Examining Sustainable Ways of Rising National Income in the Irish Economy

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Author note

This is a group project and in this project we have to analysis the ways to sustain and growth the national income in the Irish Economy.

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EXECUTIVE SUMMARY

This paper intends to analyse the sustainable ways of rising national income in the economy of Ireland. In this regard, this paper takes into consideration important sectors of the economy of Ireland. It examines the components of national income including investment, exports, government, imports and consumption in order to understand its contribution in the national income of Ireland. This paper also discusses about the international macro environment and its impact on the Irish economy.

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Introduction

A measurement of the income of a country earned by enterprises and individuals and earnings from foreign sources is known as national income (Amarante and Colacce 2018). There are some sustainable ways of increasing national income of a country. This paper takes into account the economy of Ireland in order to find out sustainable ways to increase the national income of the country. The economy of Ireland experienced an economic boom from the middle of 1990 to the middle of 2000. However, it faced economic downturn from 2008 due to the flawed domestic polices along with the international developments. The economy has started its process of recovery at an unprecedented rate since 2014 because of the growth of foreign direct investment. In 2018, the economy expanded to a great extent.

As of 2018, the GDP of the Republic of Ireland was 382.754 billion US dollars (Gov.ie 2021). While, the GDP of the Northern Ireland remained 43 billion Euro as of 2016. In 2018, the GDP per capita in the Republic of Ireland was $ 78,335. Whereas, the GDP per capita in the Northern Ireland remained $ 23,700 as of 2016 (Savage *et al*. 2019). It again underwent a setback in 2020 due to the outbreak and spread of the global pandemic COVID-19. This paper discusses about the important sectors of the Ireland including services and agriculture. It analyses the essential components of the national income such as investment, consumption, government, exports and imports. In this context, it scrutinizes the contribution of the each component to the overall national income of the Ireland. These components also need to investigate in the international context to understand its impact on the economy in the long run. It assesses the role of the international macro environment on the economy of Ireland.

Discussion

History of Recession in Republic of Ireland:

Ireland economic history began in 1922 after the independence from the United Kingdom. The newly born and initially known as “free state” was plagued by poverty and emigration until the 1960s. And the same prolonged in 1970s and 1980s. However, in 1973 Republic of Ireland join the European Union and the benefits of its can be seen from 1990s onward, when the Ireland economy went into Celtic Tiger era. Officially Ireland adopted the Euro currency in January 2002 after the three years of transition period and withdrawal of Irish Pound notes and coins as its legal tender. (See appendices 1)

Overview of components of national income

The calculation of national income (Y) depends on the components such as government expenditure (G), consumption (C), investments (I) and net exports (X), that is exports minus imports (M) (Hyland *et al*. 2020). After adding together all the components the national income can be derived. In the 2nd quarter of 2020, the gross national product of Ireland was 64,840 million Euro, which scaled down to 63,580 million Euro in the 3rd quarter of 2020 (Gov.ie 2021). The global pandemic COVID-19 has brought severe turmoil and uncertainty for the economy of Ireland, which downgraded the national income of the country.

National Income Equation: Y= C+I+G+X- M

Generally when the country is performing well, it produce more goods and services and on average people are richer. If the economy is performing not so well, then it produces less goods and services and on average people are poorer… Economist tend to seek the maximum output from the economy to strengthen its national income.

