Introduction

The government have a huge role in developing the Irish economy, but this is a very general statement. In order to successfully assess any government's performance, we need to look in much greater detail at what any government is trying to achieve, the methods that they use in order to try to achieve these aims and the effects on the economy of the policies that the government used in order to achieve these aims.

Economic Aims of the Government

1) **Achieve Full Employment:** Pursue policies which will improve our competitiveness, boost exports and so help create jobs in Ireland.
2) **Achieve moderate Economic Growth:** The government must try to manage current downturn in economic activity and ensure that we return to a position of some economic growth. Appropriate fiscal policy may help towards achieving this.
3) **Control Government Finances:** The government must continue to reduce spending. It must also widen the tax base so as to increase taxation revenues. These measures will help reduce borrowing and help reduce the national debt.
4) **Stability in the Banking Sector:** The state guarantee on depositors saving, the nationalisation of Anglo Irish Bank and the establishment of NAMA are all aimed at restoring confidence to the banking sector, restore credit availability, generate confidence in domestic and international investors and so encourage investment.
5) **Broaden the Tax Base:** Many believe that we relied too much on the property boom for taxation revenues. The government must now plan to introduce new taxes, eliminate tax evasion; bring more workers into the income tax net and so generate a greater flow of tax revenues.
6) **Promote Balanced Regional Development:** The National Development Plan aims to do this. The government must develop broadband, ensure the continuity of regional airports, develop/ promote educational opportunities in the regions so as to stimulate economic activity and encourage economic growth.
7) **Improve Infrastructure:** The continued development of the road infrastructure, provision of improved public transport, continued

development of the airports and seaports etc. is essential to ensure that our standard of living is maintained.

8) **Maintain State Services:** Even though taxation revenues are declining the government must ensure that our health services are maintained and made more efficient, that schools are built and staffed and that practices are developed to ensure the long term viability of these essential services e.g. possibility of charges; changed entry requirements for the provision of 'free' services.

9) **Distribution of Wealth:** The government must continue to ensure that social welfare recipient's standard of living is maintained, that it provides adequately for future pensions and helps to redistribute income within the state, given the current constraints on government current spending.

We will now examine each of these individually

Full Employment

Full Employment: is the situation where jobs are available for all those willing to work at existing wage levels. Roughly 96% of the Labour Force

Full Employment ≠ Zero Unemployment

Positive Consequences of Full Employment in the Irish Economy

1) **Increased Standard of Living:** As people attain jobs with wages higher than their previous unemployment benefit, their real wages rise. This allows them to increase the quantity and quality of goods and services that they purchase.

2) **Increased Aggregate Demand:** As more and more people find work the general level of Aggregate Demand increases. This increase in Aggregate Demand causes economic growth in the economy.

3) **Increased Investment:** As the expectations of business people, regarding the future profit making potential within the Irish economy increases, greater amounts will be invested, causing even more economic growth.

4) **Increased Government Tax Revenue:** As incomes rise, the government collects more income tax revenues (Direct Tax). Also as incomes rise, people spend more and the government collects more VAT (Indirect Tax).

5) **Reduced Government Social Welfare Bill:** As more and more people find work and come off social benefits, the government has to spend less money providing benefits for its citizens.

Negative Consequences of Full Employment in the Irish Economy

1) **Labour Shortage:** As the demand for Labour increases beyond the available amount of Labour, employers may not be able to easily increase production as a result of the shortage.
2) **Wage Rate:** If the Labour shortage problem persists, employers may be forced to pay workers an increased wage which makes their products less competitive on foreign markets as costs have increased.
3) **Inflation:** As a result of the Labour shortage and the increase in the average wage rate, costs of the firm will rise which they pass on to the consumer in the form of higher prices
4) **Imports:** As a result of inflation, foreign imports become more competitive causing the Marginal Propensity to Import to increase.
5) **Deterioration of Services:** As the demand for Labour remains high, firms in low paying industries may find it hard to attract workers, forcing them to employ workers with low skills who may not be able to maintain a certain standard of service.

Even though there are problems associated with Full Employment, all governments would be far happier dealing with those problems rather than the problems that we are currently facing.

Why Do Governments try to achieve Full Employment

Unemployment is a waste of scarce economic resources (labour). These resources could be used to generate wealth and as such increase the standard of living of society instead of lying idle. Also the social cost of unemployment is very high such as depression, crime and the consumption of drugs. The government must use scarce resources to combat this, which could be used in other areas, which again costs society.

The Effect of Unemployment on Government Economic Indicators

1) **Government Current Revenue:** Unemployment reduces Government Current Revenue as the government receives less money fro taxation (both direct and indirect taxes) and they have to spend greater amounts on provision of social welfare.
2) **Balance of Payments:** Lower Incomes reduce imports leading Ireland closer to a Balance of Payments Surplus. However, as unemployment causes lower Aggregate Demand, domestic Exporting firms may close down, reducing Irelands exports leading closer to a Balance of Payments Deficit.
3) **Inflation:** Reduced spending will cause inflation to fall.

Economic Growth

Economic Growth: An increase in GNP per head, without any changes in the structure of society.

