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Estimating Government Discretion in Fiscal Policy Making*

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Abstract

Varieties of Capitalism (VoC) is a relatively new approach to describe macroeconomic differences across countries, classifying them into coordinated market economies (CMEs) and liberal market economies (LMEs). VoC already had a significant impact on the field but has been criticised for its lack of linkage to political systems. Recent studies focused on the similarities between CMEs and the Lijphartian consensus political systems, and LMEs and majoritarian political systems. One of the practical consequences of this classification is that governments in LMEs should enjoy more discretion over fiscal policy while governments in CMEs are more constrained in their decisions. In this paper we evaluate this proposition in two LME states – Ireland and the UK – where the latter is an example of a pure majoritarian state while the former bares several institutional characteristics of the consensus state (e.g. electoral system and coalition governments). We show that governments in both states enjoy relatively high degrees of discretion over fiscal policy, but that in Ireland policy outcomes are more well balanced in respect to interests represented by social partners. We thus provide empirical evidence that supports the classification proposed in the VoC approach. However, we also demonstrate that the context of decision-making has a crucial impact on the discretionary power of government, and that such context effects can change over time, even within the same system type.

Key Words: Fiscal policy, computerised text analysis, EU structural funds, budgetary process

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1 Introduction

Varieties of capitalism (VoC) approach applies the economics of organisation to the macroeconomy. It sees individual firms develop relationships with their own employees and external actors (clients, suppliers, trade unions, business associations, and governments) in order to maximise on their core competencies (capacities to profitably develop, produce, and distribute goods and services) (Hall and Soskice, 2001*a*, 6). The authors argue that the work on transaction costs and principle-agent problems in the economics of organisation shows that these relations can be problematic, leading firms to face coordination problems where the success of firms depends on their successful resolution of these problems (Hall and Soskice, 2001*a*, 6). Approaches taken by firms to solve coordination problems allow to differentiate capitalist economies into liberal market economies (LMEs) and coordinated market economies (CMEs) (Hall and Soskice, 2001*a*, 8). In turn, these two broad clusters define general trends in national economic performance, comparative institutional advantage, responses to globalisation, and comparative public policy (Hall and Gingerich, 2009, 450).

VoC approach has been both praised and criticised widely, and by that it serves the discipline in reinvigorating the debate about the core aspects of comparative political economy (Hancke, Rhodes and Thatcher, 2007*a*). Even ardent critics cannot deny the fact that VoC has had a great impact on the field. The concept has been introduced in a volume edited by Hall and Soskice (2001*b*), which by now has been cited more than 2,600 times[1]. Among the most frequent criticisms raised about the VoC approach, Hancke, Rhodes and Thatcher (2007*b*, 8) list that it is "'apolitical', equilibrium-biased and downplays conflict" (see e.g. Howell, 2003; Kinderman, 2005; Pontusson, 2005; Watson, 2003). Iversen (2007, 278)

[1] Google Scholar citation for Hall and Soskice (2001*b*), accessed 2010-07-26.

explains that most of the VoC literature does not pay enough attention to the relationship between the varieties of the production systems and political institutions. Soskice (2007, 91) suggests that the original VoC literature focused on understanding the mechanics of production regimes and the complementarities of their key institutions, with their relationship to political systems not being concertedly analysed.

In this paper we investigate the relationship between the type of capitalist regime and government's discretion in fiscal policy making. We compare the preferences of the State with the preferences of interest groups over two distinct fiscal policies: the making of the annual government budget and the distribution of European Union structural funds to sub-regional units. To derive estimates of agents' preferences, we utilise the latest advances in automatic text analysis which we apply to interest groups' policy submissions and final policy documents. The cases we analyse are from Ireland and the UK. Both countries are characterised as liberal market economies but, at the same time, differ in their political institutions. The UK is often considered an European example of a 'pure' LME state (Hall and Gingerich, 2009, 459), with majoritarian electoral system, leader-focused parties and high discretion of the government over fiscal policy. Ireland is often considered an outlier among other LME countries (e.g. Iversen and Soskice, 2006, 172, fn. 11) with its experience of coalition governments, a PR electoral system[2] and the functioning social partnership process that includes social and economic interest groups into policy making.[3]

Focusing first on Ireland we evaluate relative government discretion in budgetary spending over the last five years (Section 3). Using the latest advancement in automated text anal-

[2]While Iversen and Soskice (2006, Table 4, note C) classify STV as similar to SMP due to the low constituency size and strong centripetal incentives for parties, researchers are largely in agreement that STV is a PR system (e.g. Gallagher and Mitchell, 2005).

[3]Social partnership has recently collapsed in Ireland as the result of stress from the economic crisis, but it was functioning over the whole period under analysis.

ysis, we estimate the policy position of both the finance minister and all relevant interest groups for annual budgets from 2004 to 2009. We show that the finance minister's position is always well balanced between interest groups, but also affected by electoral concerns as its position moves closer to the centre when the next election approaches. We next consider the relative discretion of the government in the distribution of EU funding in Ireland and the UK (Section 4). Standard links between government policy and national interest groups have been recently extended to include regional interests. In the EU member states this is the direct consequence of the process of regionalisation, where regions increasingly exert significant influence on national fiscal policy alongside the more traditional national interest groups like trade unions and business associations. We show that, in the case of Ireland, the final government decision is well balanced between the preferences of subregional units, which suggest that government was constrained in its freedom to decide the allocation of funds. In England, in contrast, we find that the final policy outcome was less constrained in regard to the preferences of interest groups, suggesting a higher degree of freedom for government decision-making.

2 Previous Research and Hypotheses

The relationship between the VoC framework and political systems has been recently analysed in Gourevitch (2003) and Iversen and Soskice (2006), with Soskice (2007) further summarising and developing the arguments. Accordingly, in Lijphartian (Lijphart, 1984) terms, CMEs correspond to consensus political systems while LMEs are majoritarian. Soskice (2007, 93) differentiates these two systems into differences in electoral systems (CMEs use PR while LMEs use plurality); decision-making in political parties (Iversen and Sos-

kice (2006) argue that in CMEs parties arrive at decision after negotiation across the interest groups within the party, while in LMEs the party leader decides); and public policy is made through effective committee systems in CMEs compared to government decision-making in LMEs. Thus, the political system in CMEs allows the representation of preferences of interests groups and their participation in the policy-making. This is reflected in various spheres of policy-making where the interests of labour and business may share the goals but have "sharply different ideal points within those areas" (Soskice, 2007, 94) with the disputes settled within the broad framework of the institutional setting of the consensus system (Soskice, 2007, 93). On the other hand, in LMEs the government reflects the interests of the median voter with the ability of interests groups to affect policy-making being greatly diminished.

