Principles of Business Grade 11

**SECTION 9: ROLE OF GOVERNMENT IN AN ECONOMY** March 2020

**Objective 1:** outline the responsibilities of government in an economy;

Government is the group of people with the authority to govern the country, which they do through formulating and administering laws and policies.

* **Security of the State:** The country must be protected from outside/foreign forces by the army, coast guard etc. Assistance can also be received from other nations where a country lacks the ability to protect itself.
* **Protection and General Welfare of Citizens:** It is the duty of any government to create and amend laws which would be beneficial and protect the innocent of the society. Laws must also be enforced through the courts as well as the police force. There should also be the provision of social services to safeguard the welfare of the citizens. These include:
* Education
* Health services
* Utilities
* Proper road network
* Telecommunication
* **Job Security and Severance benefits to workers:** Governments can help to make sure that the jobs of many of their citizens are protected by having legislation through which government workers can be appointed to the government/civil service. Government can also enact labour laws to ensure that workers in both the private and public sectors are not treated unfairly or dismissed without just causes. Throughout the Caribbean, workers and employers are required to pay national insurance. This is to make sure that in the event of sickness, injury or severance, worker would still receive some payment as long as the necessary contributions were made.
* **Protection of the Environment:** This can be carried out by the following measures:
* **Legislation/acts of parliament** which would make certain acts such as dumping and other offensive practices illegal. There would be fines or other sanctions attached to discourage the various forms of pollution. These laws can also indicate where industries are to be located.
* **The zoning of certain areas** which would become national parks or reserves. This may be done to protect certain species of plants or animals which may be considered endangered.
* **Various seminars, lectures and workshops** **and other awareness material** can be offered in schools and communities, especially among the young people, showing them that what they do today will impact negatively on those to come.
* **There can be regular impact studies and statements of the land, air and sea.** This will assist in keeping track of the conditions of the environment.
* **Maintenance of a Safe Environment for Investors:** Persons/organisations wishing to make investments into a country must feel that their capital will be safe. They should not be made to feel that there is political unrest which will destabilize the economy. If there is growth, then investor will get a return on their capital. The level of crime must also be controlled.
* **Regulation of business activity in terms of providing clear guidelines as how to set up businesses**: Government provide information about being sole trader and how to register. They explain the implications of being in a partnership and how to register. It also outline the reporting and management responsibilities of forming a limited company. The government also advise entrepreneurs on the rules and responsibilities of the owners, depending on what the business does, such as : license or permit (play music, selling food and to trade on the street), insurance requirements, selling goods online, importing and exporting and storing or using personal information. The government also gives information on how to run a business from home, rented premises and legal requirements when employing others.

**Objective 2**. Describe how government can influence businesses to protect the environment;

* ***Green Technology***refers to technology used in the production process that is considered environmentally friendly. These technology are less harmful to the environment than traditional methods. Terms such as clean tech, green tech, ecofriendly and others are used to identify processes that reduce the harmful effects of human activity on the environment (our carbon footprint). Examples of green technology include: wind energy – wind turbines and wind farms, ocean (tidal) energy-using seat movement, hydropower-use of fast flowing rivers and dams, biomass-fuel developed from organic mass, solar power-creating energy from sun rays and municipal solid waste (rubbish, trash, garbage)-recycling items we throw away, such as product packaging, garden refuse, clothing, newspaper, glass and plastic etc. Government can tackle green issue by passing laws such as influence a reduction in use of plastic bottles, raising tax on diesel fuels and taxing building material that are not biodegradable.
* ***Reforestation***Trees provide an important ecosystem that supports the climate. Deforestation destroys this resource but the wood is important for building and manufacturing of furniture. Government are encouraging the planting of trees to replenish the world stock of trees. They encourages the use of material alternative to wood, such as reclaimed wood, fibreboard and the use of bamboo.
* ***Proper disposal of waste***where waste material are not recyclable they contribute to global warming. Government can easily enforce waste collection procedures that require residents and businesses to sort their waste into categories that support recycling: ‘green’ rubbish (for conversion into compost), food waste (bio-fertilizers and electricity generation), glass for melting down and reuse, metal for similar recycling. Quite apart from imposing taxes and legislation to discourage indiscriminate waste disposal, government can encourage the recycling of waste.
* ***Zoning Laws***regulate the physical development of land and the kind of uses to which individual property can be put. In other words, they state what is and is not permitted to take place in identified areas. Typically, the government will identify what activities land can or cannot be used for, in consultation with the public and other interested and knowledgeable groups. For example, government try to identify areas that can be used specifically for residential dwelling, places where industrial or commercial activity can be sited and parts that should be reserved for recreation and leisure.
* ***Appropriate use of technology in production and disposal of wastes***Governments can introduce policies, legislation and regulations that encourage or even force businesses to act responsibly towards environment issues.

***Objective 3****:* state the purposes of taxation;

The main purpose of taxation is to raise revenue for government expenditures. There are other purposes of taxation:

* To curb inflation by reducing the supply of money in the economy- inflation occurs when the price of a set of goods and services has become more expensive over a period, example a year. More currency is needed to purchase the same amounts of goods or services. If the prices continues to go up eventually certain section of the population cannot afford it. Therefore Government can attempt to curb inflation by taxation. This taxation has the effect of reducing the amount of money available for spending. In turn it helps to decrease demand for goods and services and helps to reduce prices.
* To remove competition from local goods in order to protect infant or fledgling industries by taxing imports at high rates – Local industries (new ones) need a period of adjustment before they become established and so to help them during this time, the government may increase taxes on similar goods which are made outside of the country. In this kind of situation the locally made goods are cheaper than the imported ones.
* To lower employment by encouraging persons to buy local produce thus encouraging linkages among sectors- Whenever too many imported goods compete with those locally it can create higher unemployment locally. This increased unemployment becomes a burden on the welfare system. This is why governments launch campaigns from time to time that aim to encourage people to buy local products.
* to achieve greater equality in the distribution of wealth and income by taxing the higher income earners so as to provide social services for the majority of citizens. A system of direct taxation may be used whereby the more money you earn, the more taxes you pay. The rich pays a higher percentage in tax than the poor. This method is aimed at allowing individuals to pay what each can afford.

