1.4 Government involvement in the market

Governments at all levels involve themselves in the market in a variety of ways. Politicians, commentators and the media often refer to the issue of ‘economic management’ as a responsibility of government. It is expected that government will take action to encourage growth in the economy and to avoid high levels of unemployment. Government activity within a market economy goes well beyond these aims. The successful operation of markets often depends on the level of government involvement.

**Law and justice**

Government provides a legal framework that allows the buying and selling in the marketplace to occur within a set of rules that should be fair to all participants. Australian Consumer Law protects consumers from unscrupulous businesses that could try to cheat them. Laws relating to the enforcement of legal contracts ensure that all buyers and sellers will be able to enforce their rights before the courts. The criminal law aims to provide protection from threats and intimidation in any business dealings. Our court system gives everyone the right to take legal action to enforce their rights.



*FIGURE 1* Australian Consumer Law protects consumers from unscrupulous businesses that could try to cheat them.

**Welfare**

Government provides financial and other support to the disadvantaged in the community. The aged pension supports those who are beyond retirement age and no longer working. Unemployment benefits are designed to support those who cannot work. The disability support pension assists those who are unable to gain employment because of physical or mental disability. Not only are welfare payments designed to provide fairness and support to those who need help, but they can also have a positive economic effect on markets. Those receiving welfare are likely to spend most of their money and so their spending adds to the circular ow of income throughout the economy. Businesses gain revenue from selling additional goods and services. This can in turn allow them to employ more people, who also spend their money buying goods and services.



*FIGURE 2* Welfare payments help those who are not able to earn an income.

**Provision of infrastructure**

Government has a major responsibility for providing the **infrastructure** for the economy. This includes roads, railways and ports, and has traditionally included other means of communication, as well as energy supplies. Roads and railways are essential if goods are to be transported from place of manufacture to the shops where they are sold. Ports are not only required to allow for the import and export of goods in and out of Australia, but also for the transport of goods within Australia. Tasmania relies on shipping across Bass Strait to bring goods from mainland Australia, and to transport goods produced within the state to consumers in other states.

The government provides a postal service that supports correspondence between businesses, as well as the delivery of goods through a parcel delivery service. The telephone service was originally provided by government before Telstra was **privatised** and other providers were permitted to enter the market for telephone services. Even today, the national broadband network is an important infrastructure project being funded by government. Markets cannot operate without efficient systems of communication between consumers and businesses.

Traditionally, energy supplies such as electricity and gas also have been provided by government. These are not only essential for the domestic uses we are all accustomed to, but also for the functioning of businesses. In some states of Australia, electricity and gas supplies have been privatised and are now run by businesses rather than by government. Even where this has occurred, the original infrastructure was usually built by government before being sold to the business sector.



*F* Government provides infrastructure to enable markets to function more efficiently.

**Economic management**

Government has a responsibility for ensuring that Australia experiences a sustainable level of economic growth from year to year. Growth is important because as the population increases, it is necessary to ensure there are sufficient goods and services for all consumers to buy. There also needs to be an increase in the number of jobs available to provide employment for a growing population.

Governments can encourage economic growth by spending money, injecting more into the circular flow. This can provide more for consumers to spend, encouraging business to increase the supply of goods and services, and thus provide more job opportunities. However, if too much money is injected into the economy there may not be enough goods and services readily available to meet the increased demand. This is likely to force prices up, leading to **inflation**.

When this occurs, government will usually cut back on spending, which removes the excess money from the economy, and hopefully slows down the rise in prices. Governments use their annual **budgets** to in influence the flow of money in the economy. They will aim to encourage growth, while trying to avoid the risk of inflation. Governments can use statistics gathered by the **Australian Bureau of Statistics** to assist them in their decision-making. These statistics can include figures relating to the levels of employment in the economy, as well as those tracking price rises.



*FIGURE 4* Governments will use a variety of statistics to assist with decision-making. **Wages and employee relations**

As we have discussed, there is a market for labour in which workers offer their skills and experience for sale to businesses and businesses buy that labour by paying wages and salaries. In order to ensure that the labour market functions fairly, it is regulated by laws passed by governments. The major law dealing with wages and working conditions in Australia is the *Fair Work Act*, a federal government law. This law supports the system of Awards, enterprise bargaining and the minimum wage, as discussed in section 1.2.

State governments provide regulations to ensure safe workplaces through Occupational Health and Safety laws. Both federal and state governments have also sought to prevent discrimination in the workplace by passing laws supporting equal employment opportunity. These make it illegal to discriminate against someone in any workplace on the basis of gender, race, age or ethnicity.