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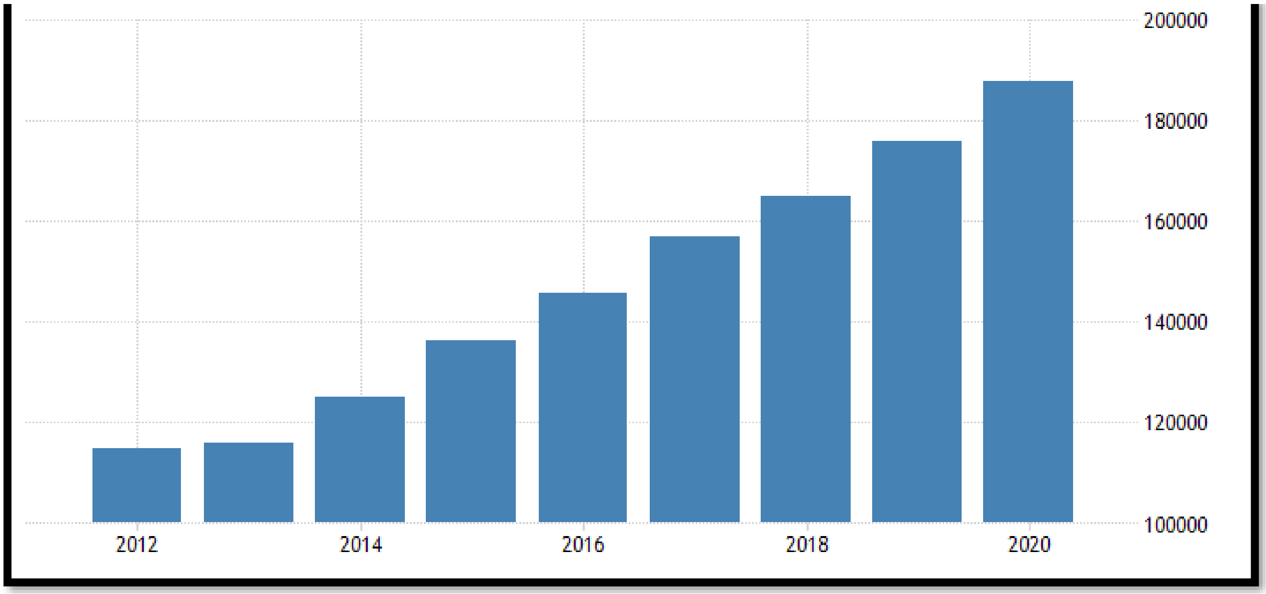

Figure 1: Net national income of Ireland from 2011 to 2021

Source: (Tradingeconomics.com 2021)

Figure 1 represents the net national income of Ireland from 2011 to 2021. As of December 2019, the net national income of the Ireland remained at 187608 million Euro (Tradingeconomics.com 2021). During the period of 2011 to 2021, the net national income was record high in December 2019, while, the net national income of the Ireland was record low in December 2011. Gross National income of Ireland was all time low in 2011 due to the international financial crises of 2007- 2008.

In economics, the purchase of goods and services for use by households is termed as the consumption. Consumption expenditure of a nation depends on several factors such as income, tastes, interest and preferences (Doan and Wan 2017). There is a direct relationship between the consumption and income. It is the largest components of the national income. As of 2nd quarter of 2020, the contribution of the consumer spending to national income of Ireland remained 21307 million Euro, which scaled up to 254846 million Euro in the 3rd quarter of 2020

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(Tradingeconomics.com 2021). Another important component is government expenditure that helps to determine the changes in the level of national income to a new equilibrium of economic growth or to a desired national output. Government expenditure offers the appropriate needs for potential output. Thus, it helps in sustaining the welfare of the economy. The effect of government spending on national income can be illustrated with the assistance of the circular flow of income and the subsequent multiplier effect.

In the 2nd quarter of 2020, the contribution of government spending to the national income of Ireland stood at 9524 million Euro, which increased to 9537 million Euro in the 3rd quarter of 2020 (Gov.ie 2021). An expenditure either by a business sector for the creation of new capital assets such as building and machinery undertaken in a particular time period is called as investment expenditure. Net export is a vital component of national income where exports are recognized as the contribution to economy and national income and imports are recognized as an exit from the economy. Therefore, the contribution of the exports and imports to the national income of a country cannot be denied. There exists positive direct and indirect impacts of the exports on the economy. On the other hand, there exists negative direct effect of the imports on the national economy. As of December 2020, the exports from Ireland surged to 11.76 billion Euro (Gov.ie 2021). On the other hand, the imports to Ireland plunged to 8.18 billion Euro in December 2020. The country will witness a higher growth due to the increase in consumer expenditure. Higher consumer expenditure will stimulate the economic activities. Furthermore, the increase in government expenditure will also drive the welfare of the economy (Hamilton and Webster 2018). As a result, it will ensure higher growth rate. The rise in export and fall in import will stabilize the balance of trade in Ireland, which in turn will impact growth positively. The level of production

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of goods and services in an economy is impacted by the investment expenditure. Thus, it affects the macroeconomic health and growth of the economy.

