

Impact of uk government on a chosen organisation assignment



There are a few reasons why governments may decide to intervene in the economy. The decisions governments take are called government policies and these may have a positive or negative effect on business operations.

Governments put these policies in place with an overall aim to achieve an increase in income, encourage economic growth, wealth in the country and control aggregate demand. For example, governments may decide to take over manufacturing in order to maximize outputs or put stricter control and rules on protecting the environment. Other policies they can put in place can be to do with lowering unemployment within an economy by reducing benefits to encourage people who are willing and able to work to find jobs or controlling transport systems.

Besides working towards the overall social and economic benefit of the country, there will always be pluses and minuses to government intervention on the economy. One of the main problems of government intervention is that decision-making is centralized. This may mean decisions are solely conducted from an authoritative source without much input from other levels of hierarchy. Maintaining public finance or what economists would call fiscal policies focus on government taxation and spending.

Gillespie (2010) describes fiscal policies as 'changes in government spending, and the taxation and benefit system, to affect aggregate supply and demand in the economy. On the other hand, monetary policies focus more on interest rates and control over the amount of money in the economy' to influence consumer spending and aggregate demand (AD).

During the recession in 2008-9, the UK government used quantitative easing

as part of the monetary policy. (Please see appendix 2) This was to increase the money within the banks for lending with an overall aim to increase aggregate demand.

Governments' perspectives differ in terms of the effectiveness of these two policies but In order to see how these polices affect business operations we can look at Data Steel as an example and the tell industry in which it operates. In order to find a balance, governments may decide to employ elements of both fiscal and monetary policies. Taxation will always affect businesses in one way or another. Taxation is important for governments because it's a large source of income for them. I-J resident companies are subject to corporation tax and this Is where they are taxed on profits.

Changes or increases In corporation tax rates will have an Impact on businesses as they adversely put Finance Act 2003 which meant the basis of taxation rules changed for non-resident companies operating within the I-J. Data Steel's operations are headed in India, but it has operations within the I-J. (Please see appendix 3) Non-resident companies are subject to I-J taxation if they trade through permanent establishment. The government's decision to increase interest rates will raise costs of borrowing for businesses or discourage borrowing completely. Being a private entity, Data Steel relatively relies on borrowing.

Besides corporation tax the government can introduce green taxes where business operations have a negative impact on the external environment. Environmental tax can take effect on operations which emit large mount of carbon for example which cause pollution. These operations generate social

costs which are not directly linked to the production process itself and when these costs are greater this is called negative externalities. (Gillespie A. 2010) On the other hand, operations which benefit society but do not directly generate income for business are positive externalities.

Reasons behind imposing these taxes would be to reduce negative externalities an organization or organizations may have on society or the economy at large. Government subsidies can be used as a fiscal policy tool. These are vital to increase expenditure within the economy. Schwartz and Clement 2002) describes subsidies as ' any government assistance that allows consumers to purchase goods and services at prices lower than those offered by a competitive private sector or raises producers incomes beyond those that would be earned Introit this intervention. This definition stretches subsidies to reflect a broad range of government activities which will assist turning the economy around to produce a better outcome. Depending on which activity the government wishes to support, generally subsidies are largely for the benefit of the wider public for example creating employment or the provision of basic needs for the poor. For large businesses like Data Steel, winning government subsidies may mean proving to the government the benefits to the society (e. G. Job creation). Being a private company, Data Steel may struggle in a failing economy because there is little or no government intervention.

A government's decision to bail out a struggling private company may be based on how much value the company brings to the economy. Because Data Steel employees a large number of employees within the I-J, if it buckles under financial strain, this ay Justify government intervention
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because of several reasons: Loss of Jobs does not benefit the society but increases the overall unemployment rate within the UK. Furthermore, governments may have to draw from their budget to help unemployed citizens during these times and this will have an adverse effect on the overall money supply within an economy.

While governments intervention through subsidies has its positives, governments may decide to cut subsidies as well. In October this year, The Telegraph published a report detailing the I-J coalition governments decision to end green subsidies' in an attempt to bring down energy bills. This month Data Steel announced cutting 900 Jobs in its I-J business mainly due to the high energy costs in the I-J. Karl Koehler (CEO) of Data Steel Europe argues that the UK business pays higher prices for electricity than its European peers which has forced the management to restructure its operations.

This has also given strength to Data Steel's competitors in Germany and France. Another area that the government involves in is 2010). These are determined by the Bank of England Monetary Policy Committee (MAC) which meets every month to review the current I-J and global economy. Any changes in interest rates will affect both demand and supply. Aggregate demand can be influenced by interest rates as consumers save rather than spend. On one hand, as customers focus on saving rather than spending, businesses will suffer because they have on the other hand higher borrowing costs.

When looking to expand its capital investment, Data Steel may also have to consider the level of interest rates – both actual and forecasted percentages.

The main reason behind this is that rising interest rates will mean that it will be costly for Data Steel to borrow. In a struggling economy, the MAC are more likely to lower interest rates to make it cheaper to borrow money. Gillespie argues that low interest rates are actually a reaction to falling income. Between 2009 and 2012, interest rates were relatively low in the UK and have been frozen at 0. % from March 2009. (BBC 2012) These low interest rates were a result of the economic recession experienced by the I-J economy and the rates were an attempt to push aggregate demand. However, this meant that the cost of borrowing was reduced and companies like Data Steel benefited from more capital projects as it became easier to borrow money. An example to illustrate this is the recent investment in two new vacuum arc re-melting (VARY) furnaces at the Stockbreeder Site in Sheffield. This will also help the business to become much more efficient and productive.

