

Governments use
fiscal policy to help
them achieve their
macroeconomic
objective...

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Explain what is meant by this statement and discuss specific fiscal measures that the UK government has implemented in recent years to influence economic activity in the built environment. Definitions: FISCAL POLICY: “ A combination of government spending and taxation used to achieve macroeconomic management.

(The flow of government money in and out of the treasury. ” (Danny Myers, 2006, pgs 75&126) MACROECONOMIC OBJECTIVES: “ Targets relating to the whole economy, such as employment, price, stability and the balance of payments. ” (Danny Myers, 2006, pg128) The Governments Macroeconomic (nations economy) objectives: 1. Low inflation/stable prices 2. Sustained economic growth 3. Low unemployment 4. Balance of payments between imports and exports (keeping money within the country as well as spending abroad 5.

Environmental protection 6. Redistribution of income and wealth to poor RECENT YEARS: The fiscal measures looked at in this essay will be taken from 1990 onwards. ECONOMIC ACTIVITY: “ The production and distribution of goods and services at all levels. ” (Wall Street Words, David L. Scott. 2003) THE BUILT ENVIRONMENT: “ The built environment is made up of various types of property (residential, commercial, industrial etc); linked by infrastructure (sewers, canals, roads, tunnels etc) and separated by spaces in between (parks, woods, playing fields, landscaped areas, squares etc)”. (Danny Myers, 2006, pg6) AGGREGATE DEMAND: “ All planned expenditures for the entire economy summed together.

” (Danny Myers, 2006, pg123) •By influencing Government taxation and expenditure, aggregate demand can be stimulated to achieve Macroeconomic objectives such as; price stability, full employment and economic growth. •It is the total demand for goods and services in an economy.??? EXPANSIONARY FISCAL POLICY: •Increase in government spending and/or a decrease in taxes that causes the government’s budget deficit to increase or budget surplus to decrease. This is a method used in a recession to stimulate the economy by providing each household with more disposable income, which can be used for consumption expenditures, which then stimulates aggregate production. It also decreases unemployment, which leads to further increases in income. CONTRATIONARY FISCAL POLICY: •Decrease in government spending and/or an increase in taxes that causes the government’s budget deficit to decrease or its budget surplus to increase. •Decreases the amount of disposable income per household meaning the output and national income is less.

EXPLANATION OF STATEMENT: ‘ Governments use fiscal policy to help them to achieve their macroeconomic objectives’ Fiscal policy deals with the governments spending and taxation. There are two types of fiscal policy, Expansionary and Contrationary. When the government needs to stimulate the economy by increasing public spending then they will decrease taxes so that each household has more disposable income to be spent on consumer goods. In turn this puts more money back into the economy, creating more jobs and encouraging economic growth. An increase in aggregate demand leads to a higher inflation as there is more money being spent on limited goods and services, which pushes the prices up. To counteract this the

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government decreases taxation and spending, so that consumer households have less disposable income to spend on goods and services, this decreases aggregate demand and brings inflation back down with it. To achieve a balance of stable prices the government must mediate between the two.

SPECIFIC FISCAL MEASURES: STAMP DUTY HOLIDAY: The Stamp Duty holiday was introduced in September 2008 whereby properties worth between ? 125, 000 and ? 175, 000 were to be temporarily exempt from stamp duty. The stamp duty on this particular property bracket was 1% of the sale price, therefore saving a potential ? 1, 750. The intention of the holiday was to boost demand in the property market by encouraging first time buyers to take advantage of the saving and buy a house. More money is then borrowed as people take advantage of this, which has the effect of boosting the mortgage market as well. According to the Council of Mortgage Lenders (CML), 132, 500 house purchase mortgage transactions have benefited from the holiday; this is the equivalent of 25% of the overall 486, 400 house purchase loans in the period. Buyers have saved 173 million from the holiday rather than the 600 million the government forecasted. The success is questionable as the incentive was supposedly directed at lower income areas to the North, the Midlands, Wales and Scotland where as, the majority of the benefits have gone to the richer areas in the SE.

As this area in particular was hit by the recession the least and where the housing market is the strongest, the governmental loss of the taxation seems to have been wasted. The holiday ended on the 31st December 2009. Although there has been a brief stimulation in the current housing market

the number of transactions is still at an all time low. The figures may fall further now that stamp duty has been reinstated, meaning that the government may have to explore other options. AGGREGATES LEVY “ The Aggregates levy is a tax on sand, gravel and rock that is dug from the ground or dredged from the sea in UK waters. The tax addresses the environmental damage caused by these business activities in the form of noise, dust and loss of biodiversity. ” (www.

businesslink.gov.uk, Environmental tax obligations and breaks (online), (07.01.2010). The Levy was introduced on the 1st April 2002 setting out to address the macroeconomic objective of environmental protection while trying to retain sustainable economic growth. The idea is that the tax should make the cost of the aggregates better reflect the cost to the environment and should therefore influence business decisions to become more eco-friendly and efficient.