Difficulties of using GDP as a measure of national income in Ireland

The total economic output obtained by a country over a period of time is referred to as gross domestic product (GDP). In general, GDP is considered as a good indicator of the economic productivity, standard of living and financial well-being of a country. However, it have some limitations, which may create difficulties in using GDP as a measure of national income in Ireland (Feldstein 2017). The problems associated with the GDP as measure of national income include no adjustment for leisure time, black market activities, distribution of goods and pollution costs. Many businesses can induce their output with the help of damaging or polluting the environment. It is necessary for a country to regulate the production of the business in a better way in order to prevent the companies from violating the environmental laws (Lawless and Morgenroth 2017). Another issue linked with the determining national income with the assistance of GDP is non-inclusion of the non-market production.

The goods and services that are produced for private consumption and does not keep any official record of production is known as the non-market production. GDP does not include non-market production. The position of the Ireland remain within the top 10 in terms of GDP per citizen. However, in European terms, the real world wealth is modest for the country. In the context of Ireland, GDP is considered as the defective indicator of welfare. In 2009, the nationalized retail banks were in meltdown in Ireland (Gov.ie 2021). Moreover, the state of Ireland risked insolvency. Thus, it can be stated that the exceptionally open economy of Ireland have some strengths and weakness. Ireland is a prosperous country, although, not as prosperous as thought to be due to the

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inappropriate use of albeit conventional, misleading, statistics. The interpretation of Irish national accounts become difficult due to certain problems.

These problems include changing behaviour of the large IT sector and patent cliff in the pharmaceutical sector. It has become very uncertain to determine the impact of growth in these sectors. True contribution to the Irish economy can be understood in case of focusing on the GNP instead of GDP (Dynan and Sheiner 2018). The growth in imports and exports was the key to understand the behaviour of the economy of Ireland. However, it is difficult to interpret these data due to the implemented definitional changes in the national accounts. The calculation of national accounts will be further complicated due to the inclusion of the aircraft leasing activities on a comprehensive basis. The ongoing large purchases of aircraft by the leasing sector will be incorporated under imports (Ahmad and Schreyer 2016). Hence, it will aggravate the problem of interpreting the data of imports and exports of economy of Ireland. As a result, the policy implications of changes in the current account of the balance of payments will become more obscure due to this problem.

The figure for GNP and the current account of the balance of payments may also be distorted due to the activity of a small number of firms, known as redomicled plcs (Gov.ie 2021). Therefore, the national accounts of the Irish economy is affected by these new developments, which create a lack of simple measure in the economy of Ireland to measure economic progress. On the contrary, GNP is more accurate measure of national income as the profits of the major foreign-owned sector are eliminated. Further, the behaviour of redomiciled plcs especially companies of US that become Irish for the purpose of tax while continuing to be run from the US can also distort the GNP (Ahmad and Schreyer 2016). The globalized economy of Ireland has created problem in using GDP as a measure of national income. In order to solve the problem

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associated with the GDP, the focus should be given on the output side of the accounts to aim to identify the GNP arising in individual sectors of the economy. The interrelation of traditional data has become difficult to interpret because of the process of globalization. Other than the Ireland, the country like Netherlands also faced same problem (Aitken 2019). This kind of complexity has become unavoidable for the Irish economy. The provision of more detailed information along with the more critical analysis of past will be required to complete the national accounting of Irish economy successfully.

Impact of international macro environment on Ireland

The macro environment is referred to as broader business environment as a whole. Therefore, international macro environment is equally important for an economy along with the domestic macro environment (Hamilton and Webster 2018). The changes in domestic macro environment affects the economy of Ireland together with the changes in international macro environment. In a globalized world that brings integration, interdependence and interconnection among the peoples, countries, businesses and governments across the world, it is not possible for a country to operate in isolation. Thus, all the uncontrollable factors with a global impact will affect economy of Ireland. The trends under the international macro environment that affected the economy of Ireland in past and will continue to affect in future includes political trends, socio-cultural trends, economic trends, legal trends, environmental trends and technological trends (Lawless and Morgenroth 2017).

The international macro environment is highly dependent on the political trends. There were several political trends that affected the economy and major industries of Ireland. A recent political development such as exit of Britain from the European Union named as Brexit has also impacted the overall economic and business growth of the Ireland. A recent economic trend that

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impacted the international macro environment is global pandemic COVID-19. As a result, it scaled up the unemployment rate in Ireland along with severe economic downturn in 2020 (Beirne *et al*. 2020). Technological trends led by the advancement in science and technology brought significant changes in the international macro environment combined with the domestic macro environment of the Ireland. The economy of Ireland registered significant growth in service sectors due to the advancement in technology.