In relation to public policy provision, strong unified governments that face small fractured economic agents generally have more discretion on fiscal and monetary policy. That is, these governments are not concerned with the possibility of their discretionary behaviour weakening their bargaining positions (Soskice, 2007, 94). However, if the government faces demands from powerful bargainers it is more likely to reduce its own discretion over fiscal policy (Soskice, 2007, 100). The liberal market economies are largely characterised by the former relationship between governments and organised interests, while the coordinated market economies are generally characterised by the latter. Primarily this is explained by the consensus nature of CMEs, where governments are often coalitions formed by parties representing well-defined interests. LMEs, in contrast, are generally single party governments with party leaders having a large impact on policy decisions (Soskice, 2007, 101). Hallerberg, Strauch and von Hagen (2009) show that fiscal policy can be characterised as a common pool problem where individual ministers (or parties in coalition governments)

aim to independently maximise the resources allocated in their portfolio while government expenditure is financed through general taxation. In order to solve the common pool problem, Hallerberg, Strauch and von Hagen (2009) argue that coalition governments remove discretion from fiscal policy. Correspondingly, fiscal policy in consensus political systems is characterised by little discretionary expenditure (Soskice, 2007, 101). Furthermore, Soskice (2007, 101) argues that conservative fiscal policy can be explained by the representative nature of political parties in consensus systems (Iversen and Soskice, 2006) where preferences of interest groups (especially labour and business) are represented by political parties. This gives interest groups direct access to the process of public policy formation. In the case where interest groups are "individually powerful but imperfectly coordinated [...] the common pool problem will be reinforced if fiscal control is weak" (Soskice, 2007, 102). Conversely, LMEs have more discretion in the decision-making on fiscal policy.

We test the relative discretion of governments in fiscal policy making by analysing the extent to which preferences of interest groups are reflected in policy outcomes. We conjecture that government discretion is highest in the UK, which is classified as a "pure" LME type system, and lower in Ireland, which – for reasons explained above – is somewhere between LME or CME. Our research design is based on estimating interest groups' policy preferences from their public statements that were submitted during the policy making progress. In addition, we estimate the policy position of the government by analysing the finalised documents that were published after the policy decision had been made.[4] Scaling

[4]Text is by far the most abundant available source of data on preferences of agents and, more importantly, every official statement is the result of an agent's strategic decision about what preference to make public. Certain characteristics of text, particularly word frequency distributions, can then be used to characterise preference profiles of the authors. (e.g. Baayen, 2001; Bybee, 2001). The wide availability of text in electronic form has led to a large number of automated and semi-automated methods for scaling positions from the texts based on the statistical analysis of word patterns (e.g. Laver and Garry, 2000; Pennings and Keman, 2002; Benoit and Laver, 2003; Monroe and Maeda, 2004; Hilliard, Purpura and Wilkerson, 2006; Bara, Weale and Biquelet, 2007; Slapin and Proksch, 2008; Yu, Kaufmann and Diermeier, 2008; Lowe, 2008; Quinn et al., 2010; Hopkins and King, 2010; Grimmer, 2010). These methods have been applied in several macroeconomic

these texts onto one dimension estimates the policy positions of all actors. Relative distance between the positions of all actors reflects how much text overlaps between different documents. With the understanding that text produced by actors reflects their preferences, this allows us to consider the overlap in policy preferences between different interest groups and the State. In our setting this means that low discretion regimes will be characterised by governments with positions in or close to the centre of the distribution (of scaled policy positions) thus reflecting its balancing of competing interests. In the high discretion regimes the position of the government can be in any part of the distribution of policy positions.

3 Government discretion over budgetary distribution

Budgetary process in Ireland is characterised by distributional pressures applied to the government from competing interests. Influence of interest groups on budgetary policy is difficult to measure directly, with much of the lobbying happening outside the public view. In such situations it is important to find observable implications of policy preferences of interest groups. Here we focus on the submissions made by interest groups during the budget drafting process. While stakeholders may express their preferences to politicians in private, budgetary submissions are public statements that reflect their preferences which they seek to be reflected in the upcoming budget.

Quinn (2002) describes the budgetary process in Ireland as a long and well-organised process that starts with the submission of expenditure estimates for the forthcoming year by all government departments. At the same time, various interest groups present their cases for consideration in pre-budget submissions, with well-established groups like social partners

studies. For example, in the study of national budgeting in Italy (Giannetti and Laver, 2005), long-term budgeting in Italian regions (Galli, Grembi and Padovano, 2009), fiscal policy in Canadian provinces (Imbeau, 2009), and fiscal positions of US state lottery agencies (Charbonneau, 2009).

making the most serious and well-developed claims on resources. Minister for Finance then is scheduled to meet with the leaders of several groups giving them the opportunity to argue their case directly to the minister but also communicate information to their own members in the process described as the "optics" of the pre-budget submissions (Quinn, 2002). The Minister is briefed prior to the meetings on implications and costs of each submission, with meetings themselves being one-way dialogues with the Minister listening and agreeing. This is followed by interest group leaders giving extensive interviews about the effectiveness of their lobbying on behalf of their organisations. Quinn describes the process of pre-budget submission making as follows:

> "The exercise is designed to keep the members of organisations content in the belief that their executive and secretariat are presenting their interests effectively. In other cases it is for the optics of the wider public." (Quinn, 2002, 15)

This makes the submissions similar to the annual reports to shareholders and gives them the genuineness and gravitas of public statements that could be scrutinised. The content of submissions ranges from seeking up to 100 concessions to an approach that concentrates on a narrow spectrum of demands.

Although a significant number of organisations in Ireland make pre-budget submissions, not all of them are currently available (particularly in electronic format). This is particularly the case for earlier years. Overall, we were able to collect pre-budget submissions from 114 organisations, including all social partners, for all budgets from 2004 to 2009. The depth of the time series is limited by the first year for which we have submissions from all social

partners (2004). Table 1 presents the list of organisations that are included in our sample.[5] The preferences of the government on the budgetary distribution are derived from the text of the budget speeches delivered in parliament by the Minister for Finance. Budget speeches set out in detail government priorities over fiscal policy for the forthcoming year.

[Table 1 about here.]

In order to estimate policy positions of government and interest groups we use Wordfish (Slapin and Proksch, 2008), a method that combines Item Response Theory (e.g. Clinton, Jackman and Rivers, 2004) with text classification. Wordfish assumes that there is a latent policy dimension and that each author has a position on this dimension. Words are assumed to be distributed over this dimension such that $y_{ijt} \sim Poisson(\lambda_{ijt})$, where y_{ijt} is the count of word j in document i at time t.[6] The functional form of the model is assumed to be

$$\lambda_{ijt} = \exp(\alpha_{it} + \psi_j + \beta_j \omega_{it})$$

where α_{it} are fixed effects to control for differences in the length of documents and ψ_j are fixed effects to control for the fact that some words are used more often than other words in all documents. ω_{it} are the estimates of authors' position on the latent dimension and $\beta_j \omega_{it}$ are estimates of word-weights that are determined by how important specific words are in discriminating documents from each other. In this model, each document is treated as a separate actor's position and all positions are estimated simultaneously. If two actors display a similar position, this means that both of them used words with similar frequencies. Thus reflecting similar preference profiles on a given dimension of contestation.

[5] We explored the possibility of using the Freedom of Information Act to access all submissions made by interest groups, but the price tag put on such exercise by the Department of Finance in reply to our request proved prohibitively expensive.

[6] Poisson distribution of word frequencies is a standard assumption in natural language processing. See, for example, Manning and Schutze (2002).

The identification strategy for the model sets the mean of all positions to 0 and the standard deviation to 1, thus allowing shifts in positions relative to the mean with the total variance of all positions fixed (Slapin and Proksch, 2008). Effectively this standardises the results and allows comparison of positions across estimations on a comparable scale when the documents used in estimation are themselves comparable. This also addresses the issue of the possibility of differential item functioning (DIF) (Aldrich and McKelvey, 1977; King et al., 2004) when economic agents do not perceive the dimension of contestation in the same way. In the analysis of political congruence Achen (1978) and Golder and Stramski (2010) propose to use a metric-free relative measure of congruence, where the distance between a data point to the central tendency of the distribution is normalised relative to the dispersion. Since the results of Wordfish estimation are standardised as part of the estimation procedure, this means actors' positions are comparable across estimations.

