

# Government intervention in ireland



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There are different types of society in the world and each of them has a different structure and way of ruling the country. But one of the things they have in common is the government intervention in the economy. There are different reasons for the government for doing that.

The first reason for the government intervention in the economy is to provide "essential services". The government establish a civil service whose purpose is to rule the country, a country needs a service to protect and serve the citizens, that's why we have the Gardaí. Public transport is put to the disposition of the citizen to help people who can't afford a car to have the possibility to go wherever they want school, work etc... these services are provided by the government and have to be like that because they are the type of service which private companies are not suited to do.

Another reason is "the development of the economy"; the government have to look after their citizens, in order to do so it has to make sure to produce enough food for the population or import the amount needed when they cannot produce it. The government have the duty to encourage people to start business to contribute to the growth of the economy by applying a system of grants, reducing or offering tax concessions which will help new business to develop. The government can use a taxation system to correct the behaviour of the society. A good example is "the plastic bag levy in 2002". To discourage people using plastic bag the government required people to pay 15c for plastic bag. The result by doing so came quickly as we notice a 90% decrease on the usage of plastic bag.

“ Merit wants” is another reason for government intervention as everybody in the country has the right to have a basic standard of living. They do that by redistributing the wealth, taking from the rich to give to people who have less, the social welfare and the taxation. As education is very important nowadays and is a key in the building of a powerful society the government make education available to everybody. It gives the opportunity to the son of a farmer to have an equally good education as the son of the president of a big company. Other civil institutions such as museums, public parks are freely open to the people.

The fourth reason is “ strategic interest”, if a business sector is very important for the economy of the country the government invest money in that sector to develop it in order to prosper it. In Ireland the main sector are tourism and agriculture. And they are very well developed compare to less important national industries as the textile industry which is not as important as the other two.

## **Example**

The example I have chosen for the government intervention in the economy is “ An post” in in the area of “ provide services that the government believe should not be left to the market forces”.

An Post is the name of the Irish Post Office, which is the state company responsible for the postal, financial and other services all over the state. Before the development in the telecommunications sector which brought internet, telephone people used letters to keep in touch with their family , but not only them the government or merchants everybody was using it as it

was the only way to send something. Since 1837 the post in Ireland has improved his service to respond to the demand of the citizens because the government was there to support it and do what it needed to improve it. Because the post is providing service to the population the government cannot let it to the private sector, because it is bound by the universal service obligation and the private sector are not. Their main goal to achieve is to make profit by any cost. The post provide service to everybody without distinction, the man living next to the post get his mail as the granny who lives at the peak of a mountain. Thing which can be cut by a private company as it cost money to do and the same thing will happen to unprofitable service, leaving only the ones that are profitable. That will not happen with the government as the making of profit is under the provider of service.

## **Discussion**

In my opinion government providing some services instead of private sector is a good thing for the population as it brings happiness to people when we take the example of the post. It's not everybody who can use computer or like to use it to wish or tell something to their relatives, some of them are attached to the usage of post card and letters. Giving that sector to the private is to take the risk to see some of them cut. And it will be difficult to the government to get in touch with those who choose post as telecommunication when they want to see them.

However to provide those services the government has to borrow money or find another way to finance them as they cost lot of money and government companies generally don't make profit. And at the end it is the taxpayer who

has to pay for the government loss. Another thing when they do strike, that affect the economy slow it and make the country losing money. We can take for example the strike of employees of S. N. C. F in France, which is the company of railway transport and every time they go on strike, it causes problem to people who use the transport because of the delay of the trains. Everything in the country is in slow-motion and that a big loss for the government.

## **Privatisation**

### **Theory**

The term privatisation is the noun coming from the verb “privatise”, which mean the transfer of the products of goods or services from the public sector to a private ownership or a non-governmental institution.

Government usually privatise his assets to reducing his borrowing. When a company is run by the government it does not care about making profit or loss because even if it makes loss the government is there to compensate the deficit and pull money on it. The government have to do that as closing a company will cost him more expense in the future.

Another reason is “the spread of ownership in the Irish industry”. Ireland joined the E. U in 1973 and in the E. U law the state cannot hold the ownership of the entire industrial sector. It has to give some to the private companies and let them run them. A country where the state runs all the essentials Industries doesn't have the diversification of products to lead the consumers to have a choice. The consumers can only one choice and we fall into a monopoly system and that's what the E. U didn't want as the

consumers have the right to decide the product they want to buy, which is the fundamental basis of democracy. This brings us to the next reason which is “more competitive pricing policy”. For example Bord Telecom Eireann back in 1984 which is now Eircom was the only telecommunication distribution in Ireland. Because of that B. T. E had all the power over the customers; they decide the price and the consumers were obliged to pay as you need it for personal usage. But now with the opening of the market we have different societies which provide telecommunications services and you can decide the one to use depend on what you want it for.

