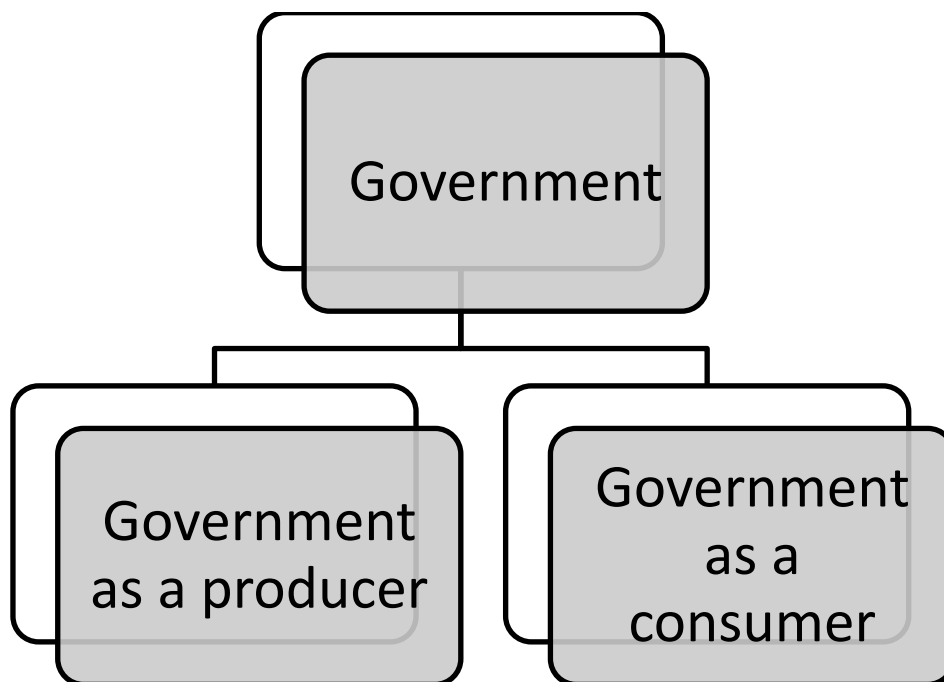


### 3 The role of the Government as a producer and consumer of goods and services:

- South Africa has a mixed market economy (also known as a system of controlled capitalism.)
  - This means that government is involved in certain economic activities when it renders economic services that private businesses (the private sector) are not rendering. When **Government produces** goods and services, it is acting as an entrepreneur.
  - But at the same time, **government is also consuming** certain goods and services rendered by the private sector.



#### 3.1 Government as a Producer:

- The Government acts as an entrepreneur when it produces goods and services that the private sector does not want to render, because there is insufficient profit to be made. Examples include:
  - refuse removal
  - the creation and maintenance of public parks
  - starting a police force or a defence force to protect citizens against possible future threats
  - building courts and jails to create a legal system in the country
  - public libraries
  - public swimming pools
- Sometimes the capital outlay is too large for private entrepreneurs to start these types of “businesses” or the private entrepreneurs feel they have to wait too long before they will be able to generate a profit. Government may start to render these services and then privatise it at a later stage. Privatisation means the private sector (private entrepreneurs) takes charge of

the business and manages it to make a profit). Examples that require a huge capital outlay include:

- the building of roads, railway lines, harbours and airports
- the establishment of a telephone network – landlines and all the cables
- the establishment of an electricity network
- supplying clean water to the citizens of the country
- Sometimes the Government will render certain services to the public at a lower rate than what private entrepreneurs charge for the same service. Think about:
  - Schools
  - Doctors and hospitals
- **Where does Government get the money to render all these services to the citizens of the country?** The answer is:
  - from various types of taxes
    - The government collects income tax from both individuals (taxed on their salaries) and businesses (taxed on their profits).
    - Anybody who buys products and services in South Africa, will be charged VAT (Value Added Tax). Some goods like fruit, vegetables, milk, paraffin, petrol and diesel are zero-rated, which means there is no VAT on these products.
    - Even though there is no VAT on petrol and diesel, there are other government levies that consumers pay on these products.
  - Sometimes government charges the public to use public facilities:
    - Paying to use a public pool or paying a yearly fee to belong to the library
    - Paying school fees in a government school or paying (a small amount) to see a government doctor or go to a government clinic or hospital

### Activity 3

- 1 Find an article in the newspaper, which shows how government has used the revenue gained from tax payers to improve the infrastructure of the country. Provide a brief summary of your article in the space below. Please reference your article correctly.

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2 Explain how government's efforts to provide services and infrastructure are improving the lives of people of the country.

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3 Except for health, police and educational services, what other services does the government of South Africa provide to its people?

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**3.2 Government as a Consumer:**

The South African Government employs a large number of people in the public sector. In order to ensure that each person can do his/her job, Government has to buy certain products and services from the private sector.

