amount of input, measured over time

**progressive tax** tax system in which those who earn higher incomes pay a higher percentage of their income as tax than those with lower incomes

**public sector (government)** part of the economy owned and managed by the government

**referendum** the legal process for changing or amending the Constitution. A majority of voters must agree with the proposed change for the change to take place.

**representative democracy** a political ideology and practice in which the eligible voters select a representative to make political decisions on their behalf

**self-determination** the right for a person to actively choose the direction of their life and control their destiny

**social cohesion** the state of the members of a given society bonding together

**state and territory governments** governments with responsibility within individual states and territories

**subsidies** financial support from either the business or government sector to support an industry

**sustainability index** an index that compares the performance of different countries, companies or enterprises on sustainable use of resources such as water and energy

**Sustainable Development Goals (SDGs)** goals based on a range of different measures designed to work towards ending poverty, protecting the planet and ensuring prosperity without depleting resources that would prevent continuity

**sweated labour** working conditions that are against international standards. Often referred to as 'sweatshops', sweated labour working conditions include low to no payment, dangerous use of machinery, long hours and use of child labour or even slave labour.

**target market** the market at which a product or service is primarily aimed

**tariff** a tax placed on goods imported or exported

**technology** the practical application of science to achieve a commercial or industrial objective

**Temporary Skill Shortage (TSS) Visa** approval from the government to work in a host country for a certain amount of time

**theocracy** a political ideology where the beliefs and practices of a particular religion form the foundation of a country's laws and governance

**top-shelf** of a high quality  
**trade restrictions** a process of limiting or denying trade to a particular country as a means of showing disapproval. Trade restrictions often have a significant impact on the country's economy and force the government to change offending policies.

**training** the act of teaching and enhancing skills and behaviour

**transfer payments** income redistribution made in the form of welfare, social security and government subsidies

**treaty law** an agreement between two or more countries or global organisations. A treaty can be about a number of different issues, including trade, human rights or the environment.

**triple bottom line (TBL or 3BL)** the criteria used to measure success of business activities. The criteria include financial performance, social performance and environmental performance.

**unemployment** a state of actively searching for employment, but being unable to find work

**unemployment rate** number of unemployed persons divided by the number of people in the labour force

**values** personal judgments as to what is important in life

**vested interest** a strong personal interest in an issue or event due to a possible advantage gained

**veto** the right to overrule a decision (most commonly used in parliament and law)

**voting** a political process in a democracy in which those eligible formally express an opinion on an issue or decide on political representation. In Australia, a person is eligible to vote if they are over 18 and hold citizenship (either through birth or naturalisation).

**voting age** the age at which a citizen is eligible to cast a vote; in many countries this is 18

**wealth redistribution** the redistribution of income from high-income earners to low-income earners in the form of services and welfare, administered through the taxation system

**Westminster system** originating from the British political system; all elected political members have a responsibility to serve their electorate and can only remain in power for as long as they have the support of the people; head of state is a representative of the monarchy, the de facto head of state is also the head of government (prime minister); the head of state can dissolve the parliament if appropriate

**where-to-be-born index** (previously called the total quality-of-life index) uses a number of indicators to determine what life is like in a country; it uses life expectancy, divorce rates, community life, material wellbeing and political stability

**workforce** the individuals capable of working in a given economy

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