The international macro environment can also be impacted by the socio-cultural trends that varies widely. In recent year, there were vital measures taken to control the higher level of carbon emissions from the industries in order to control global warming. This socio-economic trend has affected many industries of the Ireland (Elias *et al*. 2019). In this context, it is essential to mention that the role of the environment trend cannot be denied related to international macro environment. The changes in environment will impact the major industries of Ireland. Another trend that may influence the international macro environment is legal trends. The changes in legal trends creates regulatory pressure on companies and industries operating at international platform. Hence, the legal trends related to international macro environment will create significant influence on the companies and industries of Ireland (Satalkina and Shpak 2018). These changes in the international macro environment also impacted the economy of Ireland and it will continue to impact in the long run. As a result, it will impact the growth and performance of the major industries of Ireland such as agriculture and services sectors. Furthermore, it will also bring changes in the national income measures of Ireland (Kurečić and Kokotović 2016). Hence, it is essential to take into account both domestic macro environment and international macro environment in order to measure national income of Ireland on the basis of either GDP or GNP.

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Impact on employment and other macroeconomic variables

The macroeconomic variables plays a considerable role on the measures of national income such as GDP and GNP. The change in macroeconomic variables such as economic growth rate and unemployment will create significant impact on these measures (Papadopoulos 2016). Thus, the analysis of the unemployment rate and GDP growth rate will prove beneficial in this regard.

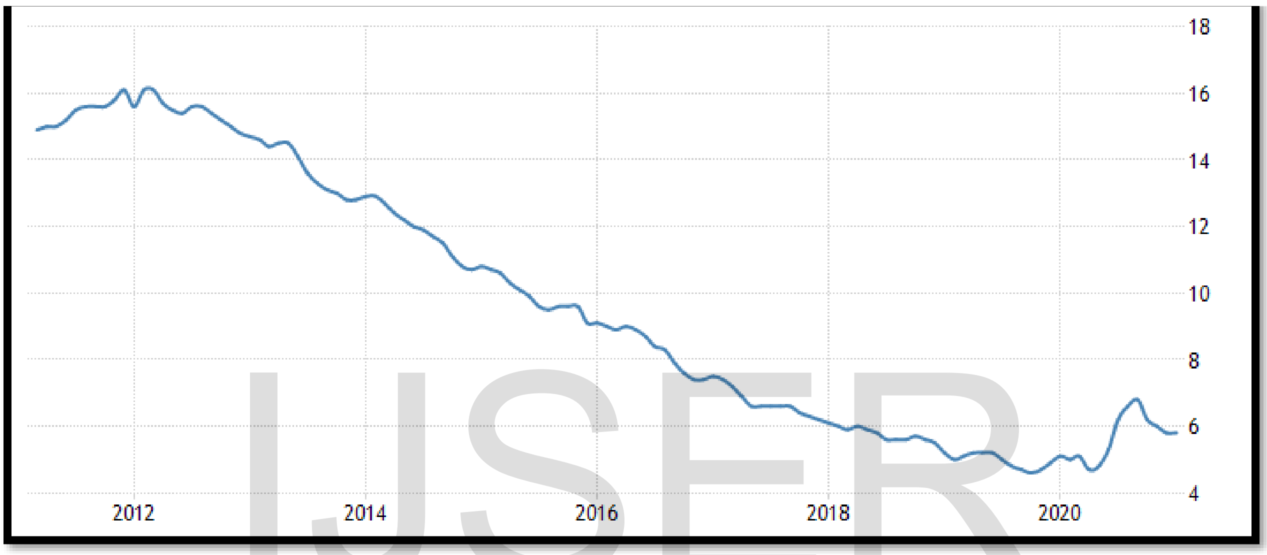

Figure 1: Unemployment rate of Ireland from 2011 to 2021

Source: (Tradingeconomics.com 2021)

Figure 1 represents the unemployment rate of the Ireland from 2011 to 2021. It is observed that there exists a downward slopping trend in unemployment rate of Ireland over the period of 2011 to 2021. It was all-time high in 2012, while, it was all-time low in 2019 during the period of 2011 to 2021. However, the unemployment rate of the country increased dramatically in 2020 due to global pandemic COVID-19. In January 2021, the unemployment rate of Ireland stood at 5.8 %, which is considered as the lowest jobless rate since June 2020 (Tradingeconomics.com 2021).