**Objective 4**: distinguish between direct and indirect taxes;

(a) **Direct taxes** refer to those taxes where the burden of the taxes and the payments of them fall on the same individual. This type of tax is usually applied to income and capital and is paid by individuals. Examples of direct taxes:

* Income tax – both a direct and progressive tax (*The higher the tax payer’s income, the higher the absolute amount of tax paid as well as the proportion of income*), and it is the most important and large source of revenue for most government. It is a tax on personal earned income. Wage earners are allowed a certain amount in tax-free allowances and the rest of their income is taxed. (Paye-Pay as you earn)
* Corporation tax. - levied on the profit of companies. Companies are allowed to deduct certain expenditures as tax free allowance from their gross profit. The remaining net profit is liable for tax.
* Capital gains tax. – Capital gains are the profit obtained from the sale of capital items (business enterprises, property, land, machines and so on). A percentage of the profits from these sales has to be paid to the government as capital gains tax.
* Capital transfer tax- (inheritance tax) is a tax on gifts or gratuitous transfer of personal wealth from one person to another, whether they take the form of money or property during the donor’s lifetime or after their death.

(b) **Indirect taxes** refer to those taxes where the burden and payment of the taxes fall on different individuals. This type of taxes is levied on goods and services and is usually paid by the manufacturers or importers.

Examples of indirect taxes:

* Custom duty- taxes that are levied on imports.
* Excise duty- taxes that are levied on home-produced goods. Along with custom duties it is charged in addition to purchase tax or GCT on goods such as motor vehicles, alcohol and tobacco.
* Purchase tax- applied to a wide range of consumer goods, and the tax rate varies depending on the type of goods in question. The tax is paid by the original seller (manufacturer) and passed on to the consumer in the form of higher price.
* Stamp duty- payable on certain monetary instruments such as cheques, commercial documents and contracts.
* *Consumption tax such as*

*=> GCT (General consumption Tax)* - This is a variation of the purchase tax that has been adopted by some Caribbean countries. A percentage (currently 16.5%) is levied on many items and services. Such a tax has the effect of raising prices and bringing in revenue for the government.

=> *SCT (Special Consumption Tax)* this is imposed on the importation or manufacture of certain goods, including some petroleum products, ethanol, alcoholic drinks, tobacco and motor vehicles.

*=> VAT (Value Added Tax)* is applied to a wide variety of goods and services. It is a tax applied at each period of sale along the production and supply chain. The agreed percentage of the value of the goods or service is added at each of these points. The government collects taxes at each point of this multi-layer tax. There is no cost to the producer or those along the chain. The final consumer bears the brunt of the tax.

**Objective 5**: describe the forms of assistance offered by government to businesses; and,

Forms of government assistance includes:

(a) Lending capital and technical assistance- Government sometimes provide long term loans at preferential lower interest rates to businesses for specific technical developments. Tax free loans are also given at times to manufacturers involved in export trade, to help them to buy imported machinery.

(b) Training and human resource development- Government will plan to improve the skills of the country’s workers, particularly with regards to the use of computer technologies. Technical and professional training is promoted, for example in management and in IT developments such as CAD/CAM (computer aided design and computer aided manufacture). These technical assistance are free of cost or at an inexpensive cost to the business, e.g. agriculture, where extension officers are available to farms for free advice all year round.

(c) Research and information centres- Various departments in government put on seminars and workshops and target the appropriate businesses. They also encourage the development of joint ventures such as small business associations, which offer courses.

(d) Subsidies and grants- Government will often provide support for businesses in the form of grants and subsidies. Grants are sums of money that do not have to be repaid but are identified to be used for specific purposes. Subsidies are direct contributions such as tax breaks and other special cash assistance that governments provide to offset operating costs over a relatively long period of time. The favourable low cost (soft) loans to manufacturers and farmers are often made through institutions such as the Industrial Development Corporation.

**Objective 6**: *discuss the social services provided by government.*

**Social Services Provided by Government**

**1. Educational Facilities**

This includes pre-school, primary, secondary and tertiary institutions, training boards etc. This encourages the improvement of skills as well as entrepreneurship. As the population becomes more informed and literate, the overall effect will be an increase in employment and eventually an increase of revenue for government.

**2. Health Facilities**

Hospitals, polyclinics, homes for the elderly (geriatric homes). As health care improves in a country, it will positively affect the country in the following ways:

* Healthier citizens
* Longer life
* Reduction in diseases
* Reduction in death rate

As people live longer, there will be areas in the country which will be impacted upon such as the availability of jobs, housing, national insurance and overall growth of the population.

**3. National Insurance**

Most countries have legislation regarding a national insurance scheme which includes:

* Unemployment benefits
* Death benefit
* Maternity leave and benefit
* Disability benefit etc.

The aim of the national insurance scheme is to act as source of income in the event of certain adverse activities e.g. death, injury etc. It also provides security for the elderly upon retirement.

**4. Infrastructure**

This includes the provision of roads, running water, electricity, telecommunications etc. This improves the standard of living of citizens and encourages investment from business, which in turn will stimulate economic growth. There will also be greater access to goods and services.

Reference

* Whitcomb, Alan. Essential Principles of Business for CSEC: 4th Edition (Kindle Locations 7989-7990). Hodder Education. Kindle Edition.