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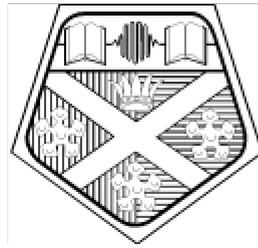

'CONSTRAINED DISCRETION' IN UK MONETARY AND REGIONAL POLICY

BY

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NO. 04-06

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‘Constrained Discretion’ in

UK Monetary and Regional Policy†

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January 2004

† The authors would like to thank Alex Christie, David Learmonth, Peter McGregor, Pauline McLaughlin and participants at the “Regional Policy in the UK” seminar, LSE, November 2003, organised by the ESRC Urban and Regional Economics Seminar Group, for comments on this and related work. Kim Swales also acknowledges financial support from the ESRC (grant L219252102) under the Devolution and Constitutional Change Research Programme.

Abstract

HM Treasury claims that the notion of “Constrained Discretion” which directs the effective operation of UK monetary policy applies equally to other delegated and devolved policies, such as the use of Regional Development Agencies in the delivery of UK regional policy. We question this claim from a “transactions cost politics” viewpoint. We argue that the delegation of responsibility for monetary stabilisation raises principal agent issues quite different to those encountered in the delegation of the responsibility for regional regeneration. Therefore the effectiveness and transparency that characterises present-day monetary policy cannot be expected in regional policy. Further, the detailed theoretical and empirical case for delegated Regional Development Agencies has yet to be made.

JEL classification: E5, H1 and R5

HM Treasury has argued for a new policy regime within the UK based on the delegation of decision making by central government to national, regional and local agencies. As the Chief Economic Advisor to HM Treasury, Ed Balls (2002) argues: "[I]n the spirit of Bank of England independence and the new approach to regional policy, we now need a new devolution - a new localism - in public service delivery." The new regime follows the principle of 'constrained discretion', a term devised by Bernanke & Mishkin (1997) to describe monetary policy developments then occurring in a number of countries. Balls (2002) extends the term's reach, claiming that in the UK the "'constrained discretion' model of policymaking has also had wider applicability across the public sector."

The central principles of this new regime are claimed to be: (1) Clear long-term goals set by elected government; (2) Clear division of responsibility and accountability for achieving those goals with proper coordination at the centre; (3) Maximum local flexibility and discretion; and (4) Maximum transparency about both goals and progress in achieving them, with proper scrutiny and accountability (Balls, 2002). In the context of UK monetary policy, 'constrained discretion' refers to the operation of the Monetary Policy Committee (MPC). In a regional policy setting, it is built around independent Regional Development Agencies (RDAs) "… with expanded budgets and … 100% flexibility … to spend the resources to meet regional priorities" (Balls, 2002).[1]

We have two major concerns with this policy stance. The first is the use by HM Treasury of a rhetorical device whereby the openness and effectiveness of the MPC in delivering monetary policy is employed to support the use of RDAs in delivering regional policy. As we will argue, macro-stabilisation and regional development pose quite different problems, so that independent agencies used to deliver each policy should operate in quite different ways (Wilson, 1989). The second is that the key characteristics of the policy of 'constrained discretion' outlined in the previous paragraph, so admirably met by the MPC, are clearly not met by the RDAs.

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[1] Allsopp (2003, p. 22) uses this notion of "devolution with constrained discretion" as a key element of the framework within which the present supply of UK regional statistics is to be reviewed.

However, we fear that HM Treasury's argument by analogy will restrict debate over the real strengths and weaknesses of the new regional policy and its prospects for success.

The structure of the paper is as follows. In Section 1 we discuss the general problem of government delegation to independent agencies in a principal-agent framework. We also give a summary of the contrasting characteristics of the problems of, and organisational detail surrounding, delegated regional and monetary policy delivery. Section 2 and 3 consider the operation of the Monetary Policy Committee (MPC) and the Regional Development Agencies (RDAs) in greater detail. Section 4 is a short conclusion.

1. Delegated Policy Delivery: An Overview

In tackling this issue we broadly adopt a 'transactions cost politics' framework (North, 1990; Dixit, 1996). As the name suggests, this framework applies the ideas of transactions cost economics to the analysis of public policy institutions. This should help identify, in detail, the co-ordination and motivation difficulties associated with different policy institutions and so provide a more solid foundation for evaluating alternative policy regimes.