Documents were pre-processed before being included in the estimation. We removed text that has no policy relevant content such as cover letters or formal closing lines. We also removed email addresses, URLs, and any material attached to a submission that was unrelated to the consultation process (e.g. actor's postal address). We furthermore eliminated numbers, punctuation marks, and tables and graphics, as they cannot be used in quantitative text analysis to meaningfully distinguish documents from each other. Figure 1 presents the results of our estimation including all interest group submissions. Figure 2 shows the same results but limited to the budget speech and social partners, displayed as a time-series plot that highlights changes in policy positions over time.

[Figure 1 about here.]

[Figure 2 about here.]

We estimate the position of the principle interest groups (unions and business associations) to be relatively stable over time. Over the whole period under investigation government remained relatively in the centre of the distribution of preferences of interest groups. However, we can also observe tangible shifts in the position of the government. Under McCreevy the government was taking a centrist position, but with Cowen taking over the Department of Finance the position of the State moved left and converged with the position of the unions for the 2005 budget. At the time the government was a coalition between the centrist FF (the dominant partner) and PDs (right of centre on the economy). FF coalition with a smaller liberal PDs gave government relatively high discretion over fiscal policy as the pressure of the common pool problems was relatively small. With the upcoming election we observe the government position presented by Cowen moving towards the centre, thus allowing the government to better balance competing interests in its electioneering effort. After the 2007 general election the governing FF entered into a coalition with the Green party (PDs taking an even more junior role after disastrous electoral performance and subsequent dissolution). Facing a greater common pool problem in this ideologically wider coalition, the government moved further to the right, introducing more conservative fiscal policy. Along the argument in Soskice (2007, 100), a wider coalition with strong demands on public spending lead government to reduce its own discretion over fiscal policy. This more conservative fiscal position of the State remained in place in the first budget presented by Lenihan, now reinforced by the worsening economic conditions in general.

This section evaluated a general proposition in the literature (e.g. Soskice, 2007) that links government's discretion over fiscal policy to its relationship with national interest groups. In the next section we evaluate governmental discretion over fiscal policy in the setting of regional distribution of EU structural funds.

4 Government discretion over distribution of the EU structural funds

Economic and social disparities among member states have become the policy focus of the European Community. Aiming to deal with these disparities, the European Regional and Development Fund (ERDF) was agreed upon at the 1972 Paris Summit and finalised two years later. Creation of the ERDF reflected increasing salience of the issue of regional disparities with the impending EEC enlargement to Britain, Ireland, and Denmark. The distribution of the ERDF was based on national quotas and generally viewed as supplementary income for national Treasuries (Bache, 2007, 40). Cohesion became embedded in the treaty base following the Single European Act (SEA) of 1987. With the impending accession of Spain and Portugal structural funds were reformed in 1988, bringing together ERDF with the European Social Fund (ESF) and the guidance section of the European Agricultural Guarantee and Guidance Fund (EAGGF). The 1988 reform also doubled the funds by 1993, and focused the spending priorities on regions (NUTS). The doubling of structural funds came with the revisions of policy: clarification of the additionality requirement, introduction of the principles of concentration, programming, and partnership. The 1993 reform of the structural funds focused mainly on the additionality principle, while the 1999 reform focused on the necessary adjustments in light of the impending accession of countries of central and eastern Europe.[7]

EU cohesion policy utilises structural funds (SFs) as its main instruments. In turn, Bache (2007, 23) suggests that SFs can be viewed as governed by the "structural policy" (different from policy applied to other instruments like, for example, Cohesion Fund). The 1988

[7] See Bache (2007) for a detailed history of structural funds in the EU.

reform of SFs brought in new governing principles for structural policy: partnership, additionality, programming, and concentration. Focusing on the first two principles, Gary Marks developed the concept of "multilevel governance" to describe how "supranational, national, regional and local governments are enmeshed in territorially overarching policy networks" (Marks, 1993, 402-403). Multilevel governance refers to "continuous negotiation among nested governments at several territorial tiers" (Marks, 1993, 392). Vertical interactions and interdependence between governments of different territorial levels is conceptualised in "multilevel", while "governance" refers to increasing horizontal interaction and interdependence between governments and nongovernmental actors (Bache, 2007).

Structural funds of the European Union are designed to deal with economic and social disparities among member states. Structural funds constitute the second largest item of the EU budget after the Common Agricultural Policy (CAP). These funds are allocated by a quota system between EU member states to support activities related to transport, communication infrastructure, business development, protection of the environment and labour market policies. Over the current spending period (2007-2013), for example, the UK is expected to receive about €10.6 billion (DGRegio, 2008, 8). The distribution of EU SFs in each member state is the process that involves national, sub-national, and other interests. This is a legal requirement known as the *Partnership principle*, stipulated in Article 11 of the Council Regulation governing the latest wave of SFs (OJL210/25, 2006, Article 11). Each Member State is required to organise, in accordance with current national rules and practices, a partnership with national and sub-national authorities, economic and social partners, and voluntary sector (OJL210/25, 2006, Article 11(1)). In the current SF regulations the partnership principle has been strengthened to cover the preparation, implementation, monitoring and evaluation of operational programmes (OJL210/25, 2006, Article 11(2)). The

Commission has the right to monitor this process in annual consultations with the economic and social partners (OJL210/25, 2006, Article 11(3)).

Specific distribution of the EU SFs across operational programmes in each country is governed through a legally binding National Strategic Reference Framework (NSRF). The EU policy for the latest round of funding dictates that each Member State must submit their NSRF to the European Commission (OJL210/25, 2006, Article 28(2)). The aim of NSRFs is to ensure that the assistance from the Funds is consistent with the EU cohesion policy and links Community priorities with national reform programmes (OJL210/25, 2006, Article 27(1)). NSRF becomes a reference document for preparing the programming of the EU SFs (OJL210/25, 2006, Article 27(2)). The content of NSRF contains analyses of developmental problems, strategies to ameliorate the problems identified, a list of operational programmes, descriptions of how proposed expenditures will contribute to competitiveness and job creation priorities of the EU, an indicative annual allocation by operational programme, and other relevant information (OJL210/25, 2006, Article 27(4)).

While the NSRF preparation is required to be conducted in accordance with the principle of partnership (Article 28), specific procedure and institutional structure is left to be determined by individual Member States according to criteria they deem appropriate (OJL210/25, 2006, Article 28(1)).

4.1 Government discretion in the distribution of structural funds in Ireland

For NSRF preparation, the Irish government decided to rely on solicitation of stakeholders' views from other consultation processes – chiefly the National Development Plan (NDP)

(Deane, 2006) – instead of consulting interest groups on their views.[8] Effectively, the development of NSRF from the NDP means that the Community priorities are aligned with national reform programmes as required in structural funds regulations (OJL210/25, 2006, Article 27(1)).

The National Development Plan has been informed by a comprehensive consultation process that involved the regional bodies, social partners, and other interested parties (NDP, 2007, 33). The Government received 77 submissions that were complemented by meetings with regional interests and social partners held in conjunction with two consultation seminars hosted by the Minister for Finance (who also discussed the NDP before the Joint Oireachtas Committee on Finance and the Public Service) (NDP, 2007, 33).

