EAT OUT TO HELP OUT

What was the scheme?

'Eat Out to Help Out' was a UK government initiative launched in August 2020 to encourage people to dine out at restaurants, cafes, and pubs to stimulate the economy after the initial Covid-19 lockdown.

FEATURES OF THE INITIATIVE

- Diners received a 50% discount on food and non-alcoholic drinks, up to a maximum of £10 per person.
- It was available on Mondays, Tuesdays, and Wednesday throughout August 2020 and could be used as many times as desired each day.
- Restaurants, cafes, and pubs could choose to participate in the scheme, and the government reimbursed them for the discounts offered.

AIMS OF THE POLICY

- The scheme aimed to protect jobs in the hospitality sector by generating more revenue for firms.
- Increase consumer spending to encourage returns to pre-recession levels of consumption.
- Stimulate Aggregate Demand to weaken the recession and try to grow the UK economy.

PROS

- The scheme cost £840m and covered 160 million meals during the month which served as a significant financial boost to firms that had been severely impacted by the pandemic.
- The discount incentivised people to dine out, leading to increased consumer spending and economic activity.
- By encouraging people to visit restaurants, the scheme helped protect jobs within the hospitality sector, which employs a large number of people.

CONS

- Some studies and analyses suggested that the scheme contributed to a rise in Covid-19 cases, with some studies suggesting the scheme contributed to an increase in cases as significant as 20%. Increased social interaction following the easing of lock down restrictions was linked to higher transmission rates.
- While the scheme provided a temporary boost, its effects were short-lived. Once the initiative ended, many businesses experienced a decline in customers again, especially with the resurgence of Covid-19 cases and subsequent restrictions.
- The scheme was expensive and given subsequent restrictions and increased strain on the NHS from Covid cases, the cost-effectiveness of the initiative can be questioned.

ESTONIA'S FLAT RATE TAX SYSTEM

Estonia takes a unique and straightforward approach to taxation. A flat rate of 20% is applied to all taxpayers regardless of their income level. This differs from most countries which have a progressive taxation system, whereby the tax burden increases as incomes rise. Estonia has opted for a simple proportional system where the tax burden remains the same proportion of income regardless of changes to income.

KEY FEATURES

Single tax rate
Estonia applies a uniform tax rate of 20% on both personal and corporate income.

Personal income tax
Individuals are taxed at the same rate on their income, regardless of how much they earn.

Corporate income tax
Businesses face the same taxes as individuals. However, Estonia has a unique approach where reinvested and retained profits are not taxed at all. The tax is only applied when profits are distributed as dividends.

Simple administration
The flat tax system simplifies tax administration and compliance, reducing the time burden for both taxpayers and the government.

Social tax
In addition to the flat income tax, Estonia implements a social tax which is used to fund social security and healthcare. This is mostly paid by employers and amounts to 33% of the employee's salary.

WHAT IMPLICATIONS DOES THIS TAX REGIME HAVE?

Economic growth
The simplicity and predictability of the flat tax system are believed to help stimulate economic growth by making the tax environment more business-friendly and attractive to foreign investors.

Revenue stability
The system provides stable revenue for the government, as the tax base is broad and compliance is relatively high due to the simplicity of the system.

Incentives
The flat tax is designed to encourage investment and entrepreneurship by reducing the tax burden on reinvested profits.

However
Critics argue that a flat tax system is not as equitable as progressive taxation systems. This makes it harder for the government to redistribute to promote equality. Supporters would say that the flat tax is the fairest system as everyone pays the same rate.

EUROPEAN ECONOMIC RECOVERY PLAN (EERP)

The European Economic Recovery Plan (EERP) was launched in response to the Global Financial Crisis. Its primary goal was to address the economic downturn and stimulate growth and job creation within the European Union.

OBJECTIVES

Boost demand and confidence
The recovery plan aimed to boost aggregate demand through coordinated fiscal stimulus across EU member states and to restore consumer confidence

Protecting jobs and supporting vulnerable groups
Measures were taken to protect employment and provide support to those most affected by the crisis.