Within this perspective, we adopt a normative approach, seeking to identify the institutional setting for policy-making that would maximise the government's Social Welfare Function.[2] From this viewpoint, there are a number of possible reasons for favouring the delivery of policy through an independent agency: for example, economies of specialisation, the additional flexibility of a non-Civil-Service work culture, or the greater commitment to a particular task shown by a more focused agency. However, in so far as the policy is delivered in this way, the government faces potential principal-agent problems. The existence of these problems depends on the extent to which the motives of the principal and agent coincide. Where motives are identical, principal-agent problems do not occur. However, where they

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[2] We are aware that this bypasses the question of whether the Social Welfare Function is interpreted as reflecting simply the government's or society's interests (McVittie & Swales, 2003).

differ, the agent's actions and/or outputs need to be monitored and the appropriate incentive mechanisms installed (Laffont & Martimort, 2002). The extent and nature of the informational asymmetries and the ease of monitoring will affect the associated transactions costs and therefore overall policy effectiveness.

Exhibit 1 briefly summarises the relevant features of the policies delivered through the MPC and the RDAs and important institutional and information issues in the operation of these agencies. This exhibit will be used as an aid – a road map even - when both of these delegated policies are discussed in greater detail in the next two sections. Note that in most respects the characteristics of the delegated monetary and regional policies identified in Exhibit 1 are quite different. This suggests a strong *prima facie* case against uncritically accepting the argument by analogy adopted by Balls. In this paper we investigate the similarities and differences between the two delegated policies in greater detail. In particular, we analyse the implications of these differences for the effectiveness and openness that will accompany the application of "constrained discretion" in the delivery of regional policy.

2. The Monetary Policy Committee

The new regime of "constrained discretion" in the operation of UK monetary policy was introduced during May 1997 and ratified under the Bank of England Act, 1998. This Act delegates decisions on interest rate determination to the Bank's Monetary Policy Committee (MPC). This committee, however, is answerable to the Chancellor of the Exchequer and constrained to act in pursuit of an inflation target that he or she sets.

In terms of the central principles underlying the operation of "constrained discretion" outlined in the introduction: (1) The goal is macroeconomic stability, defined in terms of an inflation target; (2) 'Operational independence' for the Bank of England provides for a clear division of responsibility between central government (HM Treasury) and the MPC, with the government responsible for 'political' decisions (ends) and the MPC for 'technical' decisions (means); (3) The 'Open Letter System' allows the MPC to respond flexibly to macroeconomic shocks by affording

the opportunity to justify divergence from the inflation target[3]; and (4) Publishing the inflation target, the minutes of MPC meetings and the technical advice (Bank of England *Inflation Reports*, etc.) on which decisions were based secures transparency and accountability.

The motivation for monetary policy reform is made clear in the New Labour manifesto commitment to '… reform the Bank of England to ensure that decision-making on monetary policy is more effective, open, accountable and free from short-term political manipulation' (Balls, 2001). The argument is extended in Balls (2002]:

> In today's global economy and fast-moving capital markets, responding flexibly and decisively to surprise economic events is critical for establishing a track record for delivering long-term stability. But without a credible framework that commands trust and a track record for making the right decisions, it is hard for policy to respond flexibly without immediately raising the suspicion that the government is about to sacrifice long-term stability and make a short-term dash for growth. So … we put in place a new and post-monetarist macroeconomic model based on 'constrained discretion' … in which the government sets and is therefore constrained by the symmetric inflation target to stick to long-term goals; but because the institutional framework commands market credibility and public trust, the independent central bank has the discretion necessary to respond flexibly and transparently to economic events.

2.1 Reasons for delegation to MPC

The reform is a response to the well known 'time inconsistency' problem. In this view, an unconstrained government's commitment to a low inflation policy is not credible because if the commitment were believed, the subsequent pursuit of such a policy would be sub-optimal for the government (Barro & Gordon, 1983; Kydland &

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[3] In the presence of unanticipated shocks, attempts to meet the inflation target might cause "undesirable volatility in output" HM Treasury (2003). However, if inflation moves more than 1%, in either direction, away from its target, the Governor of the Bank of England has to send a letter to the Chancellor. This letter must outline the reasons, policy actions, expected response time scale and the way in which these actions are consistent with the government's monetary policy objectives.

Prescott, 1977).[4] Government is tempted to renege on any commitment to a low inflation stance by exploiting the short-run output-inflation trade off.

If expected inflation is low, an expansionary monetary policy generates higher short-run output (lower unemployment) at a low cost in terms of additional inflation. The public is, however, aware that government faces this incentive and therefore expects that any low inflation commitment will not be adhered to. The result is a higher expected and actual equilibrium inflation rate determined where the marginal cost of additional inflation outweighs the marginal benefit of additional output that would accompany an unanticipated monetary shock. If the government cannot credibly commit to a low inflation rate, therefore, it must accept higher equilibrium inflation with no improvement in output or (un)employment.