Economic Development: An increase in GNP per person in a country, accompanied by a change in the structure of society.

Effects of Economic Growth

Positive Effects

1) **Increased Employment:** Economic growth will lead to increased demand with more labour being demanded to produce this.
2) **Improved Government Finances:** With a rise in spending – indirect tax revenue rises; more people at work will result in an increase in direct tax revenue; expenditure on social welfare should fall.
3) **Effects on Balance of Payments:** If the increase in the rate of economic growth is export led then the balance of payments position improves.
4) **Improved Standard of Living:** Economic growth will result in increased wealth in the economy allowing us to buy more goods and services / a reduction in poverty / better state services.
5) **Effects on Migration:** If jobs opportunities exist then people who had planned to emigrate may stay here and more immigrants may be attracted to the economy.
6) **Investment Opportunities:** Economic growth indicates a growing economy and this may attract additional investment.

Negative Effects

1) **Use of Scarce Resources:** Economic growth results in an increased demand for scarce resources e.g. oil. The increased demand may involve damage to the environment.
2) **Increased Demand for Imports:** Economic growth increases incomes and spending power and demand for imports may rise, worsening the balance of payments position.
3) **Revised Expectations by Citizens:** With economic growth citizens may alter their expectations of government and expect more services from the state e.g. revised taxes; growth in incomes; wage demands etc.
4) **Uneven Distribution of Wealth:** If the increase in wealth is not fairly distributed then the gap between rich and poor may widen.
5) **Inflationary Pressures:** With a rise in the level of economic activity the level of demand- pull inflation will rise.

Explain the Economic Effects of current Irish Emigration

Positive Effects

1) **Experience:** Many emigrants gain experience which would benefit the Irish economy if they were to return
2) **Favourable Disposition:** Irish emigrants my be favourably disposed to Ireland and would be willing contacts for Irish exporters anxious to find markets abroad.

Negative Effects

1) **Loss of Factors of Production:** There is a loss of young people who, once they have emigrated, cannot produce goods and services in the Irish economy.
2) **Loss of Return:** There is a loss of return to the Irish economy from all the money that they have spent on educating people that leave.
3) **Smaller Market:** With increased emigration, the size of the market declines leaving less consumers in the Irish economy. Irish firms may find it difficult to expand as a result.
4) **Dependency Ratio's:** There is an increase in the dependency ratios as the number of young, working age people leave for other countries.

A Recession: A period where real incomes are falling and unemployment is rising

A Depression: A severe or prolonged recession

Control Government Finances

Having studied the multiplier, we should know that increased government spending can stimulate economic growth (cause more and more goods to be produced), increase employment and as such increase the standard of living, at least in the short run. Keynes advised that governments should spend their way out of a recession but should not raise this money through taxation. The only options that governments would then have would be to borrow the money and increase its National Debt. Currently (5th March 2012), the Irish Government Debt stands at €120.792Bn. In 2011, Irelands Debt/GDP ratio was 96.2%. This means that everyone in the country would have to give everything that was made in 2011 to foreigners in order to pay off that debt.

National Debt: This is the total amount of government borrowing which is outstanding

Describe the economic consequences of the increase in National Debt in recent years

Positive

1) **Improved Public Services:** If the increased debt is caused by an increase in current borrowing the government may continue to spend on public services resulting in a continuation of these services.
2) **Increased Spending on Infrastructure:** If the increased debt is caused by an increase in capital borrowing then there may be greater spending on the state's infrastructure which may assist the future growth of the economy.
3) **Future Economic Growth:** Increased National Debt may boost aggregate demand and may provide opportunities for further economic growth.
4) **Employment:** Rising aggregate demand should lead to increased demand for labour resulting in lower unemployment.
5) **Self-Liquidating Debt:** If the return on the borrowings is able to meet the cost of repayments then the borrowing has been self-liquidating.

Negative

1) **Opportunity Costs Involved:** With more funds being used to meet our annual interest repayments the government has less funds available for other purposes.
2) **Increased Burden on Taxpayers:** The increase will mean that the government will have to consider increasing future taxes on future taxpayers.
3) **Increased Annual Interest Repayments:** An increasing national debt means that the annual cost of repaying our national debt is rising.
4) **Diminished International Credit-Rating:** The fact that Ireland is seen to have an increasing national debt may mean that our credit-rating worsens.
5) **Outside Euro Stability Pact Requirements:** Ireland has difficulty in meeting the conditions of the stability pact and hence corrective action will need to be taken in economic policy matters.
6) **Poor Government Management of Economy:** Citizens may become aware of the government's poor management of the economy and this may diminish citizen's confidence in the government.
7) **Risk in Provision of Public Services:** Due to an increase in the national debt the government may cut back spending on public services, resulting in a deterioration in provision of services e.g. the health service

Stability in the Banking Sector

Ireland was heavily exposed to the financial crisis that occurred in 2008.

Possible Conflicts between Government Economic Aims

1) Control of national finances v. full employment.
2) Control of national finances v. Economic growth.
3) Distribution of wealth v. broadening the tax base.
4) Stability in banking sector v. control of government finances.
5) Balanced regional development v maintaining state services.
6) Full employment v. price stability.