With no formal consultation process the task of collecting written submissions for the NDP was a matter of contacting individual organisations listed as having taken part in the consultations. We were able to collect submissions from both regional assemblies (NUTS1 level) and all eight regional authorities (NUTS2 level), complemented by a joint submission made by all eight NUTS2 level authorities. We furthermore collected the submissions to the NDP made by 12 national interest groups. Overall, we were able to collect 30% of the submissions mentioned by the government (NDP, 2007, 33), but our sample includes all regional authorities and all major interest groups involved in the social partnership process. As the position of the government, we take the final text of the NDP itself. The details of collected submissions are presented in Table 2.

[Table 2 about here.]

[8]The NDP set out an ambitious programme of investment over the period 2007–2013 of some €183.7 billion at 2006 prices. The amount of EU funding had been expected at some €3 billion over the whole period drawn from various funds (NDP, 2007, 45). Apart from contestation over regional development priorities, there were also competing interests, for example over the allocation emphasis on infrastructure, environment, and equality and social inclusion (Morgenroth and FitzGerald, 2006; NDP, 2007, 33).

The NDP was launched by the Taoiseach, the Tánaiste and the Minister for Finance on January 23rd, 2007, with less than six months left to the general election and unfavourable showings in the opinion polls. It was viewed at the time to have been consciously written with that election in mind, pushing "all the right psychological buttons" and promising "something for everybody in the audience" (OpEd, 2007*a*). The government viewed the launch of the NDP in purely political terms hammering home the message that "while things have never been so good, the NDP will ensure even better times are on the way" but only if "Fianna Fáil and the Progressive Democrats are returned to office to keep the plan on track" (Collins, 2007). The opposition also viewed the document in political terms with the Labour party finance spokeswoman, Joan Burton, describing "the 300-page document as 'perhaps the longest election leaflet in the entire history of the democratic world' " (Collins, 2007).

Two main themes (or dimensions) are represented in the NDP. One is the emphasis on social inclusion measures, which constitute about half of the proposed expenditure. This implements policies originated in the national agreement with the social partners achieved in 2006. The second is the aim to redress regional imbalances. Balanced regional development was one of the designated goals of the National Development Plan 2000-2006 but it remained a "political pipedream" (OpEd, 2007*b*) with no substantial achievements to show for it, laying "poor foundations" (McDonald, 2007) for the NDP 2007-2013. Unbalanced spending witnessed over the NDP 2000-2006, with funding shortfalls particularly in poorer Western regions, lead some local leaders to express scepticism over government's commitment to balanced regional development (Siggins, 2007).

We include all submissions made by regional authorities and national interest groups together with the NDP text in our estimation. We again use Wordfish to separately estimate positions for regional submissions and submissions from national interest groups. This al-

lows us to capture the two dimensions mentioned above. Estimation results are summarized in Figure 3.

[Figure 3 about here.]

We find that for the preparation of the NDP, government was carefully balancing the interests of the regions by taking the centre of the distribution of regional preferences. With national interest groups, however, government chose a position closer to that of the two largest social charities in the country (CPA and SVP), which most likely was due to electoral concerns.

Our findings suggest that Ireland despite many features attributable to the CME states exhibited the discretion of the government in line with its general characterisation as a LME state. However, upcoming elections also constrained the government by forcing it to take up positions in line with their electioneering efforts.

4.2 Government discretion in the distribution of structural funds in the UK

As part of the NSRF preparation process, the UK government made a draft version of the NSRF publicly available and invited comments on its draft from national as well as sub-national stakeholders DTI (2006).[9] The draft included a description of the government's policy objectives together with a list of 14 questions on which it sought consultation. These questions asked for feedback on the policy goals government put forward (questions 1 to 4), the architecture of future structural funds programs (question 5), the allocation of funds across regions (questions 6 to 8), and the coordination between funds and domestic spending

[9]The NSRF document was prepared and made publicly available by the Regional European Funds Directorate, Department of Trade and Industry, via its website on February 28, 2006.

(question 9). Questions 10 to 14 are related to problems specific to each of the four nations (England, Scotland, Wales and Northern Ireland). Table A-1 in the Appendix lists the original questions from the NSRF draft document. It is important to point out that the NSRF draft document *did not* contain any numbers related to the allocation of funds. In fact, government purposely left all references that referred to fund allocations blank as it explicitly requested feedback on what stakeholders would consider the best allocation scheme. This means that, while government clearly acted as agenda-setter on the policy objectives that it proposed in the draft NSRF document, it did not act as an agenda-setter on the allocation of funds.

The consultation process lasted from February 28, 2006 (the date the draft NSRF was published) to May 22, 2006. In total, 314 written submissions were made. The largest portion of those submissions came from regional authorities and regional assemblies (39%), followed by subregional umbrella organisations (25%) (e.g. Association of Greater Manchester Authorities, Association of North East Councils) and national organisations (11%) such as (e.g. British Chambers of Commerce, Trade Union Congress). Table 3 summarises the number and proportion of submissions by respondent type.

[Table 3 about here.]

In terms of geographical distribution, more than half of the submissions came from groups in England, the largest of the four UK nations (see Table 4).

[Table 4 about here.]

On October 23, 2006[10], five months after the submission deadline, government published its official response to the consultation process. This document is organised along

[10]This is the document creation date.

the same 14 questions that structured the consultation process. Under each question, government first summarises the feedback it received and then presents its own response and opinion on the question under consideration.

We only include responses from England in our analysis, which reduces the sample to 139 submissions.[11] We divided submissions into two groups: regional authorities, by which we mean every organization in the public sector (regional assemblies, regional authorities, regional development agencies and regional associations), and regional policy groups, by which we mean any private or voluntary organization in support of a particular policy issue. Based on this classification, 76 (55%) out of all England submissions are from regional authorities and 63 (45%) from regional policy groups.

We pre-processed submissions following the same procedure as described above. Table 5 contains summary statistics for the pre-processed text documents. The average length of documents is 1,673 and 1,168 words for submissions from regional authorities and policy groups, respectively. The government response is significantly longer with 5,751 words. Figure 4 shows word-distributions for all submissions.

[Table 5 about here.]

[Figure 4 about here.]

We inlcude all submissions in our analysis irrespective of their length. Just like in the Irish example above, we conduct separate analysis for regional authorities and policy groups. The former group is primarily concerned about how money should be allocated, whereas the latter is primarily concerned about how allocated money should be spend. Regional policy

[11] EU structural funds' operational programmes are centred around the NUTS1 level regions. England consists of 9 NUTS1 level regions, that together with Scotland, Wales and Northern Ireland (one NUTS1 level region each) form 12 NUTS1 regions of the UK. However, only English NUTS1 regions made submissions, thus precluding the analysis across the whole of the UK.

groups, of course, also care about the fund share of their region, but they are additionally concerned about the policy objectives for which funds will be used. Figure 5 presents results for regional authorities. Figure 6 shows the same results but, for ease of reading, reduced to regional assemblies. Figure 7 presents results with the submissions of regional policy groups.

[Figure 5 about here.]

[Figure 6 about here.]

[Figure 7 about here.]

The results indicate that the UK is characterised by high levels of discretion of central government over fiscal policy. This is particularly true in relation to preferences expressed by regional interest groups. In terms of regional distribution of funds, preferences of the government expressed in the NSRF are further away from the prosperous regions of East, South East and London. In comparison to our results for Ireland, the Labour party in the UK was just returned into office at the time of the NSRF consultation process. Thus, elections did not play the constraining role in the UK as they did in Ireland. In the UK, central government was capable of exercising high discretion pursuing its preferred policies of distribution of funds across regions. This high degree of discretion over fiscal policy in the UK corresponds to the expert survey results provided in Hallerberg, Strauch and von Hagen (2009).