The central problem here is moral hazard in the relationship between the public, acting as the principal, and the government, acting as the agent. Through hidden actions or hidden information, the government can exploit the difficulty the public has in accurately interpreting monetary policy actions. But because the public knows that it is in this weak position it anticipates the worst. With the MPC an institution is introduced that limits the government's options, thereby removing the moral hazard. However, the use of an agency to reduce moral hazard is unusual. In most circumstances, agency relationships, by introducing additional layers of interaction, are accompanied by increased moral hazard.

2.2 Alignment of motives

The organisational details surrounding the MPC support its independence from government pressure and its adoption of a long-run inflation target as the central goal of monetary policy. However, the specific nature of the policy problem allows the agency solution to be particularly effective. Moreover the central, and perhaps most attractive, characteristics of the operation of the MPC - the clarity, openness and accountability of the decision-making process - are similarly dependent upon the very special circumstances associated with this policy problem. In particular,

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[4] In other words, the low inflation outcome is not a Nash equilibrium of the appropriate game (Gibbons, 1992, p. 112-115).

for the MPC there is no conflict between policy effectiveness and openness. This is very unusual.

One key point is that the difference between the government's and the MPC's interests seems remarkably small. First, many of the members of the Monetary Policy Committee have a part-time, short-term tenure. The job that they perform – accurately predicting future trends in inflation and the impact of varying monetary policy on these trends – is one for which they would wish to build (or maintain) an individual outside reputation as a source of income and prestige. They therefore have no incentive to distort their views about these issues, and the "benchmark competition" generated by the disclosure of the MPC minutes and voting encourage high effort.[5]

Second, there is a high level of agreement within the population over the goals of monetary policy. This policy unanimity is unusual within government. Dixit (1997, p. 378) points to a 'very important, almost defining, distinct feature of public organizations: they are answerable to several different constituencies with different objectives.' The presence of multiple principals raises the potential for moral hazard, costly influence activities and even destructive competition between various interest groups vying to influence the policy agenda and the distribution of funds (Dixit, 1996, 1997; Frank & Cook, 1995; Milgrom & Roberts, 1986, 1990; Stiglitz, 1998; and Wilson, 1989). The independence of the MPC is therefore supported by this agreement over policy ends. For the MPC, the problem and its solution appear to be purely technical.

Further, if there were major disagreement within the population over the appropriate goals of monetary policy, it is doubtful whether the MPC could operate in such a transparent manner. Governments are well aware of the truth of the words of Francis Bacon (1597): "For also knowledge itself is power". Where the relative costs or benefits of a particular policy goal are in dispute, it is natural that the government will wish to control the flow of information to the electorate in order to bolster support for its own policy. Given that it is generally difficult to make a clear division between policy means and ends, the government would not welcome

[5] One problem might be the participation constraint, though salary, prestige and access to information are clearly adequate to attract high quality applicants. Also insider trading is possible but is relatively easy to police, given the high profile of MPC members.

completely open and candid discussion by their chosen policy intermediary. But in this case, the lack of candour would not only reduce openness but also weaken the credibility of the MPC and therefore the effectiveness of the policy delivery.

2.3 Ease of Monitoring

The credibility of the MPC is increased because its policy actions are effectively monitored. In order to limit public concern about monetary expansion's being used to affect short-run increases in activity, the operation of monetary policy needs to be visible and clear. Meeting these requirements is aided by the fact that the MPC uses only one policy instrument, the interest rate, whose level is set solely to hit the single objective, the inflation rate target.[6] In other words, the effectiveness of the policy gains as a result of its not being "joined up". Similarly, the relationship between these variables is believed to be well understood and the thinking behind any discretionary behaviour is explained openly in the MPC's published minutes. Further, accurate and timely measurement of the target policy variable increases credibility and is crucial for accountability. The inflation rate target is symmetric and has, up to now, been attained.

Alternative strategies can be used to establish credible price stability. One is to use binding policy rules (Friedman, 1960). However, past experience suggests that these are necessarily inflexible and therefore incapable of dealing adequately with macroeconomic shocks (Balls. 2001). Alternatively, the Government might seek to establish a reputation for a low inflation stance. But this takes time, and might only be won at substantial cost in terms of lower output and higher unemployment whilst expectations adjust to the new regime. Delegation of monetary policy decisions represents an alternative response to the credibility problem that allows more flexibility than with a centralised regime. Theory suggests - and a substantial body of recent evidence confirms - that such mechanisms can secure greater

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[6] Under Section 11 of the Bank of England Act, 1998, the Bank is instructed to follow lexicological objectives in the operation of monetary policy. Its primary objective is to maintain price stability. Subject to that, monetary policy should support the government's wider economic aims, including objectives on growth and employment. The inflation rate target is the only objective that specifically binds.

macroeconomic stability with lower inflation (Blinder, 2000; Chortareas *et al*, 2001; Romer, 1993).