*FIGURE 5* Occupational Health and Safety laws are designed to prevent injuries at work.

**Provision of goods and services**

Governments can also become involved in the marketplace as actual suppliers of goods and services. Every state and territory government provides an education system. In addition, state governments provide hospitals and other health services. Although many of these services are also provided by other organisations, such as private schools and private hospitals, it is considered a responsibility of government to ensure that everyone has access to education and health services. Ambulance services and re ghting and emergency services are similarly considered to be the responsibility of state governments.

Public transport systems also are mostly provided by state governments, and those public transport systems that are provided by non-government businesses usually receive large amounts of money from government to assist in their running. Public transport does not make a pro t, so no business would want to run it without such funding. Further, without this government assistance, for public transport to be pro table fares would have to be so expensive that many people could not afford to use it. Public transport is recognised as an essential service, so governments either provide it themselves or pay businesses to provide it at a reasonable price.



*FIGURE 6* It is a responsibility of government to provide hospitals and health services.

**Planning and the environment**

State governments and local councils have powers to control the type of buildings and other developments occurring within their borders. Governments establish building standards to ensure that all buildings are structurally sound, and not likely to fall down or cause a hazard in any other way. Anyone wishing to build a house or other structure on vacant land must gain a building approval. This is to ensure that the building conforms with certain standards. Councils and the state government can also determine whether or not a particular type of building is appropriate in a particular area. For example, it would usually be considered inappropriate to build a large factory in the middle of a residential area.

Since the early 1970s, state governments have also introduced laws to protect the environment. These place restrictions on both businesses and individuals in relation to what they can release into the atmosphere and waterways. These laws can affect markets because they can increase costs for some businesses. Businesses that may once have simply released waste material into a creek, river or drain now have to dispose of it in an environmentally responsible manner. Smoke and fumes have to be properly filtered before being released into the atmosphere. Motor vehicles have emission controls to limit the levels of harmful chemicals in exhaust fumes.

Governments have introduced laws to prevent businesses from polluting the environment.

Environmental laws have also created new business opportunities, with waste management and recycling businesses providing services for a variety of different customers. As with most government involvement in the economy, where some businesses may appear to be disadvantaged, opportunities are often created for new and different businesses to grow.

**International trade policies**

Governments have the power to regulate what comes into and goes out of the country. Customs and quarantine laws can have an influence on the markets for a number of products. Australia has had a ban on the importation of apples from New Zealand for many years because of fears that these apples carry a disease known as re blight. This regulation obviously has an impact on the market for apples throughout Australia.

Traditionally governments have also attempted to protect goods produced by local industries by imposing special taxes on similar goods imported from other countries. These taxes are known as **tariffs**. The clothing and textile industries were once protected in this way. In the early 1980s there was a 28 per cent tariff on all imported clothing. This made these imported goods more expensive than locally produced clothing, thus encouraging consumers to buy the Australian-manufactured product. Over the next thirty years this tariff was reduced, making imported clothing much cheaper than the local product.

As a result of reduced tariffs, many local clothing manufacturers have been unable to compete with cheaper imported clothing and consequently have had to close. While this has been a negative for the Australian clothing industry, the positive impact for consumers is that clothing is much cheaper as a result of the reduction in tariffs. Since the 1980s Australian governments have also negotiated trade agreements with other countries. We agree to reduce tariffs on imports from those countries, and in return they agree to reduce tariffs on goods they import from us. Although this can make it dif cult for some local manufacturers who have to compete against cheaper imported products, it can be good for our export industries and for consumers paying lower prices.



*FI*A reduction in tariffs has increased the quantity of imported clothing sold in Australia.

**Immigration policies**

As well as controlling the goods that come into and go out of Australia, governments can regulate the movement of people. This particularly applies to immigration into the country. Immigration allows the population to rise faster than would occur through natural increases in the birth rate. Rapid population increases can provide more consumers for businesses to supply with goods and services. Further, new arrivals add to the workforce, providing new employees for expanding businesses.

Governments can also affect the market for particular goods and services through decisions made about who is encouraged to migrate here. If particular skills are required in certain industries and there are not enough people in Australia who have the required qualifications, governments can allow employers to bring in migrants with the necessary skills. This can have an impact on the labour market in that industry. Australia has also become a major provider of tertiary education for our region. Encouraging students to come here from Asian and Pacific Island countries provides additional income for our universities, as these international students pay fees to study here.

*FIGURE*  *9* Australia has also become a major provider of tertiary education for fee-paying students from Asian countries. 