

Australian Islamic College  
Economics Assessment  
TERM 3

-“Government Economic Policies”-



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An interventionist government is one that intervenes to modify a situation with the intent of improving the outcome. While consumers and firms make the most decisions that mould the economy, government policies in Australia have a powerful effect on the economy and are very important. The major economic roles of the Australian government can be categorised as:

- ⊕ To provide public goods and services.
- ⊕ Provide welfare services
- ⊕ To provide Macroeconomic management
- ⊕ Regulation of business enterprises

The converse of the government's role as a tax collector is as a provider of public goods and services. The provision of public goods and services by the economy is financed by the budget sector of the government. The growth of the public sector is very important as it must have sufficient infrastructure such as communication, power, roads, education etc. These can be categorised into three types of goods.

**Private goods-** are provided on a user-pay basis and there is a need for their continuity of supply. Examples of private goods are water, electricity, transport.

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**Merit goods-** Sometimes called impure goods are public goods provided by the government. Consumption of these goods can be made exclusive and charged on a user-pay basis. Examples include: public education, hospital, transport etc.

**Public goods-** provider of public goods has no right of exclusion as they have no rival. Public goods provided by the government are financed by the taxation. Examples include: police force, defence, courts etc.

Provision of Welfare services is also an economic role of the government in our society. It is providing welfare services to those who cannot earn enough money to meet minimum standards or are 'economically' weak. The federal, state and local are responsible for welfare services. Provision of welfare services compromises at least 30% of the annual budget. The inclination towards privatization of government enterprises is somewhat based on the awareness that the private markets allocate resources more efficiently and therefore be of a more direct benefit to those in need.

The regulation of businesses is extremely vital to the economy and is therefore a government role in ensuring that business activity is influenced

through regulations and incentives. The government's participation in private market helps to keep prices down and control monopolies that want to dictate. The main reason for this is because these types of economic activity which require vast start-up costs before a positive level of service can be provided and therefore private firms as the only providers of these g&s could exploit their monopoly power at the expense of their consumers. The government also intervenes and regulates where the production of goods and services may have harmful side-effects on the consumers and others who are not necessarily involved in the production process. Examples include environmental, noise pollution, traffic congestion etc.

Macroeconomic management of the economy is essential especially to new and elected governments as it provides:

- ⊕ Tools for analyzing the performance of the economy as a whole.
  
- ⊕ The knowledge and understanding to invent, devise and put together policies aimed at stabilizing the economy and maximizing human welfare.

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Although international comparisons are difficult to make the Australian economy weighed against other economies that also provide similar and related government economic policies is very weak. In comparison with Sweden the Australian economy seems relatively small and weak in the provision of welfare services and goods & services. This is because Australia has a moderately small government sector on the basis of welfare, employment, production and revenue and therefore needs to work on these areas in order to expand and become competition.



Word Count: 702