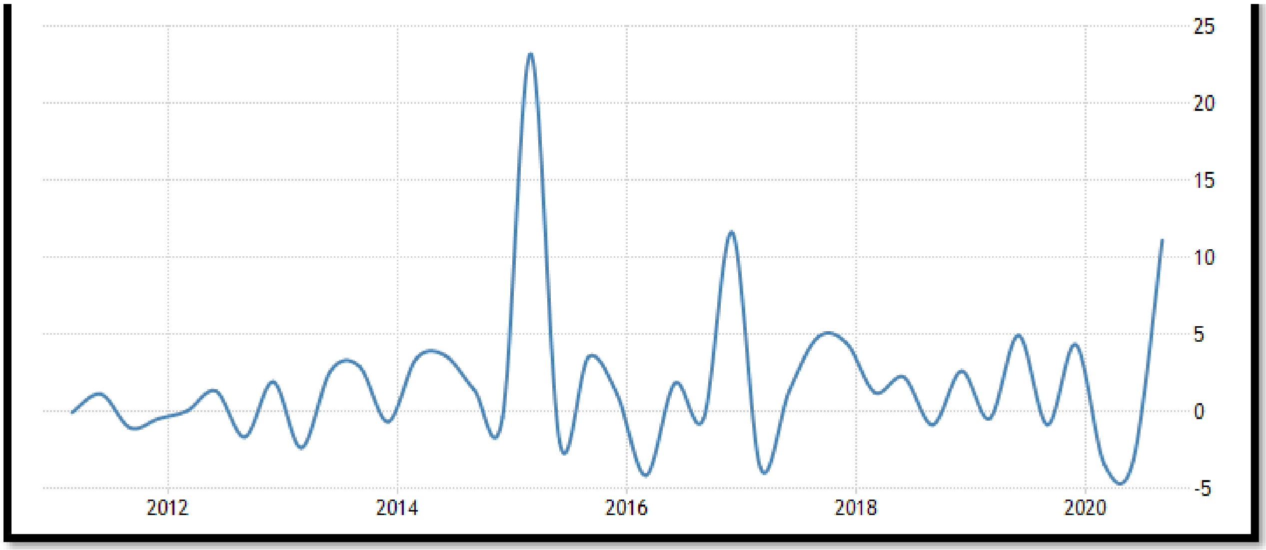

Figure 2: GDP growth rate of Ireland from 2011 to 2021

Source: (Tradingeconomics.com 2021)

Figure 2 shows GDP growth rate of Ireland from 2011 to 2021. It is noticed that GDP growth of the Ireland remain fluctuating in nature between 2011 and 2021. The GDP growth of the country was all-time high in 2015, whereas, it was all-time low in 2020 due to the global pandemic COVID-19. In the 2nd quarter of 2020, the GDP growth of the country was 3.2 %, which was rebounded to 11.1 % in the 3rd quarter of 2020 (Tradingeconomics.com 2021).

As the rate of employment in Ireland changed, it will impact the measures of national income such as GDP and GNP. In this regard, it is also necessary to mention that the change in economic growth of the Ireland will also bring vital changes in the measures of national income (Boeri and Jimeno 2016). The major sectors of the Ireland include services and agriculture. The share of employment generated by these two sectors also remained high. Thus, any changes in the domestic as well as international macroeconomic environment will affect the country and its measures associated with the national income. According to the economic theory, employment can

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increase the national income, which is the total output of goods and services of a country, while keeping the factors such as quality of labour, amount of capital and technology constant.

Hence, there is a direct relationship between the national income and employment. Any changes in employment rate will affect the measures of national income (Nikolaos and Pavlos 2018). As the employment rate of Ireland decreased in recent year, it is likely that it would lower the national income of the country. The domestic environment of the country has impacted due to various international events. The recent international event related to global pandemic COVID-19 has dampened the economic growth of Ireland (McGann, Murphy and Whelan 2020). Moreover, the government of Ireland imposed the Lockdown restrictions in order to contain the rapid spread of the virus. As the economy moved into recessionary period, the government of Ireland took both expansionary fiscal policy and expansionary monetary policy. Expansionary fiscal policy increased the government spending and decreased the tax rate of the economy. On the other hand, the expansionary monetary policy increased the money supply and decreased the interest rate within the economy. The government adopted these policies to recover the market from the recession. Therefore, the Irish economic environment have changed due to the implementation of the expansionary fiscal policy and expansionary monetary policy. As a result, it will bring changes in the national income measures. As of December 2020, the interest rate was record low at – 0.29 % in Ireland (Gov.ie 2021). Easing monetary policy of government intended to keep the interest rate low in order to pump money into the economy of Ireland. Hence, it will help in economic recovery along with the improvement in deflationary condition.