5 Discussion

The varieties-of-capitalism literature differentiates developed capitalist economies by the approaches the firms take to solve their coordination problems. This approach allows clear differentiation of countries into liberal market economies and coordinated market economies. One of the criticisms of the VoC approach is its detachment from countries' political systems. Later advances of the VoC linked two main capitalist regimes (LME and CME) to two Lijphartian types majoritarian and consensus democracies respectively.

One of the propositions of the VoC is that liberal market economies are characterised by high discretion of the state over fiscal policy, while the CMEs are characterised by low discretion of the central government over fiscal policy. In this paper we analyse this proposition by comparing the discretion of the government over fiscal policy in two states (Ireland and the UK) that are both characterised as liberal market economies due to the approaches taken by firms in solving coordination problems, whilst differing in their political institutions. Ireland shares many institutional commonalities with the consensus democracies (proportional electoral system, high frequency of coalition governments). This makes its political system similar to the VoC description of the coordinated market economies.

The VoC approach also overlooks the effects of regionalisation in the framework of multilevel governance on the discretion of central government over fiscal policy. This is particularly significant in the EU member states where the policy of regionalisation is the stated means of the Community development. In this paper we evaluate whether this new dimension of policy making (involvement of regions in policy process) plays the role of an additional constraint on government fiscal policy in Ireland and the UK.

We find that despite its mixed institutional setting, Ireland is characterised by high degree

of government discretion over fiscal policy as previously suggested by the VoC. We also find that elections can play a role of additional constraints on governments' policy making. This relates the VoC results to a wider literature on electoral and partisan cycles in economic policies (see e.g. Franzese, 2002). We also find that regionalisation of governance can also impede the discretion of the government over fiscal policy. This relates the VoC results to a wider literature on fiscal federalism (see e.g. Oates, 1999).

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Appendix

Table A-1: *Consultation questions in the NSRF draft document*.

Question 1 Do respondents agree with the assessment in the draft National Strategic Reference Framework of the economic strengths and weaknesses of the UKs nations and regions?
Question 2 Do respondents agree with the proposed priorities for future Convergence and Competitiveness Programmes in England, Scotland, Wales, Northern Ireland and Gibraltar?
Question 3 Do respondents agree that the proposed priorities include a sufficient focus on the Lisbon Agenda?
Question 4 Do respondents agree with the proposals in the National Strategic Reference Framework for ensuring consistency between Structural Funds Programmes and other EU policies and funding streams, in particular spending under the European Agricultural Fund for Rural Development and the European Fisheries Fund?
Question 5 Do respondents agree with the proposed architecture for future Programmes?
Question 6 Do respondents agree that the UKs Competitiveness allocation should be divided equally between the ERDF and the ESF at the UK level?
Question 7 What are respondents views on how best to allocate ERDF Competitiveness funding across the UKs regions?
Question 8 What are respondents views on how best to allocate ESF Competitiveness funding across the UKs ESF programmes?
Question 9 Do respondents have views on how to improve coordination between Structural Funds and domestic spending within England, Scotland, Wales and Northern Ireland?
Question 10 Do respondents agree with the Governments proposals to align ERDF spending with domestic programmes in England? What are respondents views on how best to achieve this?
Question 11 Do respondents agree that ESF delivery arrangements should bring together ESF and domestic employment and skills funding in England to allow organisations to access a single funding stream?
Question 12 Do respondents agree that greater use of single-stream funding mechanisms would be beneficial in Scotland?
Question 13 Do respondents agree with the Welsh Assembly Governments proposals to ensure greater alignment with domestic strategies for regional development in Wales and a stronger emphasis on larger, more strategic projects?
Question 14 Do respondents have views on how to align domestic and Structural Funds expenditure and how to concentrate funding in Northern Ireland?

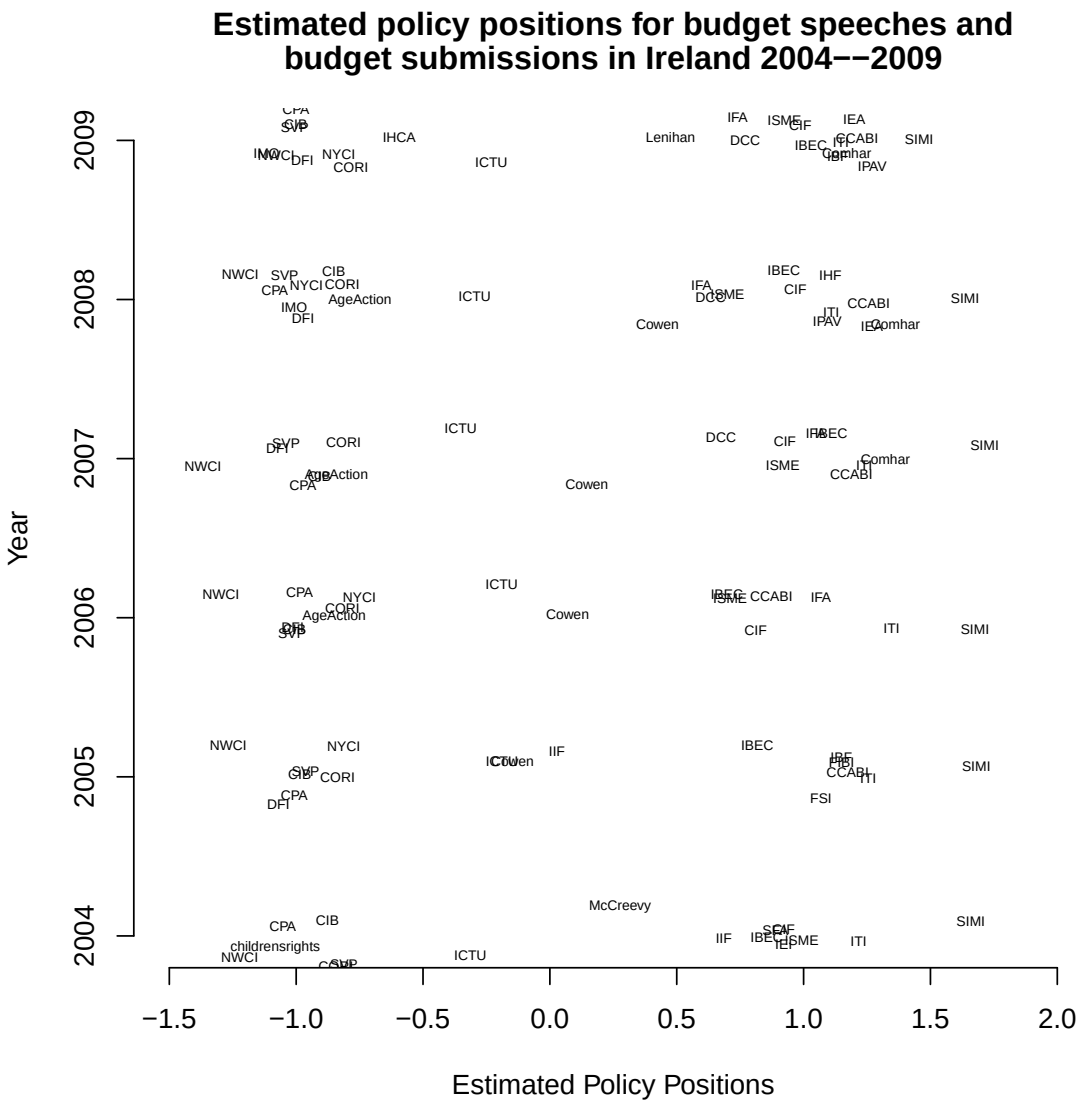


Figure 1: Budget speeches by Minister for Finance and submissions by Irish interest groups, 2004–2009.