However, two important points need to be stressed before recommending the MPC as a suitable role model for other forms of policy delegation. The first is that for the MPC, the effectiveness, openness, accountability and freedom from short-term political manipulation are characteristics that reinforce one another (Faust & Svensson, 2001). In order for the operation of the MPC to be effective, it must be free from short-term political manipulation. And for this policy freedom to be credible, the MPC must be open and accountable. There is no conflict or tension between these policy characteristics.

Second, it misleading to think that delegation to the MPC involves a reduction in Treasury control over macro-stability. In the UK system, monetary policy objectives are determined by government and are subject to revision. Moreover, Section 19 of Bank of England Act, 1998, gives HM Treasury legal authority to take back operational control of monetary policy. This can occur if it is judged by the Chancellor, after consultation with the Governor of the Bank (and subsequent ratification by Parliament), to be "required in the public interest and by extreme economic circumstances." The MPC is simply an effective way for the government to deliver its macro-stability objectives.

3. Regional Development Agencies

Balls (2002) makes the case for extending 'constrained discretion' to other areas of government activity, of which regional policy is a prominent example, by an analogy with the perceived success of the monetary policy arrangements. In the case of regional policy 'constrained discretion' takes the form of increased decentralisation of policy making from central government to regional and local agencies. It most clearly applies to the English Regional Development Agencies (RDAs).

The English RDAs were set up as non-departmental public bodies (NDPBs) under the Regional Development Agencies Act, 1998.[7] They were formally launched in eight English regions on 1 April 1999. A ninth, in London, was established in July 2000 following the formation of the Greater London Authority. The RDAs have statutory duties to encourage economic development and regeneration; promote business efficiency, investment and competitiveness; promote employment; enhance development and application of skills relevant to employment; and contribute to sustainable development in each of the English regions. To these statutory duties have since been added roles in the areas of tourism promotion, transportation, housing and planning.

We again use the structure of Exhibit 1 to characterise regional policy delivery through the RDAs. We focus, in particular, on potential principal-agent problems. Before starting it is perhaps useful to note that the extreme clarity of the issues surrounding monetary stability in general, and the operation of the MPC in particular, is missing from similar discussion of regional policy and the RDAs. Bearing this in mind, we begin with the motives for delegating the delivery of regional policy through the RDAs.

3.1 Reasons for Delegation to RDAs

The principal argument for increased localism in the field of regional policy is that this will allow regional and local agencies to design and implement local solutions to local problems. As HM Treasury *et al* (2003, p. 1] state:

> A close examination of national and regional economies shows that, the main cause of disparities is differences in productivity. It also shows that there is no single reason for underperformance and the effectiveness of factors driving productivity, such as skills,

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[7] Development Agencies generally have a much longer track record in the Devolved Administrations. The Highlands and Islands Development Board was created in 1965 and the Scottish and Welsh Development Agencies in 1975. These agencies were dissolved in 1990 and their powers transferred to, and extended within, new statutory bodies. In Scotland, these bodies adopted new names, “Highland and Island Enterprise” and “Scottish Enterprise”. Invest Northern Ireland, the Northern Ireland development agency, was created in 2002.

> investment and enterprise, vary from area to area. This implies that the approach required for addressing market failures should be capable of addressing regional, as well as national, needs.

Thus the 'new localism' in regional policy sees the roots of regional disparities in myriad small-scale coordination and market failures. HM Treasury (2001, p. v) states:

> The challenge for Government therefore is to help tackle these failures, so as to allow those less successful regions to build the conditions for economic success, whilst ensuring that more successful regions and countries continue to flourish.

This, it is argued, requires greater 'flexibility' since the policy response will depend on the precise nature of specific market failures and how they interact with imperfections in other markets at the appropriate spatial scale (local, regional, national, international). To operate such a policy centrally would impose an enormous strain on the government's ability to gather and process information and to design and deliver appropriate policy responses. Thus HM Treasury *et al.* (2003, p. 4) claim that delegation of regional policy will

> maximise the efficiency and effectiveness of policy by allowing policy design to draw on the expertise and knowledge of local and regional agents … [and by] … improving the ability of government to facilitate the development of locally differentiated solutions and better target policy delivery …'.

These are the standard arguments for decentralised decision-making based on improved information acquisition and processing. However, note that they are not, in themselves, arguments for delegating to an independent agency or agencies. Such a policy could be delivered by setting up regional offices of the appropriate national ministries. In order to justify policy delegation a more detailed argument is required. A concern over the delegation of regional policy is that this more detailed debate has never taken place. Further, whilst informational asymmetries underlie the arguments for delegation to both the MPC and RDAs, the issues are very different. The RDAs are put forward as an institutional innovation to *optimise* the *use* of *spatially dispersed* information, whilst the MPC is a mechanism to *eliminate* the *abuse* of *organisationally dispersed* information. The two problems are quite distinct.