Conclusions

As of 2018, the GDP of the Republic of Ireland was 382.754 billion US dollars (Gov.ie 2021). In addition, investment expenditure allows to bring long term economic growth rate. Net

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exports indicate the position of the country in terms of balance of trade. As of 2nd quarter of 2020, the contribution of the consumer spending to national income of Ireland remained 21307 million Euro, which scaled up to 254846 million Euro in the 3rd quarter of 2020. GDP have some limitations, which may create difficulties in using GDP as a measure of national income in Ireland. An issue linked with the determining national income with the assistance of GDP is non-inclusion of the non-market production (Chang and Li 2018). The goods and services that are produced for private consumption and does not keep any official record of production is known as the non-market production. The effect of government spending on national income can be illustrated with the assistance of the circular flow of income and the subsequent multiplier effect.

The problems of Irish economy in measuring national income with the GDP include changing behaviour of the large IT sector and patent cliff in the pharmaceutical sector (Obst, Hein and Edens 2016). On the contrary, GNP is more accurate measure of national income as the profits of the major foreign-owned sector are eliminated. A recent political development such as exit of Britain from the European Union named as Brexit has also impacted the overall economic and business growth of the Ireland (Robinson *et al*. 2017). The recent international event related to global pandemic COVID-19 has dampened the economic growth of Ireland. As there exists several difficulties in measuring national income with the GDP, it is suggested for the economy of Ireland to adopt GNP for measuring the national income while keeping in mind the major trends in international macro environment and domestic macro environment that may affect important sectors of the country.

The overall conclusion to this research paper is that Microeconomic and Macroeconomic goes hand in hand. Changes in one will overall impact the changes at whole. If the national income

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is affected then the microeconomic of the state will be affected, thus both element should be monitor closely to avoid any disaster.

Recommendations

Through this research paper we have following recommendation for a sustainable way to increase the national income of Ireland and to support the economy as whole;

- For a long term policy it is mandatory and of utmost importance, we couldn't stress enough, that the Ireland government should rely and focus on expansionary fiscal policy and monetary policy to improve the national income measures (Savage *et al*. 2019). It will strengthen the growth of agriculture and service sectors and generate employment opportunities, which will strengthen the economy and raise the national income as whole.

- We also recommend that, on a short term basis, the government should focus on a tourism sector, especially to the Middle East or GCC countries. Which will be a huge boost to the economy as whole and will also help to recover the government expenditure in a very short term (See appendices 2). We are aware that due to Covid19 Pandemic the tourism sector has been hit hard and it has closed to all the public in Europe. However, it is worth mentioning that vaccine rollout is in process. Some of the facts to note in relation to tourism industry is that in 2014, almost 7 million overnight trips were made to Ireland and close to 2 million overnight trips to Northern Ireland by inbound tourists. Related expenditure was a total of €3,505m (£2,828m) in Ireland and £446m (€553m) in Northern Ireland (cso.ie).

- In last but not least, we would also like to recommend that Ireland should reinstate the Air Travel Tax at the airport or sea port, which was abolished in April 2014. The Air Travel Tax will

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generate a sustainable revenue for the government. Countries like UK, and Germany are availing benefits from such taxes.

Appendices 1

After the adoption of single currency, the Republic of Ireland has suffered its first ever recession in 2008. It will be fair enough to say that it was the most prominent meltdown of the economy after the 1980s. This meltdown link to the series of banking scandals, prominently Anglo Irish bank, and an expansion of bank lending in the early of 2000s, which causes the bubble to burst. Not only the bank scandal has caused such devastated consequences on the Irish economy also it is worth mentioning the impact of Macro-economic of United State of America, fuelling such bubble. It is worth mentioning in this report that how the fall of Lehman Brothers has such impact on the Irish Economy.

Some sceptical says that the Lehman Brothers falls was due to the lack of support from the government of America. At the time of collapsed Lehman Brothers was the fourth largest investment bank in the United State of America, employing over 25000 employees across the globe.