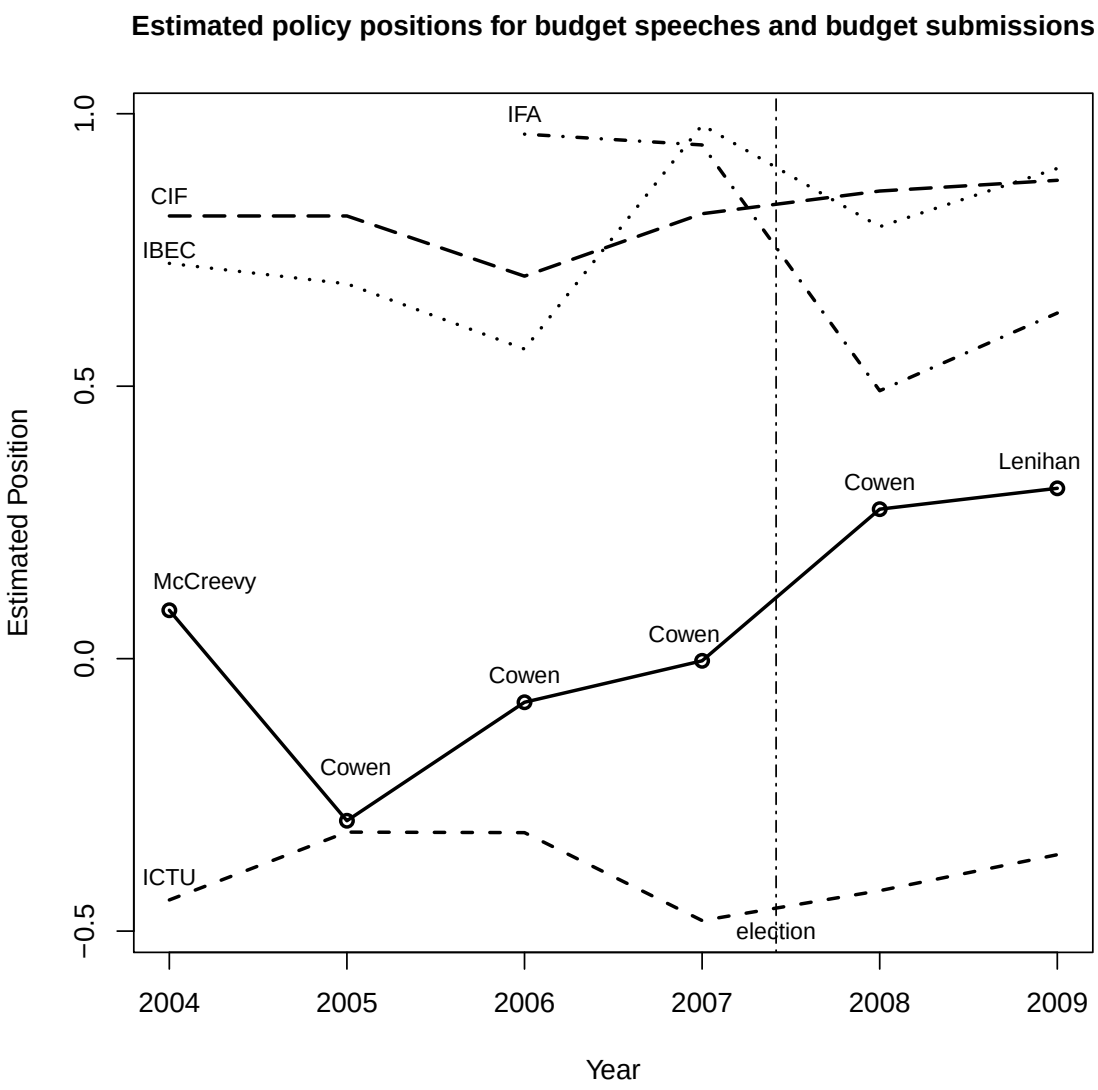


Figure 2: Budget speeches by Minister for Finance and submissions from social partners, 2004–2009. No document was available for CIF in 2005 and the position plotted above was calculated by averaging estimates from 2004 and 2006.

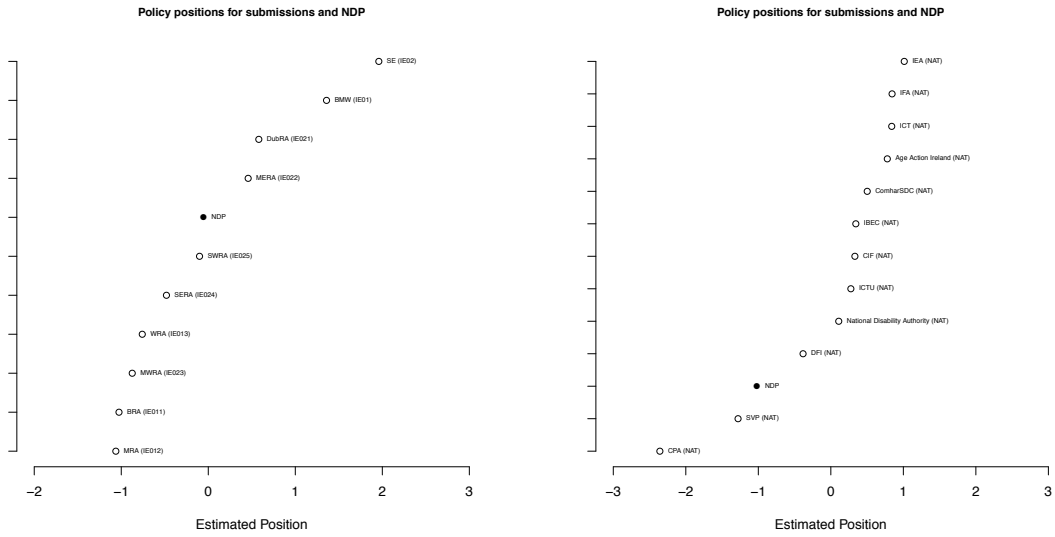


Figure 3: Estimated positions for the government, regional authorities and national interest groups

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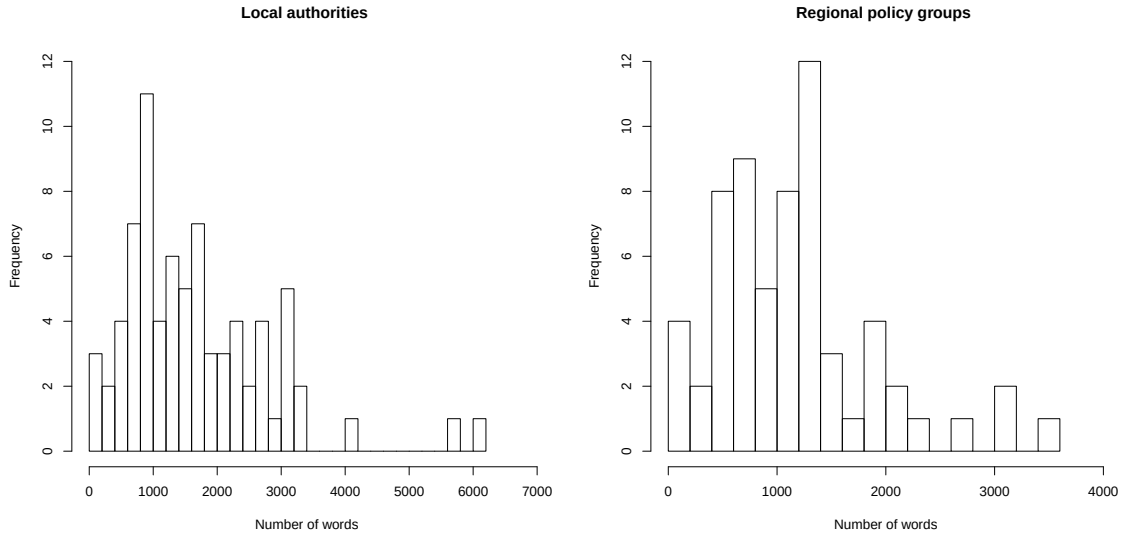