Promote sustainable growth
It was important for the plan to stimulate sustainable growth and ensure the long term recovery following the impact of the Global Financial Crisis.

KEY FEATURES

Fiscal stimulus
The plan involved a coordinated stimulus of about 1.5% of the EU's GDP, equivalent to around €200bn. This involved funds from the European Central Bank as well as individual responses from member states.

Financial sector support
Measures were implemented to stabilise the financial sector. This included capital injections and guarantees to restore lending and financial stability

Targeted investments
Significant investments were made in infrastructure projects, particularly those related to energy, transport, and broadband networks. This aimed to increase the sustainability of the growth and ensure the investments were productive in the long run

Employment and social policies
- The EERP supported employment via methods such as subsidising short-time working and retraining programs.
- Social safety nets were also strengthened to protect the most vulnerable in the economy.

Regulatory reforms
- Structural reforms were made in a bid to improve the regulatory environment for businesses, and to enhance market competition.
- Efforts were made to deepen the single market and improve cross-border economic integration to try and stimulate balanced growth across the EU.

SUCCESS OR FAILURE?

The EERP was implemented in combination with many national initiatives in individual countries.

The plan's effectiveness was therefore varied among member states due to differences in economic conditions and the individual capacity to implement measures.

While the plan helped to stabilise the European economy and did prevent a deeper recession, the recovery observed was uneven and so may not have been successful for all.

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INCOME TAX SYSTEMS AROUND THE WORLD

Income tax rates vary significantly around the world, reflecting differences in economic ideology, social systems, and public service funding.

United Kingdom

- 0% tax rate on all income up to £12,570. This is known as the **Personal Allowance.**
- **Basic rate** of 20% on all income between £12,571 to £50,270.
- **Higher rate** of 40% on all income between £50,271 to £125,140.
- **Additional rate** of 45% on all income over £125,140

HIGH TAX COUNTRIES

Sweden

- Tax rate reaches as high as 57.2% from income tax to both local and national governments.
- They have a progressive taxation system with high rates to fund extensive social welfare programs including healthcare, education, and pensions.

Denmark

- Income taxes rise to a top rate of 55.9%.
- Also uses a progressive tax system which is used to finance public services.

MODERATE TAX COUNTRIES

Canada

- Top rate of income tax reaches 33%.
- Progressive tax system where tax is collected at federal and provincial level and revenues are used to support public healthcare and welfare programs.

United States

- Income taxes rise to 37% on very high levels of income.
- Progressive federal tax system, with states imposing varied additional taxes with revenues helping to fund public services

LOW TAX COUNTRIES

United Arab Emirates

- Income tax rate of 0%.
- No tax placed on income since the government generates large sums of revenue from exports such as oil.

Hong Kong

- Highest rate of tax levied on income is 17%.
- This low taxation system is designed to encourage business and investment. The government aims to provide basic social services with its tax revenue.

Key differences

Progressive taxation systems enable governments to address inequality to a greater extent than with a flat tax rate. This is because they can redistribute the income of the highest earners to welfare programmes for low earners.

Some countries, particularly in the Middle East, use low or no income tax to attract businesses and skilled workers. This often means that the governments have alternative sources of revenue such as exports or tariffs.

LOW CORPORATION TAX ECONOMIES

Low corporation tax economies are countries or jurisdictions that offer significantly lower corporation tax rates compared to global averages. These economies use low tax rates as a strategic tool to attract foreign investment.

WHY WOULD THEY DO THIS?

Attract Foreign Direct Investment (FDI):

By lowering the tax burden on corporations, these countries are able to make themselves more attractive destinations for multinational companies to establish regional headquarters.

Economic growth

Increased FDI can help create jobs, transfer technology, and develop infrastructure in the domestic economy, helping to boost overall growth.

Diversifying the economy

Low corporate taxes can incentivise a variety of businesses to operate in a given country. This helps to diversify the local economy and reduce reliance on any single sector.