In this researched report, we would like to stress out that the Ireland was not affected by the US-crisis directly, because Irish banks "did not have any significant exposure to US-based mortgages or other US-based securitised assets in their investment portfolios" (Connor, Flavin, & O'Kelly, 2010, p. 6). It is rather the case that the global liquidity crisis in the aftermath of the Lehman Brothers collapse had negative effects on Irish banks, relying heavily on short-term borrowing for funding (Connor, Flavin, & O'Kelly, 2010, p. 4). Initial slowdown of the economic growth in Ireland was due to the international financial crisis of 2007-2008. It was greatly

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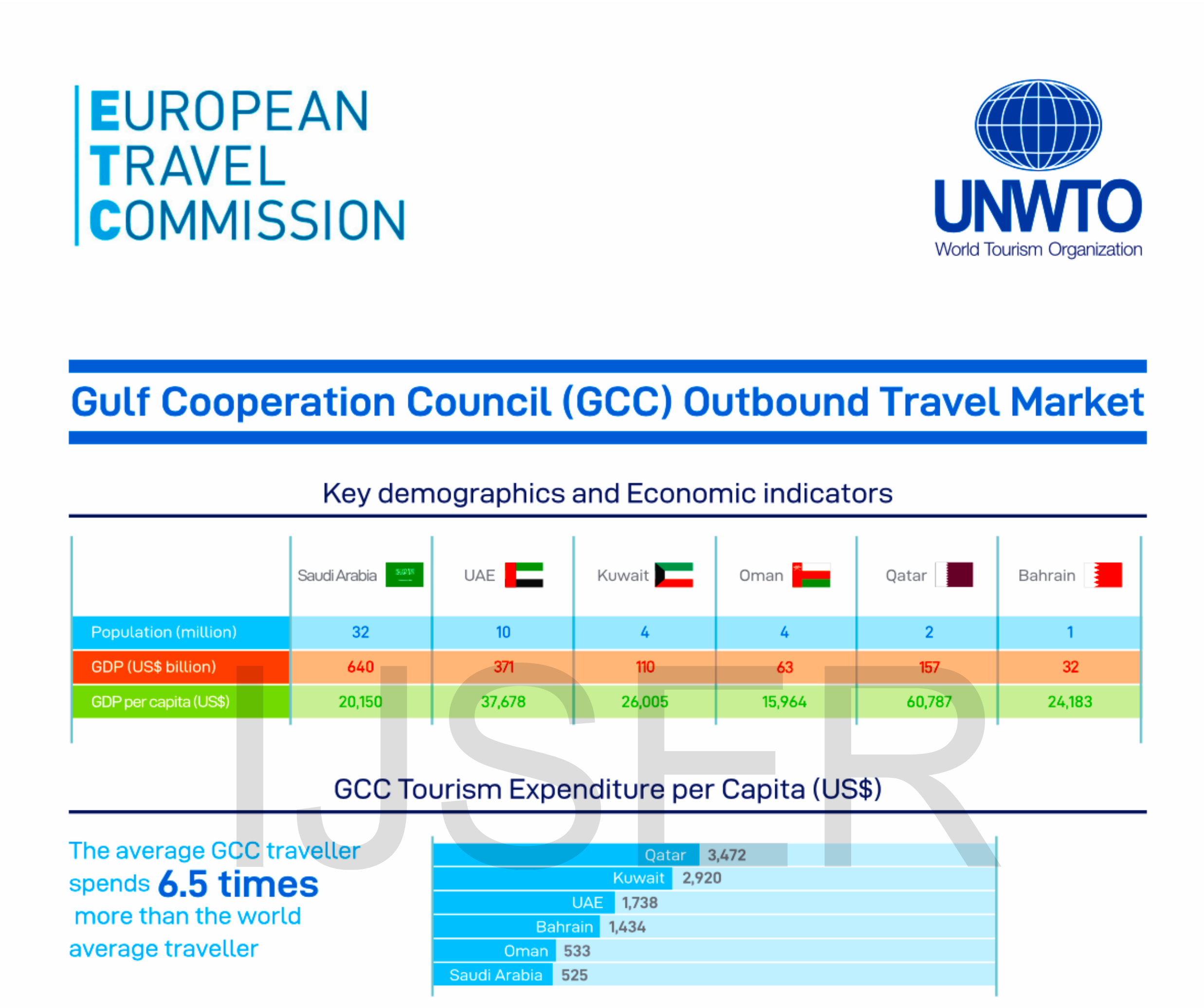
intensified in the late 2008 and the economy fell into severe recession and further in 2009 entered into the economic depression.

Appendices 2



(https://etc-corporate.org/reports/the-gulf-cooperation-council-gcc-outbound-travel-market/)

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