Figure 4: Word distribution in submissions from regional authorities and regional policy groups

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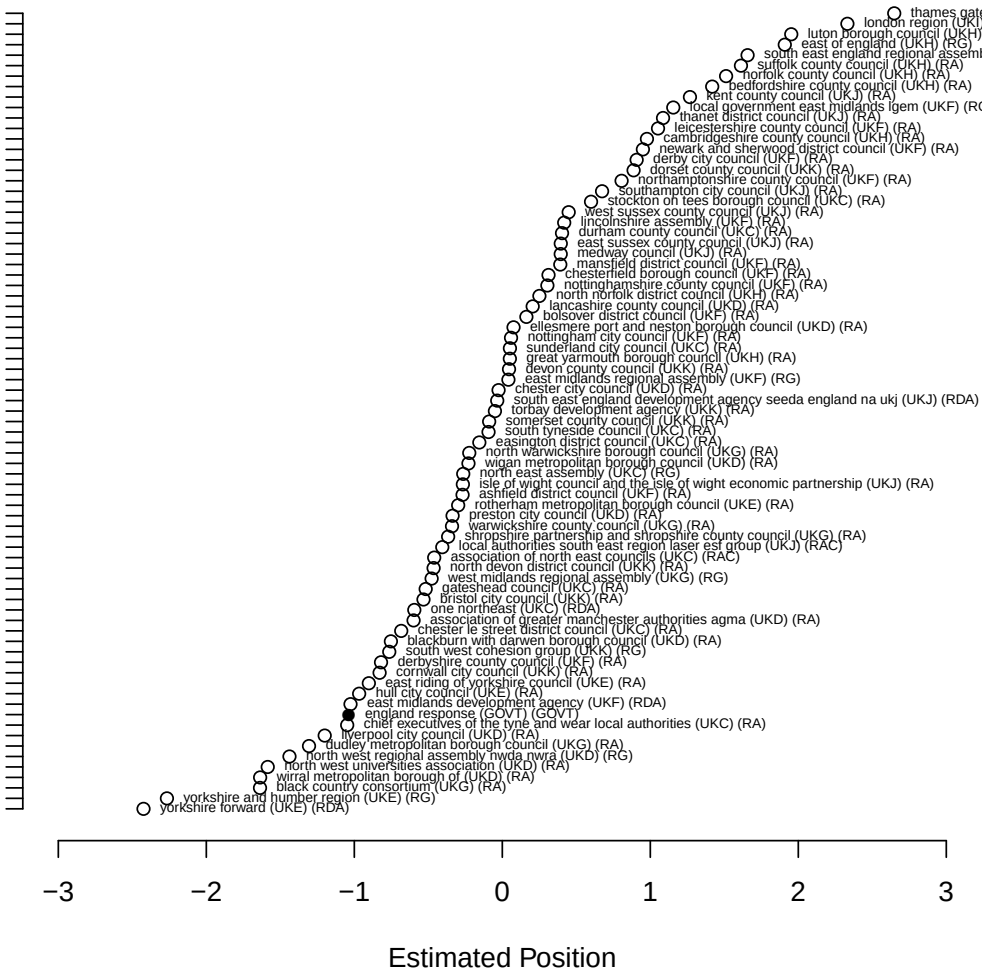


Figure 5: Estimated positions for government and regional authorities

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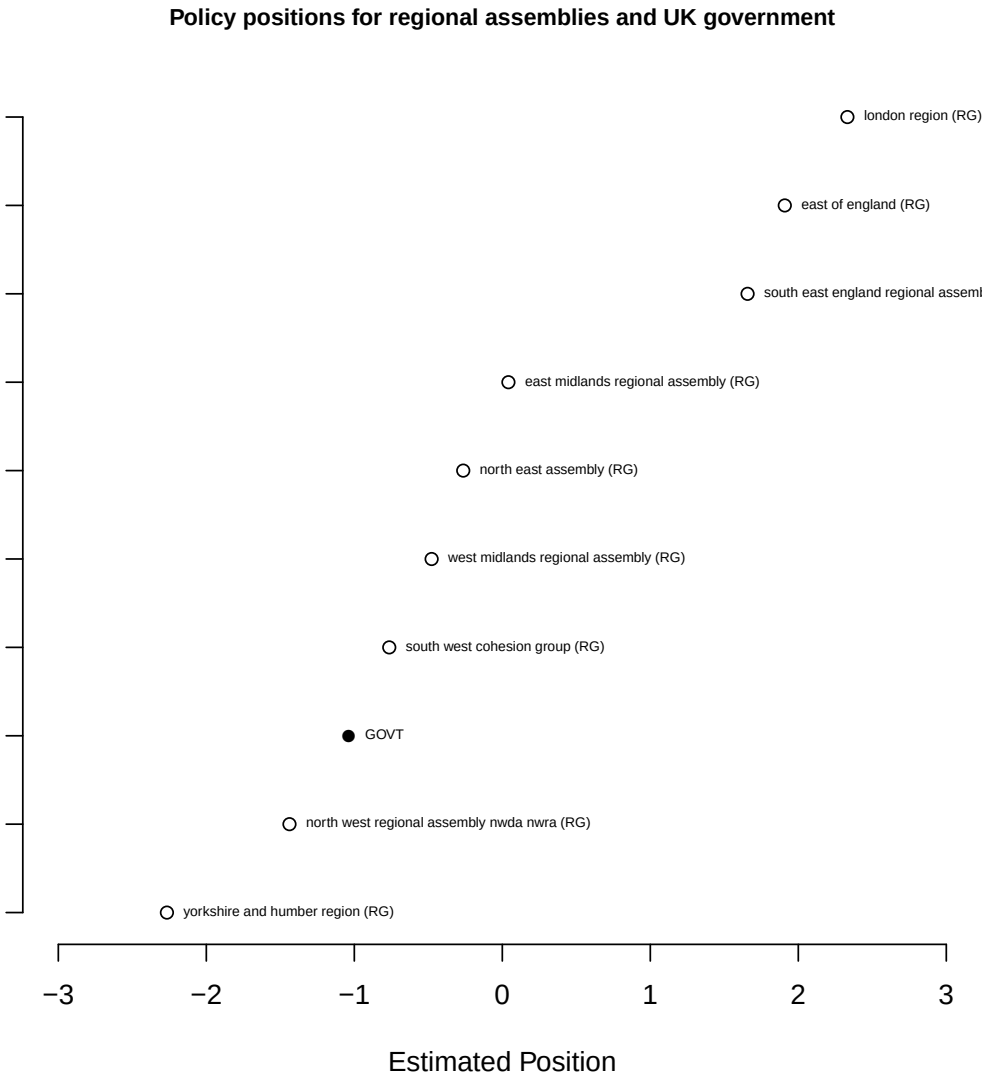