Enhancing global competitiveness

By having lower tax rates than other competing countries, these economies can position themselves as global business hubs, increasing their influence in international trade.

EXAMPLES OF LOW CORPORATION TAX ECONOMIES

Ireland: Ireland is well-known for its low corporation tax rate of 12.5%, recently rising to 15% for larger firms. This has attracted many tech giants like Google and Apple, significantly boosting the economy.

Singapore: Singapore offers a corporation tax rate of 17%, along with numerous incentives for startups and international firms. This has helped to establish Singapore as a key business hub in Asia.

UAE: The UAE offers tax free zones with 0% corporate tax rates for most businesses, attracting a wide range of businesses from various industries.

OBJECTIONS TO LOW CORPORATION TAX ECONOMIES

Tax evasion and avoidance

These economies are often criticised for enabling tax evasion and avoidance. Multinational companies have been known to exploit these low rates to shift profits from higher-tax regions, helping to reduce their overall tax burden.

Revenue loss for other countries

When profits are shifted to lower tax regions, other countries lose out on significant tax revenue, affecting their ability to pay for public services.

Pressure from international bodies

Organisations like the EU have been pushing for measures to counteract aggressive tax planning and ensure fair taxation, which could have implications for the sustainability of low corporation tax nations.

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PRESIDNET MILEI'S CNTRACTIONARY FISCAL POLICY

President Javier Milei of Argentina has advocated for a strongly contractionary fiscal policy as part of his wider economic program. Contractionary fiscal policy involves reducing government spending with the aim of reducing budget deficits and controlling inflation.

MILEI'S OBJECTIVES

Reduce inflation

Argentina has struggled with high inflation for many years. Milei is aiming to reduce inflationary pressure in the economy by cutting down on government spending and improving the budget deficit.

Stabilise public finances

By cutting expenditures, Milei is aiming to reduce levels of government debt and bring public finances under control.

Encourage private sector growth

Milei is trying to reduce the government's role in the economy with the hope of making the private sector more dynamic and productive, leading to sustainable economic growth.

KEY FEATURES OF THE FISCAL REGIME

Reducing government spending

- Milei has cut various subsidies, especially in energy and transport, to reduce the fiscal burden.
- Proposals have also been made to reduce the number of public employees and cut their salaries.

Tax reforms

- By eliminating exemptions and loopholes in the tax collection regime, the government can increase revenue without raising taxes. Milei is therefore attempting to enhance the efficiency of tax collection to reduce levels of tax evasion.

Deregulation

- Milei is hoping to simplify business regulations to attract investment and stimulate economic activity.
- Additionally, he is privatising inefficient state-owned companies to improve efficiency.

Potential challenges:

- In the short run, contractionary fiscal policy can slow economic growth due to the fall in government spending.
- Cutting subsidies and reducing public sector jobs can face resistance from the public and so there is potential for a loss of public support.
- Austerity in the form of reductions to social spending and subsidies may adversely affect lower income groups which can worsen inequality.

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TAX HAVENS

Tax havens are countries or territories that offer individuals and businesses favourable tax conditions compared to their domestic countries. These countries attract foreign investors by providing financial advantages in the form of low or zero tax rates.

KEY FEATURES

Low or zero taxes
The most prominent feature is the low tax rates on income, profit, or capital gains.

Lack of transparency
Many tax havens offer strong confidentiality laws, which help protect the privacy of individuals and businesses.

Minimal reporting requirements
Tax havens often have minimal requirements for financial reporting and disclosure, making it easier for individuals and companies to avoid scrutiny.

Ease of business administration
These countries usually have simple and quick processes for establishing businesses, with low administrative costs and quick registration processes.

CONSEQUENCES OF TAX HAVENS

Tax avoidance and evasion
Using tax havens can be legal, however, it often borders on illegal tax evasion depending on how individuals and corporations exploit these countries, sometimes through complex financial arrangements.