In terms of the Built Environment this encourages sustainable development, “ The creation and responsible management of a healthy built environment based on resources efficient and ecological principals” (Charles. Kibert, 1994). This definition incorporates six principals, (Miyatake, 1996)

- Minimisation of resource consumption
- Maximisation of resource reuse
- Use renewable and recyclable resources
- Protection of the natural environment
- Creation of a healthy and non-toxic environment
- The pursuit of quality in creating the built environment

There is an argument that taxes such as this will damage international Competitiveness. The common object of development is to keep the cost as low as possible, to have a minimal

construction period and to have the best quality possible. With increased taxation on these materials investors may become more cautious due to the rising cost, which is to be kept as low as possible, therefore there is a possibility of the UK losing international business. This is just part of the problem between economic growth and environmental protection as both have the potential to hinder the other. However some of the tax revenue accumulated will go towards a sustainability fund.

This will be spent through various agencies to promote new innovative ways to protect the environment and provide good quality construction at the same time. The Aggregate levy is a further development of the original ' Landfill Tax of 1996. ' This was set to influence the management of waste by encouraging a movement away from the cost of disposing waste in a landfill to a cheaper and more productive way of reusing waste materials. Both have helped to make businesses greener which agrees with the macroeconomic objective of Environmental protection. THE THAMES GATEWAY

REGENERATION PROJECTThe Thames gateway regeneration project includes an area stretching 40 miles East of inner East London, both sides of the Thames and the Estuary. The area has been targeted for urban regeneration by both government and developers. There are an estimated 1.

6 million people living in this area, which has been deemed one of the most depraved in the UK. This is because of the lack of access to public transport, services, employment and affordable quality housing. The government wishes to gentrify this brownfield site to make the most of the economic potential of the gateway, and to encourage new investment and job

opportunities. The Government Delivery Plan, 29th November 2007, Yvette Cooper) The project is co-ordinated by The Department For Communities and Local Government who continue to invest 3bn every year alongside the regional development agencies, the London Development agency, the East England Development agency and the SE England Development agency. (Thames Gateway Annual Report 2008/09). The Gateway project was drawn up in 1995 with the government hoping to achieve 225, 000 new jobs and 200, 000 new houses by 2016. In this area there is emphases on developing town centres, public spaces and infrastructure to attract new investment to expand the economy.

The Government hopes for this project to lead the way in terms of environmental jobs, new technologies and environmental improvements to existing homes and buildings. The Government is insuring this by providing funds for an eco-risk assessment of the housing programmes, energy savings methods for green housing and a zero construction waste target across the gateway. This project seems to have a lot of potential, however the timing of the recession limits the productivity and investment that it needs. The shortage of mortgages makes it difficult to sell the new housing at the arranged rices, which in turn can reduce investor confidence when companies are to buy up the land for housing developments. CONCLUSION From this essay it is clear that to some extent fiscal policies can be used to help achieve macroeconomic objectives. From the examples shown, a combination of taxation and government expenditure has been directed at particular areas in the built environment to attain certain results. The construction industry makes up a large proportion of the UK economy and <https://assignbuster.com/governements-use-fiscal-policy-to-help-them-achieve-their-macroeconomic-objectives/>

the government seems to be very focused on the issue of sustainable economic growth and environmental protection.

The policies such as the ' Aggregates levy' and ' landfill tax' are addressing the objective of Environmental protection by playing a large part in the way buildings are constructed or demolished. By promoting the use of recycling of materials and reuse, the future of development will change for the better. This is seen in the Thames gateway regeneration project where they are leading the way for the future of construction by using eco friendly and sustainable methods. At the same time they are creating a huge investment opportunity, which will lead to the continued sustained growth of our economy. There will be an improved standard of living for the people who once lived in a depraved area by increasing the once lower levels of employment. From the Stamp Duty we can see that the government was trying to use this tax break to boost the property sector of the UK economy in a time of decline. However I do not believe that this has necessarily achieved its goal.

The housing market may well fall again and the aim of helping people of lower income to get on the property ladder has not had its desired effect as the benefits did not go to the poorer areas in mind.