One possible reason for the delegation of regional policy delivery is that whilst in general the government values the explicit and tacit codes of practice adopted by the Civil Service, it wants a different working culture for the RDAs. In particular, RDA employees might be encouraged to be more risk-taking, pro-active and private-sector friendly than Civil Servants in HM Treasury or the Department of Trade and Industry.[8] This is likely if the government wants the RDAs to introduce innovative local policies, not just to operate national discretionary policies. However, whether this culture will produce a more or less transparent policy-making process is not clear to us.

A second possibility is that the government wants to use benchmark competition to increase the effectiveness of regional policy. Here, having multiple, separately accountable, agencies would be a way of combating some of the moral hazard problems (Milgrom and Roberts, 1992). HM Treasury *et al* (2003, p. 4) argue:

> It is also necessary to maintain channels to facilitate communication and the spread of best practice between the nations and regions, and to assist policy coordination. The Government argues that these institutions will facilitate 'the ability to benchmark regional and local performance - which improves the monitoring of these [devolved] bodies by local and national electorates. This enhances the incentives to increase the efficiency of public service delivery and encourages the adoption of innovative policy solutions'.

Such a source for improving the delivery of policy might be very valuable. However, again note that this kind of argument is quite different to those used to justify delegating monetary policy to the MPC. Further, in so far as the regions do face genuinely different problems that require specific local knowledge to identify the optimal solution, the benchmarking process is limited and potentially unfair in its application.[9]

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[8] The difference in behaviour is likely to reflect both the internal procedures in place in the different organisations and the level of risk aversion of their employees.

[9] For a more detailed discussion of the pitfalls involved in such comparisons, see Royal Statistical Society Working Party on Performance Monitoring in Public Services (2003, pp. 17-18)

Finally, in considering the motives for the delegation of regional policy delivery, it seems reasonable to ask whether credibility (or time-consistency) is a problem. Clearly "credibility" issues might arise in the context of regional policy because, as Stiglitz (1998, pp. 9-10) points out, 'credibility' is a general, indeed inherent, problem for government.

> Government is the primary enforcer of contracts. It uses its monopoly on the legal use of force to create the possibility of private commitment. There is no one, however, whose job is to guard the guardian. The government cannot make a commitment because it always has the possibility of changing its mind, and earlier 'agreements' cannot be enforced.

But 'credibility' is much less important for regional policy than it is for monetary policy. The effectiveness of policy to attract relocating plants, and in particular foreign direct investment, might be enhanced by a credible commitment to ongoing support. In this respect, the decision by Scottish Enterprise, the RDA for Scotland, to set up 'Locate In Scotland' – an agency within an agency – might have been partly motivated by such considerations. However, these policies are only part of the functions that RDAs perform and corresponding time-consistency issues carry much less weight than for the MPC.

3.2 Alignment of Motives

A necessary condition for moral hazard problems is that principal and agent have interests that are not fully aligned. In considering the moral hazard raised by the operation of the MPC, we identified two particular sources of potential problems. These were the extent to which the interests of the agency as an organisation and the interests of the key decision-makers in the agency are aligned with those of the government. An associated issue is the degree of more general political agreement over the specific policy goals. We argued that the openness and efficiency of the delegated monetary policy delivery would be reduced if there were political disagreement over monetary policy goals.

In investigating the operation of independent RDAs, the fact that regional policy delivery has been delegated to a number of agencies, each covering a distinct geographical area, is an important institutional detail. The interests of an individual RDA will primarily concern the level of economic activity within its own geographic

area. However, the interests of the government concern the national level of activity and its distribution across regions. The interests of an individual RDA are therefore only, at best, partly aligned with those of the government. Each RDA has an interest, for example, in getting a bigger share of the programme budget, independently of the opportunity cost. Individual RDAs will also give low weight to policy spill-overs to other parts of the country.

The role of the temporary members of the MPC is to provide knowledge and judgement over the operation of monetary policy. These skills are valuable in the wider economy and the MPC an ideal platform for advertising one's abilities. For the MPC the motives of the members and the government are aligned and the members will favour transparency. However, managers of RDAs manage, so that there are familiar effort issues. Further, the criteria used in their assessment will depend much more heavily on the perceived performance of the RDAs as organisations. As such, the chief executives of RDAs have an incentive to "bury" the bad news and "showcase" the good, and will clearly resist complete transparency in decision making and policy execution. In this the RDAs are similar to almost all organisations. It is the MPC that is the outlier. Any lack of transparency in the operation of RDAs is reinforced by the requirement for commercial confidentiality that accompanies much of the discretionary aid that they manage.