Loss of revenue for high-tax countries
Tax havens can result in significant losses of revenue for countries with higher tax rates, as individuals and businesses relocate their profits away from their domestic country and to a low-tax jurisdiction.

Inequality
The use of tax havens can worsen inequality as wealthy individuals and corporations benefit disproportionately from tax avoidance strategies, while ordinary taxpayers bear a heavier burden.

Regulatory challenges
Tax havens pose challenges to global financial regulation and enforcement. The high levels of secrecy can facilitate money laundering, corruption, and other illicit activities.

Impact on developing countries
Developing countries are often disproportionately affected by a loss in tax revenue as they require it to a greater extent for infrastructure, education, and healthcare investment.

EXAMPLES OF TAX HAVENS

Cayman Islands: Offers zero direct taxes, making it a popular destination for hedge funds and multinational corporations.

Bermuda: Has no tax on profits, capital gains tax, or VAT, making it attractive for insurance companies.

Luxembourg: Attracts businesses with favourable tax rulings and financial services.

ARROW OF ABENOMICS

The 'Three Arrows' of Abenomics refer to the economic policies implemented by Shinzo Abe, the former Prime Minister of Japan. They were aimed at revitalising the Japanese economy after decades of stagnation. The fiscal policy component of Abenomics, often referred to as the second arrow, played a crucial role in the overall strategy.

THE FISCAL POLICY ARROW

Increased government spending

- The government set itself targets for increased spending on infrastructure, aiming to build and upgrade roads, bridges, and other public works.

Stimulus packages

- The Japanese government introduced several stimulus packages aimed at various sectors, including small and medium-sized enterprise (SMEs), technology and innovation sectors, and regional development efforts.
- Financial aid was also provided to households and businesses in a bid to increase consumption and investment. This included direct cash transfers and subsidies.

Tax policy adjustments

- To encourage investment and consumption, the government implemented tax cuts and provided various incentives for businesses and individuals, for example, cuts to corporation tax to encourage more investment from companies in Japan.
- Despite the focus on spending, the government did raise sales tax from 5% to 8%, and later to 10%. This was aimed at increasing government revenue to manage the national debt.

Social spending

- There was an emphasis on maintaining and even increasing spending on social services, including healthcare, pensions, and support for the elderly, given Japan's ageing population.

WHAT DID THE ARROW AIM TO DO?

Stimulate economic growth by increasing Aggregate Demand in the economy via government spending.

Combat deflation by increasing the consumption and investment levels in the economy.

Support employment by funding public works and infrastructure projects.

Encourage private investment through tax cuts, subsidies, and improved infrastructure intended to lower the costs of spending for businesses.

CHALLENGES AND CRITICISMS

Debt levels: Japan's high national debt posed a significant challenge and critics argued that increased spending without careful management could worsen the problem.

Effectiveness: there were debates about the effectiveness of the stimulus measures, with some arguing that that the benefits of increased spending were not sufficiently realised in the broader economy.

Consumption tax hikes: The timing of the increase in sales tax was controversial, with concerns that it could undermine the stimulus efforts by reducing consumer spending.

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UK FISCAL RULES

Fiscal rules are restrictions imposed on fiscal policy that are set by the government to constrain its own decisions on spending and taxes.

DEBT RULE

Objective: To ensure that public debt is kept at a manageable level.

Current rule: Public sector net debt should fall as a share of national income within 5 years.

DEFICIT RULE

Objective: To control the government's annual borrowing.

Current rule: Public sector borrowing should not exceed 3% of GDP in 5 year's time.

This ensures that the government should not be borrowing to fund day-to-day spending, only for investment purposes.

WELFARE CAP

Objective: To limit spending on certain social security benefits and tax credits.

Current rule: There is a cap on the amount that the government can spend on welfare over a 5 year period.

The Office for Budget Responsibility was created in 2010 to advise and guide the 5 year forecasts and targets of the UK Treasury. The Office evaluates fiscal risks and aim to promote long-term sustainability and responsibility of public finances.

