THE INSTITUTE OF EDUCATION

Economics

ARTHUR RUSSELL

6TH YEAR

HIGHER LEVEL

2020-21

Government Intervention in the Market

Government Intervention in the Market

Types of Economic Systems –

1 Free Market – The market decides what is to be produced, how it is to be produced and who receives the output of the economy.

2 Planned or Command Economy – The government decides ....

3 Mixed Economy – Both the market and the government decide......

Ireland is a Mixed Economy – What are the Government's Aims and Objectives –

1 Full Employment – This is where employment is available for all those who are prepared to work at existing wage levels.

2 Control of Government Finances – Run a budget deficit during a recession and the money that was borrowed should be repaid during boom times by running a budget surplus.

3 Achieve Sustainable Economic Growth – Aim for a 3% growth rate which would improve the standard of living of the population without damaging the environment.

4 Control Price Inflation/Deflation – Aim for an inflation rate of 2% and avoid deflation which encourages consumers to postpone consumption.

5 Improve the Infrastructure –

6 Promote Balanced Regional Development –

7 Reduce inequalities in wealth –

8 Maintain State Services –

How Do Governments intervene in the economy?

1 By Collecting Taxes –
Direct Tax – e.g. PAYE, Corporation Tax, DIRT

Indirect Tax – e.g. VAT, Excise Duties etc.

Income tax is used to reduce inequalities in society with the government taxing high income earners and redistributing this money to the poorer sections of society through free education and health and social welfare.

2 By paying Social Welfare –
Child benefit is an example of this and is referred to as a transfer payment which is a payment to someone who does not supply a factor of production in return.

3 Through establishing State Companies –
An example of this is Bus Eireann which runs bus services at a loss to remote areas of the country. This is to ensure that all of the country has a bus service and not just the populated cities.

4 By providing a grant or a subsidy –
A subsidy is a payment made by the government to a firm, the purpose being to reduce the price for the consumer and to increase the quantity consumed and produced e.g. bus and train services, museums, childcare.

5 Through operating government departments directly-
Public provision can be direct through the Departments of Health and Education.

6 By the Imposition of Laws and Consumer Protection –
Through the enactment of various pieces of legislation the government imposes rights and responsibilities on producers, consumers, employers, employees etc. For example there are planning laws preventing a toxic, polluting factory establishing in this country. There are also laws which state that the consumer must be informed of ingredients in various food products. As well as that producers of white goods such as washing machines must inform the consumer of whether the product is energy efficient or not.

7 The Irish government represents us at EU level –
It makes sure that Irish interests are heard loud and clearly such as our desire not to allow corporation tax rates to be harmonised. If this happens Ireland may not be as attractive a destination for FDI. As well as this the government argues strongly against the dismantling of the CAP which would result in a sharp drop in incomes for Irish farmers.

8 By redistributing income from the rich to the poor –
Income inequality has worsened since 1990 and this is due to access to education, luck, inheritances, talent and so on. So a fair society is one that ensures that the poor sections of society have a decent standard of living and this requires income redistribution.
This can be done through providing a minimum wage (in 2020 €10.10 per hour) and a progressive tax system). However the government must be very careful by not having tax too high or this may cause a disincentive to economic activity.

The Advantages of Government Intervention

1 Public goods are provided – such as national security, traffic lights, motorways etc.
2 Education
3 Social Welfare
4 Non – Profit Companies are established – such as Bus Eireann are provided.
5 Attracts FDI
6 Prevents the development of Monopolies – which can lead to exploitation of the consumer.
7 Provides employment.

The Disadvantages of Government Intervention

1 Government Inefficiency and Bureaucracy
2 May reduce risk-taking by potential entrepreneurs
3 Public sector workers are protected and may take strike action more easily.
4 State employees are not incentivised to work harder.

Regulation in the Irish Economy

All of the bodies listed below set standards, enforce these standards and monitor and evaluate standards

1 The Environmental Protection Agency

2 Food Safety Authority of Ireland

3 Road Safety Authority

4 Health and Safety Authority

5 Commission for Communications Regulation (COMReg)

6 Local Authorities

7 Government Departments

The Government Regulates for the following reasons –

1 To protect the consumer from being exploited by producers and retailers

2 To protect the environment from air and water pollution etc.

3 To ensure workplaces are safe for employees

4 To provide public goods such as street lighting etc.

5 If the free market and the price mechanism fails, and resources get allocated inefficiently, with the result that society in general suffers.

6 To eliminate cartels and collusion so that consumers do not end up being exploited.

The Effectiveness of Regulation

1 Regulation has worked in the cases of improvements in the cases of safer working environments, improved road safety, reduction in discrimination, better food standards, gender equality etc.

2 Public confidence in the regulatory system has improved when they see companies failing to meet food standards being fined and closed.

3 Where there is asymmetric information e.g. employers having information that employees don't have placing employers in a stronger bargaining position, regulation helps to redress some of that imbalance.

4 Regulation adds to the costs of doing business for firms which subsequently will be passed on to the consumer in the form of higher prices. It also involves huge costs to the government as all these regulatory bodies must be paid for monitoring the behaviour of firms. This is paid for by the taxpayer.