Given that political activity is already organised on a geographic basis, with individual Members of Parliaments representing spatially defined constituencies, there is an inherent lack of political unanimity over the goals of regional policy. This increases the potential moral hazard problems, particularly if the RDAs operate closely with local private firms and public institutions, as the government wishes them to do. There will be pressure on the RDAs to attempt to subvert the national ends of regional policy by distorting the local means by which the policy is achieved. Issues of corruption might also emerge (Rose-Ackerman, 1999). Of course, all of this also undermines the potential openness of the delegated policy delivery. If RDAs see themselves as competing with one another - to attract inward investment, for example, or in overt benchmark competition – they will not be completely transparent in their policy actions or deliberations.

However, independently of the conflict between national policy objectives and the local concerns of individual RDAs, there is also no consensus over the national aims of regional policy. The current government's approach is to focus on improving

economic performance in all regions by addressing local market and co-ordination failures. The policy thus avoids any explicit concern with spatial re-distribution, leading some writers, e.g. Wren (2001), to question whether it *is* a regional policy as normally construed. This has not, however, settled the debate on policy objectives, since disagreements remain over whether regional policy *should* be redistributive (and, if so, in what ways) and on the appropriate weights to be given to various policy objectives, as is clear from House of Commons (2003).

3.3 Ease of Monitoring

Some difference between the interests of the principal and agent(s) is a necessary condition for moral hazard. However, the moral hazard problem can often be alleviated if the agent's actions and/or the outcomes of those actions can be monitored. The case of the MPC is an "ideal type" in this regard. The formal goal of the agency is clear and the outcome is easily and rapidly monitored. Policy actions are straightforwardly identified and interpreted. Finally the operation of monetary policy does not need to be adjusted to take into account other policy aims or accommodate other policy actions. Unfortunately, none of these conditions apply to the RDAs.

The problem for regional policy begins with the identification of policy targets. In this case, for accountability there needs to be clear targets for the overall operation of regional policy and also consistent targets for individual RDAs. HM Treasury *et al* (2003, pp. 4-5] are aware of the problem:

> Effective policy responses need to combine actions at national, regional and local levels to best effect. Policies which are best determined for the whole of the UK, but impact across all nations and regions, should be designed these impacts in mind (*sic*). At the same time, policies developed and delivered by national, regional and local bodies must be properly coordinated. Suitable mechanisms to turn high level decisions at the centre into specific actions on the ground, taking account of the differing roles and responsibilities of all those involved in all localities, are an essential part of the process.

However, regional policy targets are vaguely defined objectives that are often closely related (i.e. 'joined-up') with those of other areas of policy. The Public Service Agreement targets for regional policy over the period 2003-2006 are to

> [m]ake sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between regions, defining measures to improve performance and reporting progress against these measures by 2006 [HM Treasury, 2002, p. 25].

Whether this represents a statement of 'clear long-term goals' - one of the central requirements of constrained discretion - is highly debatable. For example, as Allsopp (2003, p. 21) points out, data currently do not exist to calculate the real regional GDP growth rates. These PSA targets are, however, models of clarity when compared with the goals set for agencies - in particular the English RDAs - to which responsibility for design and delivery of this policy is delegated. These are outlined in Exhibit 2. They include: improving trend growth in GDP per capita; reducing deprivation in deprived wards; promoting urban and rural development; promoting physical development; increasing employment; improving skills relevant to employment; encouraging enterprise and innovation; increasing investment and productivity; sustainability; and so on. In sum, the objectives of regional policy, as currently identified, are unclear and imprecise in a way that those for monetary policy are not.

Even if it were the case that the RDA's targets were expressed in a tighter, more specific and measurable manner, the degree of accountability would be much lower than for the MPC. This is because of the extended time frame over which these targets are set and the lack of agreement over the causal links between public policy and local development. Imagine that when the regional data become available, it is judged that the persistent gap between regional growth rates had not been reduced over the 2002-2006 time period. Who would be accountable? The then serving relevant minister(s) and RDA chief executives, or those who had held these offices in the past?

This problem is increased because it is difficult to monitor the RDAs actions or to decide whether the actions are appropriate *ex ante*. Of course, the lack of agreement of the determinants of regional development in general will make identifying the counterfactual – what would have occurred had there been no regional policy – uncertain, so that even *ex post* evaluations with clear targets will face difficulties (McVittie & Swales, 2003; Taylor, 2002).

The problems for efficiency and transparency are exacerbated by the high level of interaction between RDAs and other agencies operating at the local level. Even if it

were possible to identify, in an accurate and timely manner, the overall impact of local development policy, is it possible to assign success or failure to individual agencies?