HISTORICAL CONTEXT

1997-2010 New Labour introduced rules ensuring government borrowing would only be used for investment not for current spending. Additionally, the Sustainable Investment Rule aimed to keep public sector net debt below 40% of GDP. This rule had to be adjusted following the Global Financial Crisis.

2010-2015 The Coalition government introduced new rules aimed at achieving a cyclically adjusted budget balance over 5 years and reducing public sector net debt as a share of GDP.

2015-2024 The next Conservative government adjusted fiscal rules several times. Their primary goal was focused on balancing the budget and ensuring public sector net debt was falling as a share of GDP.

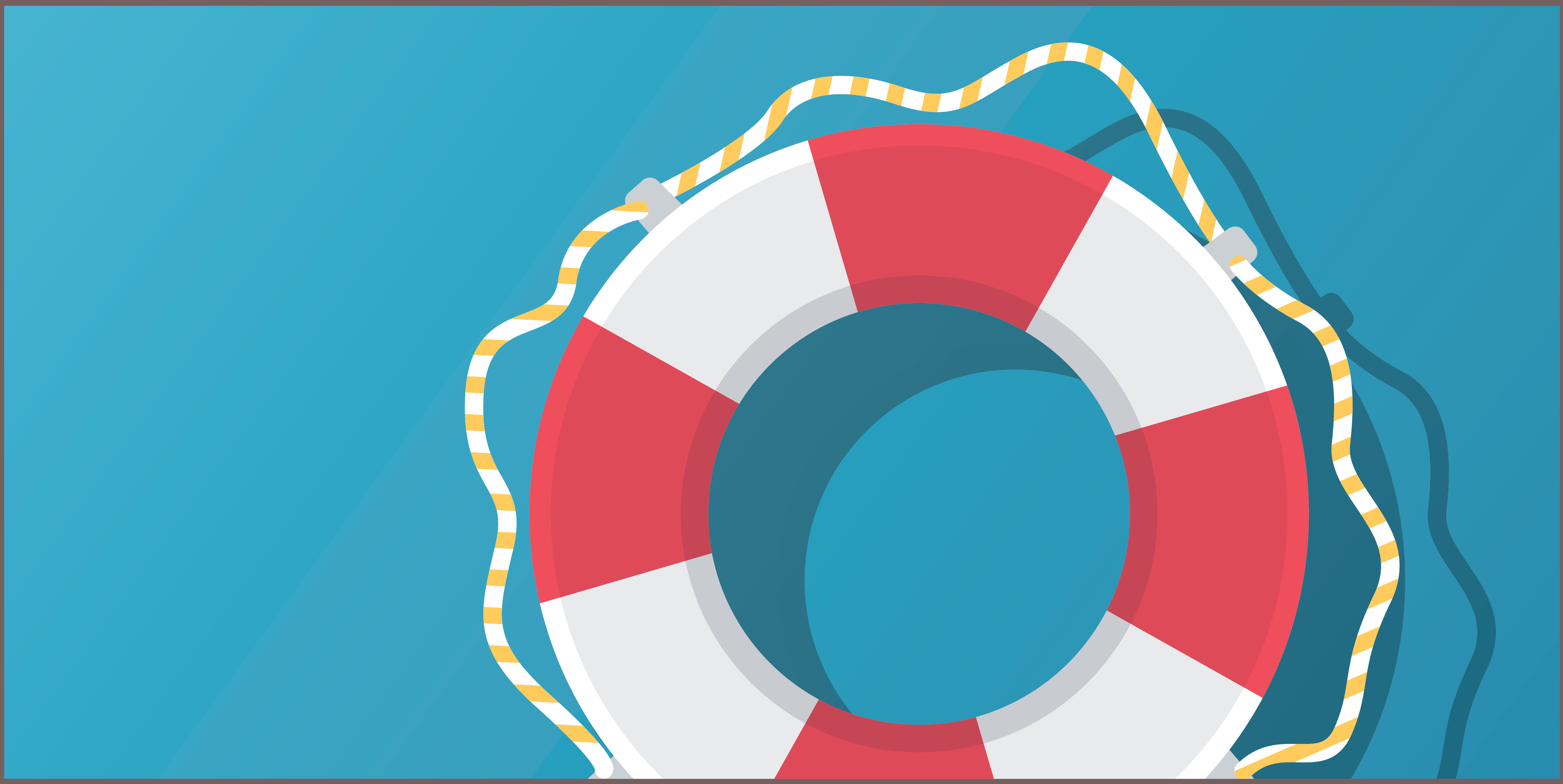
CRITICISMS OF THE RULES

Critics argue that fiscal rules can be too rigid and do not always account for economic cycles. For example, during a recession it can be difficult to reduce a budget deficit.

Governments need to balance flexibility with credibility. Adhering to the rules builds faith in the government program, but this rigidity can prevent effective economy management. However, too much flexibility can undermine confidence in the public finances.

Ensuring that fiscal rules are adhered to can be challenging as often they act as guidelines and aren't strongly enforced.

UK FURLOUGH SCHEME



The Coronavirus Job Retention Scheme, known as the Furlough Scheme, was a government initiative launched in response to the Covid-19 pandemic to support businesses and workers.

Introduced by the-then Chancellor Rishi Sunak, the primary goal of the scheme was to help employers retain their employees during periods when businesses were unable to operate normally due to the pandemic.

HOW IT WORKED

All UK employers with a PAYE payroll scheme were eligible. This included businesses, charities, recruitment agencies, and public authorities.

Employees who were on their employer's payroll could be furloughed, including full time, part-time, agency, and zero-hour contract workers.

The government initially paid 80% of an employee's regular wages, up to a cap of £2,500 per month, plus the associated employer National Insurance contributions. Employers had the option to contribute to the remaining 20%, but this was not mandatory.

IMPACT

- The government claimed 11.6 million jobs were supported by the scheme, with the peak at any one time being an estimated 8.9 million.
