

EC4437 Role of Government

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18225012 | COLM KENNY

Introduction

The COVID-19 pandemic has been on the tips of many people's tongues since the turn of the new decade and has reignited some very important discussions and arguments. The pandemic has already proved to be extremely catastrophic with even greater potential in the years to come. In doing so, we have seen just how important state intervention really is for market-led economies. However, it is crucial for state intervention to be thorough and appropriate as there is plenty of downside to excessive or mismanaged intervention policies. In this essay I will outline my reasoning for agreeing with the statement that state intervention will be an important aspect of market-led economies.

Providing Public Goods

Certain goods or markets can be essential to a population, but unfeasible for the private sector to supply, due to high costs and/or lack of profits. Governments must step up and provide these goods as they are not motivated by profits. Flavin (2009) investigated this idea by looking at US citizens' happiness and their residing states spend on public goods. He concludes that citizens live happier when that state has a higher relative spend on public goods. The provision of public goods has plenty of social and economic advantages to citizens. Public parks give people a common area to socialise and integrate. Reliable broadband coverage makes sure online productivity is not affected by one's geographical location. Public goods and social expenditure have become increasingly important over time (Afonso et al., 2020). Advanced economies are increasing their social expenditure spends. In 1960 the average spent on social expenditure was close to 10% of GDP. This had increased to 16.6% of GDP by 1980.

Currently, governments across the world have been providing COVID vaccines to their populations as it is a necessary step to curb the negative economic impacts of the pandemic (Department of Health, 2021). It is important for governments to look past the costs of public goods and spending, and to factor in the external benefits of the goods in question. Vaccines would be very costly to many households and these costs would push a lot of people away from receiving one.

Redistribution of Wealth and Income

Governments provide social welfare systems to support financially vulnerable households and to promote social equality. Social welfare policy is particularly important in

Europe. The European Economic and Social Committee (2010) explain the importance especially after the global financial crisis, “there is a need more than ever for an ambitious European strategy for the years leading up to 2020 covering four fields: knowledge and innovation, a more sustainable economy, the improvement of employment levels, and social inclusion”. Modern economies promote inclusion and equal opportunity. Social welfare gives those hit hard financially a chance to get back on their feet and gives them the chance to mend their wounds.

The pandemic has seen the introduction of many welfare projects and funding globally. The Irish government introduced what is known as the Pandemic Unemployment Payment to protect the wages of those who lost their jobs due to the COVID-19 pandemic (Department of Social Protection, 2020). The impact of the pandemic varied among different sectors. Hospitality and construction industries were affected very badly. Schemes of this nature are important to reduce inequality among sectors and to prevent some industries from completely collapsing. It is no surprise to see social welfare spending increase since the pandemic. This extraordinary situation has shown how important it is for governments to have the ability to put these policies in place in the short run to prevent long lasting economic consequences.

Protecting Consumers

In a market-led economy there is always a danger of markets becoming predatory and monopolistic. Collusion and predatory pricing are very common in certain industries and can negatively affect consumers and cause spill overs to other sectors. Recently COVID has ignited issues of predatory practices in many industries. The US Attorney’s Office (2020) has highlighted an issue of predatory practices in the US housing market. In a time where many Americans are struggling to pay their rent, some landlords have responded by demanding sexual favours and other unsocial conduct. Although it appears these issues could have been going ongoing for years, it has become increasingly apparent throughout the pandemic. The US Attorneys Office has devoted a lot of resources to protect its citizens and to fight predatory or unlawful practices.

Danger of Government Failure

There will always be the danger of excessive intervention or simply, outright government failure. Although the government may be acting in their best interests at the time, actual results of a policy can vary to what is expected during the decision process. The United

States' prohibition of alcohol in 1920 did not go as planned (Thornton, 1991). The rationale behind the move was to reduce anti-social behaviour and to improve health and hygiene. Although the ban initially reduced consumption, it was lifted in 1933 due to large public opposition. Contrary to the aims of the ban, prohibition gave rise to increased crime, corruption and alcohol becoming more dangerous to consume. Not to mention the absence of large tax revenues from legitimate brewers and distributors. Government intervention is of course beneficial, but the risks of mismanagement are clear. It is important for modern governments to only intervene, when necessary, e.g., an extreme situation like COVID-19 or the global financial crisis.

Conclusion

The COVID-19 pandemic has had serious impacts on every aspect of life. Governments across the world have spent large volumes of capital to keep the economy afloat and to preserve the well-being of their people. This is quite a large task that takes a lot of resources and good decision making most importantly. It takes an extreme situation such as this one to show just how important state intervention is in a market led economy to prevent a complete catastrophe from happening. Furthermore, the margin of error and risks associated with government failure shows how important it is to have the ability to make accurate decisions to avoid making problems worse.

References

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