Figure 6: Estimated positions for regional authorities and the government. This graph shows the same results as in Figure 5, but reduced to regional assemblies only

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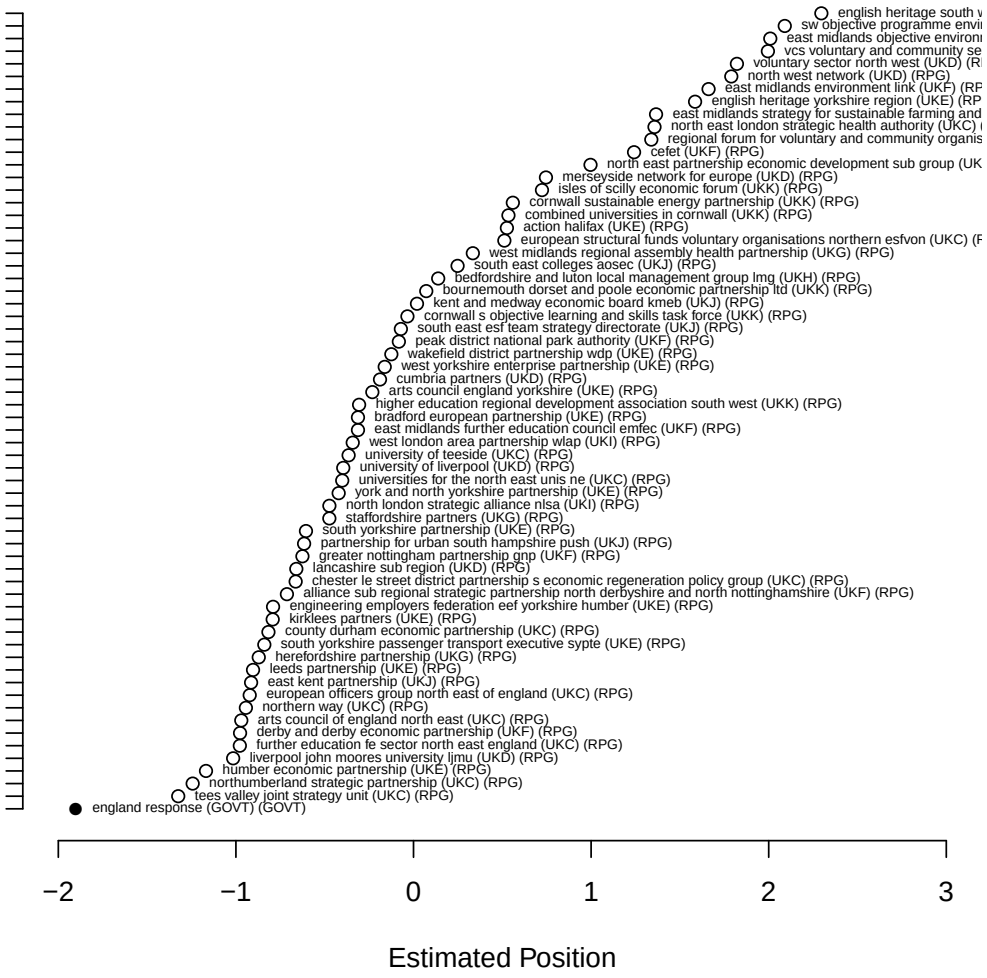


Figure 7: Estimated positions for regional policy groups and UK government

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Table 1: Pre-budget submissions included in the sample.

Interest group		Period covered
Name	**Abbreviation**	
Age Action Ireland	AgeAction	2006-2008
Consultative Committee of Accountancy Bodies Ireland	CCABI	2005-2009
Children's Rights Alliance	Childrens rights	2004
Citizens Information Board (Comhairle)	CIB	2004-2009
Construction Industry Federation	CIF	2004, 2006-2009
Sustainable Development Council	Comhar	2007-2009
Conference of Religious of Ireland	CORI	2004-2009
Combat Poverty Agency	CPA	2004-2009
Dublin Chamber of Commerce	DCC	2007-2009
Disability Federation of Ireland	DFI	2005-2009
Federation of International Banks in Ireland	FIBI	2005
Financial Services Ireland	FSI	2005
Irish Business and Employers Confederation	IBEC	2004-2009
Irish Banking Federation	IBF	2005, 2009
Irish Congress of Trade Unions	ICTU	2004-2009
Irish Exporters Association	IEA	2008, 2009
Institution of Engineers of Ireland	IEI	2004
Irish Farmers' Association	IFA	2006-2009
Irish Hospital Consultants Association	IHCA	2009
Irish Hotels Federation	IHF	2008
Irish Insurance Federation	IIF	2004, 2005
Irish Medical Organisation	IMO	2008, 2009
Institute of Professional Auctioneers and Valuers	IPAV	2008, 2009
Irish Small and Medium Enterprises Association	ISME	2004, 2006 - 2009
Irish Taxation Institute	ITI	2004-2009
National Women's Council of Ireland	NWCI	2004 - 2009
National Youth Council of Ireland	NYCI	2005, 2006, 2008, 2009
Small Firms Association	SFA	2004
Society of the Irish Motor Industry	SIMI	2004 - 2009
Society of St Vincent de Paul	SVP	2004 - 2009

Table 2: NDP submissions included in the sample.

Regional authorities	
Name (NUTS code)	**Abbreviation**
Joint Regional Authorities submission	RAs
Border, Midland and Western Regional Assembly (IE01)	BMW
Border Regional Authority (IE011)	BRA
Midland Regional Authority (IE012)	MRA
West (IE013)	WRA
Southern and Eastern Regional Assembly (IE02)	SE
Dublin Regional Authority (IE021)	DubRA
Mid-East Regional Authority (IE022)	MERA
Mid-West (IE023)	MWRA
South-East Regional Authority (IE024)	SERA
South West Regional Authority (IE025)	SWRA

Interest groups	
Name	**Abbreviation**
Age Action Ireland	AgeAction
Construction Industry Federation	CIF
Sustainable Development Council	Comhar
Combat Poverty Agency	CPA
Disability Federation of Ireland	DFI
Irish Business and Employers Confederation	IBEC
Information and Communications Technology Ireland	ICT
Irish Congress of Trade Unions	ICTU
Irish Exporters Association	IEA
Irish Farmers' Association	IFA
National Disability Authority	NDA
Society of St Vincent de Paul	SVP

Table 3: Distribution of respondents type from which submissions were made

Respondents type	
Regional Authorities and Regional Assemblies	39%
Subregional umbrella organisations	25%
National organisations, Professional bodies, Trades Unions, Industrial Organisations	11%
Education and skills organisations, including Higher Education, Further Education, Third sector	8%
Other Third Sector/ Voluntary	8%
Political parties, MPs, MEPs, other parliamentarians	4%
Regional Development Agencies	2%
Devolved Administrations and their Agencies	1%
Businesses	1%
Total	100 %

Source: DTI 2006

Table 4: Distribution of submissions by geographical area

UK organisations	10%
MPs and MEPs	3%
England	56%
Scotland	13%
Northern Ireland	7%
Wales	11%
Total	100 %

Source: DTI 2006

Table 5: Summary statistics for pre-processed submission documents

	Regional Authorities	**Regional Policy Groups**	**Government's Response**
Number of documents:	76	63	1
Average document length in number of words:	1,673	1,168	5,751*
Minimum number of words:	128	71	–
Maximum number of words:	6,073	3,585	–

* Actual number of words in document

Source: Authors' own calculation.



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