- At the start of the pandemic it was feared that more than 10% of workers would become unemployed; however, by the end of the furlough scheme the unemployment rate was below 5%.
- Businesses were able to retain staff and continue operations to a greater extent as a result of the scheme, which helped to ensure production did not fall to the extent initially predicted due to the pandemic.

CRITICISMS

- The scheme was extremely costly, with the government spending an estimated £66bn, a huge sum of money that put a great strain on future government spending.
- There were instances of fraud and misuse of the scheme.

Success or failure?

The Furlough scheme was a significant part of the government's response to the economic challenges posed by the Covid-19 pandemic, providing crucial support to both employers and employees during unprecedented times.

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US - CORONAVIRUS AID, RELIEF & ECONOMICS SECURITY ACT

The US Coronavirus Aid, Relief, and Economic Security (CARES) Act (2020) implemented a range of programmes aimed at resolving issues related to the onset of the Covid-19 pandemic.

KEY PROVISIONS

Direct payments to individuals

- Individuals who submitted a tax return in America could qualify for a direct payment of $1,200, with an additional $500 available per child for eligible families.

Enhanced unemployment benefits

- An additional $600 per week in federal unemployment benefits was made available, on top of state benefits.
- It extended unemployment benefits to self-employed and gig economy workers who were not typically eligible.

Small business support

- In an effort to keep workers employed, the Paycheck Protection Program (PPP) provided small businesses with forgivable loans to cover payroll and other costs.
- The Economic Injury Disaster Loan (EIDL) provided grants and low-interest loans to small businesses affected by the pandemic.

Health Care and Public Health Funding

- Funding was allocated for hospitals, healthcare providers, and public health measures to combat Covid-19.
- This included funding for vaccine research and development, and support for health care infrastructure.

Education and student loans

- The CARES Act provided relief for student loan borrowers, including the suspension of loan payments and interest accrual on federally held loans.
- It also included funding to support educational institutions and ensure continuity of education.

WHY WAS IT NECESSARY?