Caffyn and Lutz (2002) discuss the present institutional framework for the local delivery of tourism policy in the UK and indicate the practical implications of "joined up" policies. At the regional level there are five organisations with some responsibility for tourism policy. These are: the Regional Tourist Boards, the Regional Chambers; the Government Offices for the Regions; the Regional Development Agencies and the Regional Cultural Consortia. These regional bodies are responsible to different Government Departments and interact at a more local level with local authorities, partnership organisations and the tourism industry. The situation is shown graphically in Exhibit 3 (Caffyn and Lutz, 2002, Figure 1, p. 5). It is unclear to us how in practice the contribution of any of these separate institutions can be individually identified. Of course, tourism promotion is only one of the concerns of the RDAs.

Before concluding, it is important to raise the issue of transparency and regional accountability. In the case of the MPC, there is a clear distinction between means and ends: the MPC has independence concerning the operation of monetary policy but the Chancellor sets the clear inflation target. Whilst the operation of monetary policy is now more transparent, there is no presumption of increased democracy, aside from the fact that the electorate might become better informed over policies aimed at macroeconomic stability.

However, with the delegation of regional policy, RDAs will be "held properly to account … within the region and by local government" (Balls, 1992, p.7). Transparency and accountability is linked to local democracy in a rather imprecise way, blurring the distinction, earlier argued as critical, between the ends (set by the elected government) and means (determined by the independent agency) of delegated policies. RDAs in the Devolved Administrations of Northern Ireland, Scotland and Wales report not to UK government departments but to their Parliament and Assemblies. For these agencies, power has been devolved not simply delegated. For them, neither the ends nor the means are under direct UK government control. But if the English RDAs are to be subject to local democratic influences, is this simply concerning how policy should work, but not why and for whom?

Conclusions

In this paper we question the view presented by Ed Balls (2002) that the efficiency and transparency apparent in the "constrained discretion" operated by of the Monetary Policy Committee would be replicated by the Regional Development Agencies. His attempt to argue by analogy is particularly inappropriate: the policy problems posed by macroeconomic stabilisation and regional development are completely different. Whilst it might be optimal to deal with both through delegated agencies, the detailed case and empirical evidence have been presented for monetary policy but not regional development. Further, the four key characteristics of the operation of constrained discretion listed in the introduction, whilst applying to the MPC do not apply to RDAs. We have expressed concern elsewhere about the increasing difficulty of regional policy evaluation (McVittie & Swales, 2003). If the government wants to ensure the transparent and efficient delivery of regional policy it needs to look carefully and critically at the institutions it is putting in place. A much more realistic debate needs to take place concerning the strengths and weaknesses of such a delegated policy.

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Exhibit 1: Features of UK Delegated Monetary and Regional Policy

	Monetary Policy Committee	**Regional Development Agencies**
Reason for Delegation	Moral Hazard by Government (Time Inconsistency)	Information?
Alignment of Motives		
Number of agencies	One	Several
Organisational Alignment	Full	Partial
Managerial Alignment	High	Low
Electoral Agreement	High	Low
Ease of Monitoring		
Number of Objectives	One	Many
Number of Policy Instruments	One	Many
Target	Symmetric	Aspirational?
Status of Policy Impact Model	Well Understood	Poorly Understood
Feedback	Rapid	Slow
Integration of Policy	Isolated	Joined Up