The fourth reason is the “capital and the search of profit”. A company can raise the capital he needs by a loan from the banks or money from shareholder. When the government is left alone and has to raise the money by borrowing from the central bank which is a very slow process as he has to go through a lot of documentation before getting that money. And also the search of profit, as for a company investing money in a project, their main objective is making profit from that. Because they have to pay the loan to the bank, the purchases he got from the creditors and some dividend for themselves, they are more focused on profit and that increases the entrepreneurial activities and economy efficiency.

## **Example**

I chose the example of the privatisation of Eircom because it was a big affair back at that time and it reflects very well what privatisation is.

The privatisation of Eircom in 1999 happened because of the E. U laws of the opening up market in all E. U countries. So they requested that Ireland

privatise Eircom in order to end his monopoly in the telecommunication market. The privatisation of Eircom was a big success as the government got €8.4 Billion from that and that money was put into a pension fund. But the government didn't sell off Eircom straight away but it was a process of 4 years. First the state was the owner of the company and in 1996 it sold 20% of the share to KNP/Felia for €232 million, 3 years later it sold 14.8% to ESOT. And the remaining shares were floated on the Irish, British and New-York stock exchange market on the 8 July 1999. To make the operation successful the government encouraged people to buy the shares, and people did it. But what they did not know is the price was set too high at €3.90 and it went up again to €4.80 which is 23% increase. And the result was the dramatic fall of the price of the share to return to its valuable price. Many small investors who did not know a lot about the stock market investment lost a lot of money, because they weren't aware of the risks.

## **Discussion**

I think privatisation is not a good solution when it comes to help the government economic situation, and in some sector I think the control of the government will be a better management than a private force.

As we can see with the privatisation of Eircom which at first was successful but when we analyse the after privatisation what we can see is a company struggling and which has a lot of deficit. Since privatisation Eircom has approximately between €3.6-3.75 Billion of debt and in 2011 it has to cut the wages of the employees by 10%, and also they were 2000 people who lost their job. The company has gone from hand to hand since the privatisation but its situation is still the same.

However the positive point of that privatisation was the fall of the phone prices. Because due to the privatisation of Eircom numerous of another companies came in Ireland and now we have competitively in the sector.

## **Public Private Partnership**

### **Theory**

Public Private Partnership or P. P. P is when the private section invests money to build a public infrastructure project. That means instead of using his money for building the project (for example a hospital) the government make a partnership contract with a private company which will use his own capital to build the hospital and will get his money back as specify in the contract they made. PPP help the state to cut his spend on the infrastructures and use the private sector to develop it instead of him.

There are different models of P. P. P:

- The DBFO where the private company design the building, finance, build and operate it when it finishes.
- The DBO in that case the company only design the building, build and operate it but it is the government which finance it
- The DBF here the private company design, build and finance it.
- OF the company only operate and fiancé the building the government do the rest
- Operate only in this last case all is made by the government.



With PPP the private company is responsible for the construction and the maintenance of the building or the thing they were supposed to build. And the service is delivered by the private sector when they finish the construction. As the private sector is taking risk by doing this it gets some reward in return from the partnership. In a PPP the private sector interests are still accountable to the government, as the infrastructure or services belong to the state.

### **Example**

For my example I took “The National Maritime College of Cork” which opened on the 11th of October 2004 without delay in the time specified in the contract and without going over the budget of the start. It was the Minister for Education & Science, the Cork Institute of Technology and the Irish Naval Service who wanted to build the infrastructure. The project was conducted by Bovis Lend Lease and Uberior Infra Investment Ltd 50% part for each. The value of the construction was estimated at €52 million but the total fund of the project was €67 million. The project was invested with the money of shareholders and the money from European banks. The terms of the contract assigned to the private sector the design and the build of the infrastructure to the private sector plus the finance and maintenance of it until 2029. The college provides the education and training for the merchant navy and non-military training of the Naval Services and also training for the Maritime industry. According to Minister Hanafin “one of the main attractions of the PPP process is that it allows the College management and staff to concentrate on their core management and academic duties and not the day to day operation of a building”.