The Covid-19 pandemic and lockdowns threatened to bring the economy to a halt, affecting workers, businesses and households. This act aimed to prevent any drastic down-turn in economic activity and ensure the economy was in a position to recover after the pandemic.

COST OF THE SCHEME

The Act was a $2.2 trillion economic stimulus. It was the most costly economic stimulus package in American history, equating to 10% of US GDP. The Congressional Budget Office estimated that the bill would add $1.7 trillion to the budget deficits over the 2020-2030 decade.

FISCAL POLICY EXAMPLES

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US - ECONOMIC STIMULUS ACT 2008

The act was implemented by President George W. Bush, and was aimed at avoiding a recession and stimulating the economy during a period of significant financial instability caused by the Global Financial Crisis.

AIMS OF THE US GOVERNMENT

- Stimulate consumption by giving US consumers more disposable income.
- Encourage greater investment by giving firms more funds and increasing the rate of return on expenses.

FOR CONSUMERS

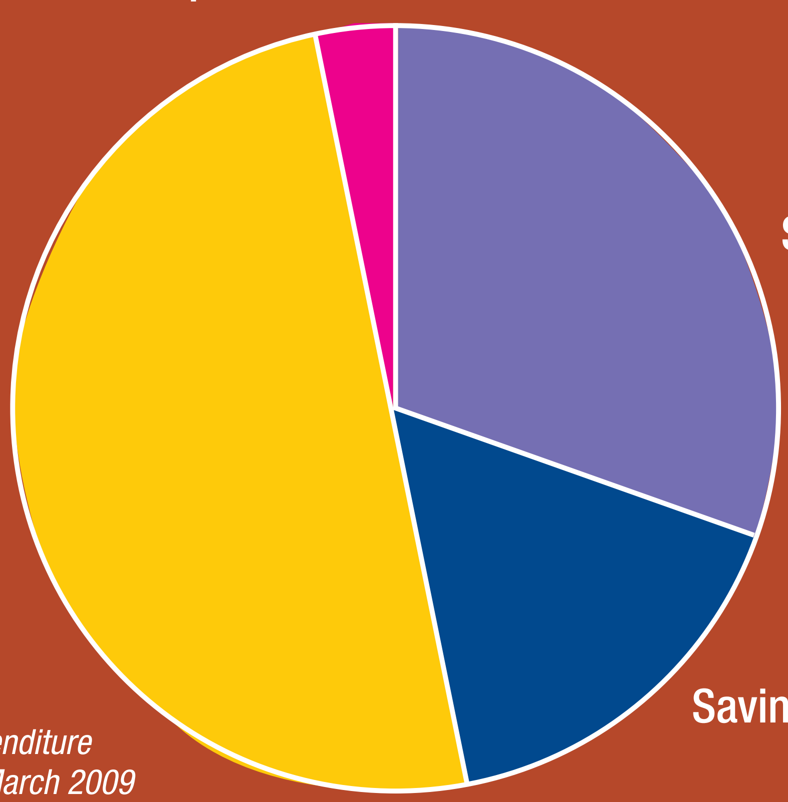
- $600 was made available in tax rebates to most taxpayers, with married couples qualifying for up to $1,200 of refunds.
- An additional $300 was available for each child in eligible households.

This cost the US government nearly $120bn in lost revenue in the fiscal years 2008 and 2009. By 1 July 2008 more than 70 million American households had received tax refunds of $950 on average.

IMPACT OF THE STIMULUS

49% of recipients of the tax rebate reported using the refund primarily to pay off debt, with 30% using it for spending, and 18% saving.

2008 Economic Stimulus Payment (tax rebate) used mostly for



Source:Consumer Expenditure Survey, June 2008 – March 2009

Theories such as the Ricardian equivalence would suggest that households would not spend their tax rebates, instead saving their additional income in order to offset future tax rises.

Researchers believe that the stimulus checks increased spending by 3.5% for the average household which positively contributed to an increase in Aggregate Demand in the US economy.