



Political Opportunities and Threats

Government Approaches

- Government policies (like taxation rates and interest rates) can provide business with threats or opportunities
- Two main approaches: **Laissez-Faire** or **Interventionist Approach**

Laissez-Faire	Interventionist
Free Market approach with very little intervention	Managing the economy through legislation and policies to oversee business behavior
Stimulates healthy competition and efficiency	Used by most countries in the world
More likely to attract foreign direct investment	Can be broadly categorized as fiscal and monetary policy

Common Tax Vocabulary

Income Tax: A levy on personal incomes from wages, salaries, rent, interest and dividends. Key source of tax revenue for most governments.

Corporate Tax: A levy on profits. Small businesses tend to be charged a lower tax rate on their profits than large multinational companies.

Sales Taxes: Tax on an individuals expenditure, such as Value Added Tax and the Goods and Services Tax (Used in USA and other parts of the world).

Capital Gains Tax: A tax on the surplus made from investments such as shares and property.

Common Tax Vocabulary Continued

Inheritance Tax: A tax on the value of assets (such as cash or property) passed onto a third party following the death of the owner in assets.

Excise Duties: Levies on the demerit goods such as alcohol, tobacco, petrol, and gambling.

Customs Duties: Taxes on foreign imports, which help to raise government revenue and give domestic businesses a relative price advantage.

Stamp Duty: A tax paid when commercial or residential property is bought. It tends to be progressive, so the higher the property value, the greater the tax rate tends to be.

Policy Definitions

Fiscal policy: The use of taxation and government expenditure policies to influence business activity

Deflationary fiscal policy: this is a policy used when the economy has high rates of economic growth and inflation. To reduce this, the government raises taxes and reduces government expenditure.

Expansionary fiscal policy: this policy is used to increase business activity, especially during a recession. This is done through tax cuts and increased public spending.

Monetary policy: the use of interest rate policy to affect the money supply and exchange rates in order to influence business activity

Deregulation: removal of government rules and regulations, that constrain businesses, to increase business activity in a particular industry

Interest Rates

- The **interest rate** is the price of money based on the cost of borrowing money and the return for saving money in a bank account
- If the economy is **growing too fast**- The government will raise interest rates to combat this (can be a threat to business)
- High interest rates combat the effects of inflation
- If the economy is slow or **not experiencing growth**- The government will lower interest rates to make borrowing more attractive
- Low interest rates means more spending, borrowing and more overall competition

Common Mistakes

“Students often comment that higher interest rates create incentives for people to save more money. In reality, most governments only tend to change interest rates by 0.25% at a time; hardly an incentive to spend less in order to save more.

Some people might save more (probably those without mortgages, credits cards bills and loans), but this is highly unlikely for households and businesses with outstanding loans.

Thus, higher interest rates have a much larger impact on reducing the spending ability of households and firms”

Real World Examples

Opportunity:

Technology, energy, gas, financial services, and manufacturing companies are exempt from taxes and gain more profit than the average business. Netflix for example pays no federal tax, increasing profit and opportunities for expansion.

Threat:

The company JUUL has recently been subjected to a political threat. The government has been threatening to ban the sale of flavored vape products in the US and other countries. This is a huge problem for JUUL as their company is based around selling these products.

Political Corruption and its Real Life Effects on Businesses

Political corruption is a major ongoing threat to all businesses, Transparency International, a non governmental organization, tracks political corruption per country in percentage values, and claims political corruption makes it difficult for nations to address poverty and for businesses to be competitive on an international scale. 4 of the top 5 economies in the world (Usa, China, Japan, Germany, The UK) have low corruption levels and are considered good places to live & do business. The outlier, China, also is very competitive internationally, but outside of large cities poverty is high, and government is very restrictive in all aspects, making it undesirable to do business within the country