Exhibit 2 RDA Target Framework

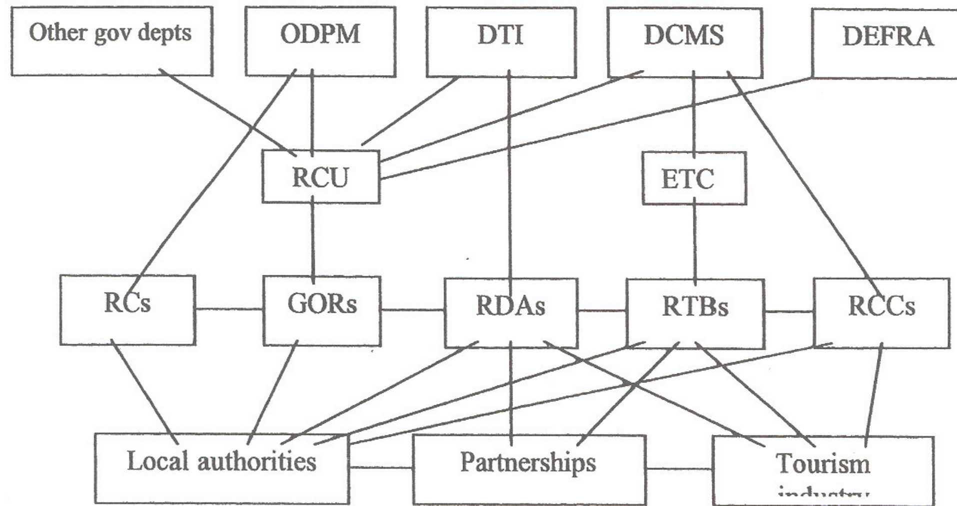
Tier 1 Objectives	Tier 2 Regional Outcomes (by 2004/5 unless otherwise stated)	Tier 3 Core Milestones (Outputs)
Apply throughout urban and rural areas	These are national targets. Targets for each region will be set through the corporate planning process.	The numbers on these targets will differ regionally. These will be set through the corporate planning process. RDAs to produce a written commentary which describes how these milestones impact on their Tier 2 targets.
To promote economic development and regionally balanced growth.	1. Sustainable economic performance: Provide a strategic framework to improve the sustainable economic performance of each region, measured by the trend in growth of GVA per capita, while also contributing to the broader quality of life of the region.	1. Employment Opportunities: Support the creation or safeguarding of x net jobs.
To promote social cohesion and sustainable development through integrated local regeneration programmes	2. Regeneration: Work with Local Strategic Partnerships (LSPs) and other stakeholders to achieve neighbourhood renewal through promoting economic development and investment in the most deprived areas. In doing so, to reduce deprivation by 10% in those wards in the region that are currently in the bottom 20% of the Indices of Multiple Deprivation, thereby contributing to a narrowing of the gap between these wards and the mean of all wards.	2. Brownfield Land: Reclaim or remediate x hectares of previously developed land and buildings as a contribution to the national target, shared between all RDAs, the LDA and English Partnerships, to reclaim previously developed land and buildings at a rate of over 1,400 hectares per annum by 2006 (reclaiming 10% of the estimated 2000 stock by 2006 and 20% by 2010.
To help those without a job into work by promoting employment and enhancing the development of skills relevant to employment	3. Urban: Working with partners, including LSPs, contribute the the renaissance of towns and cities, enhancing the quality of space and buildings through the promotion of excellence in design by co-ordinating the RES with regional transport plans, regional planning guidance, regional sustainable tourism and local development plans.	3. Education and Skills: Support the creation of learning opportunities for x individuals.
Promote enterprise, innovation, increased productivity and competitiveness.	4. Rural: Reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2006, and improve the accessibility of services for rural people. Regenerate vulnerable market towns as healthy and attractive centres serving their own population and that of their rural hinterlands.	4. Business Performance: Support the creation and/or attraction of x new businesses.
	5. Physical Development: Work with partners to achieve a more sustainable balance between housing availability and the demand for housing in all English regions, and to ensure that by 2008, 60% of new housing is provided in previously developed land and through conversion of existing buildings.	5. Investment benefiting deprived areas: Leverage through RDA funding and activity x pounds private sector investment benefiting residents of the most deprived wards.
	6. Employment: Work with partners to increase the ILO employment rate over the economic cycle.	Strategic Added Value: Mobile the actions of key regional and sub-regional partners to support the achievement of regional priorities and deliver agreed regional strategies (still needs developing).

RDA Target Framework (cont)

Tier 1 Objectives	Tier 2 Regional Outcomes (by 2004/5 unless otherwise stated)	Tier 3 Core Milestones (Outputs)
	7. Skills: Work with LSCs, Sector Skills Councils and other partners, to improve the levels of qualifications of the workforce in order to meet priorities as defined in Regional Frameworks for Employment and Skills and to help meet national learning targets. 8. Productivity: Work with regional partners to enable an increase in productivity measured by Gross Value Added (GVA) per hour worked in the region. 9. Enterprise: Work with Small Business Service and others to help build an enterprise society in which small firms of all kinds thrive and achive their potential, with an increase in the number of people considering going into business, an improvement in the overall productivity of small firms, and more enterprise in disadvantaged communities. 10. Investment: Make the region an attractive place for investment to maintain the UK as the prime location in the EU for foreign direct investment, particularly by providing effective co-ordination of inward investment activities of regional and local partners. 11. Innovation: Make the most of the UK's science, engineering and technology by increasing the level of exploitation of technological knowledge derived from the science and engineering base, as demonstrated by a significant increase in the number of innovating businesses, of whom a growing proportion use the science base amongst other sources of knowledge.	Supplementary Milestones: Each RDA will also agree supplementary milestones which will vary regionally.

Source: Department of Trade and Industry

Exhibit 3: The Institutional Framework for Tourism in England



Source: Caffyn & Lutz (2002)

Notes: The acronyms used in Exhibit 3 are as follows: DCMS is the Department of Culture Media and Sport; DEFRA is the Department for Environment Food and Rural Affairs; DTI is the Department of Trade and Industry; ETC is the English Tourism Council; GOR is the Government Offices of the Regions; ODPM is the Office of the Deputy Prime Minister; RC is Regional Chambers; RCC is Regional Cultural Consortia; RCU is the Regional Co-ordination Unit; RDA is the Regional Development Agency; and RTB is the Regional Tourist Board;

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