The Mac's decision on interest rates has to be in line with the government's current inflation target (currently maintaining an average of 2% consumer price inflation). Inflation may affect businesses in certain ways. One of the main effects of increased inflation for businesses is the rising costs. For Data Steel, example costs will be energy and gas costs. An increase in inflation will put the equines under pressure to increase the prices on its products in order to meet costs and overall profit targets. If costs become greater however, profits will be in danger.

As a privately run company, Data Steel relies heavily on investment.

Struggling profits may deter future investment for the company leaving fewer funds for the company. A price increase in certain steel grades that <https://assignbuster.com/impact-of-uk-government-on-a-chosen-organisation-assignment/>

Data Steel supplies will have a roll-on effect on its competitiveness. Within the steel industry and even within the overall economy, customers are constantly looking for competitive prices. Data Steel will be in danger of losing business to other steel suppliers who are able to offer slightly lower prices than Data Steel.

Data Steel's European operations employ over 50,000 employees and wages are an important factor as it contributes to motivation and overall productivity and efficiency of the workforce. Any increases in inflation will mean employees may demand an increase in their wages. If employees are not satisfied this can lead to trade union intervention and even industrial action. If Data Steel decides to increase wages due to a rise in inflation this may lead to a wage-price spiral. Please see appendix 1) Another part of the monetary policy is exchange rates.

Through government policies, the government may decide to nudge the currency value higher or lower within a period of time. Any changes in interest rates are likely to affect exchange rates as well. The UK economy does not have a fixed exchange rate but works on a floating or fluctuating exchange rate. Changes in exchange rates mostly affect businesses which trade internationally and businesses Steel trades internationally and any exchange rate fluctuations will have an effect on its operations. The blow of a change in exchange rates will be felt more or less depending on the proportion of steel that Data Steel exports.

A strong pound may be an indication that the economy is in a good position financially. In a situation where the pound strengthens, both import and

export companies will be influenced. Data Steel exports largely worldwide and because it's a core product supplied, the steel produced is sold to many other end users for future trade or sale. Exporting Normalized means Data Steel in the I-J needs to keep a heads up on current exchange rates as they may also determine prices and overall competitiveness within the steel industry.

One of the main consequences of a strong pound for Data Steel is how it becomes more expensive for buyers outside the I-J to purchase the material. The steel industry, in which Data Steel operates in, is a highly competitive market and sales volumes are likely to decline in a situation like this, as consumers may look for cheaper suppliers elsewhere to supply the steel. In a situation where the pound depreciates import costs will go down making it much cheaper to import. Imported raw materials for example will be much cheaper to import and this will have a roll on effect to production.

Once production costs reduce, the business will be in a better financial position in terms of cash flow and profitability. Falling value of the pound on the foreign currency markets can give I-J businesses a competitive edge if prices are maintained in pounds. This is because prices will be lower in foreign currencies. In a situation like this, Data Steel would have to be in a position to expect and satisfy demand from other countries because of the low prices. Demand will in effect boost sales and sales will affect overall profit margins for Data Steel.

However, fluctuating exchange rates make it relatively difficult for a business to plan and can cause businesses to act abruptly in order to adjust or reduce

the impact of an over or under valued exchange rate. During exchange rate change periods, Data Steel may find its self in a considerably better position because of its operations in several markets abroad. Negative changes in one currency may be balanced out by positive currency changes in another market. Governments decide to manage economies in different ways.

Another way used to by governments - including the UK government to manage economies is quantitative easing.

This is a monetary policy that a government may use to improve supply of money and/or reduce borrowing costs in an economic crisis. This policy can also be used to counter possible deflation. London Business School LBS (2009) Quantitative easing (CEQ) is usually used as a last resort when other monetary policies e. G cuts in interest rates have been attempted. In 2008, the Monetary Policy Committee of the bank of England took a decision to implement CEQ when Gross Domestic Product (GAP) fell 1. 6% and the economy suffered a recession. This meant purchasing assets, mainly UK government bonds. Manley J. (2010) describes it as a way of ' creating money electronically. While the major reasons for implementing monetary policy are to increase the supply of money and to increase aggregate demand, the LBS (2009) argues that the ultimate government aim behind CEQ is to prevent inflation dropping below the current 2% target. However, it is vital to have an understanding of the effects of CEQ on the economy and businesses during an economic crisis. By improving the money supply, will ultimately increase demand. Quantitative easing can be used as a way of lowering interest rates.

Though this may be largely directed to the housing market ND mortgage

lending, it is worth pointing out the effects it has on other industries as well
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like the steel industry. As mentioned earlier, Data Steel would be in a position to invest in its operations internally – a short term strategy for a long term gain. It will help the company stabilize through an economic tide but it will also ultimately boost the company when the economy booms again. Some economists believe that the best way to benefit a struggling economy and increase demand is by decisions taken by a government to stimulate spending and change tax rates.

This is called the Keynesian approach – a school of thought that claims that government intervention is the best way to mitigate an economic recession. This theory is named after John Maynard Keynes. However, whichever policy they may decide to implement, they are not necessarily guaranteed its success within that period of economic turmoil. Both fiscal and monetary policies may need to be implemented to control aggregate demand within an economy.