

Different Faces of Fiscal Bureaucracy

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ABSTRACT

In light of the growing importance of finance ministries and the financial dimension in policy-making, opening up the “black box” of fiscal bureaucracies is more warranted than ever. Our paper addresses the following research question: What kinds of roles can be assumed by fiscal bureaucrats in fiscal policy-making and budgeting? We propose four dichotomies that can be employed for examining the roles played by fiscal bureaucracies: 1) developers vs guardians; 2) initiators vs followers; 3) mediators vs insulators; 4) modellers vs estimators. In developing these dimensions, we juxtaposed the insights from various streams of institutionalist research and also literature on public budgeting and public policy with the themes that emerged from the interviews we conducted in four different countries: Estonia, Latvia, Sweden and Norway. We find that fiscal bureaucracies in Estonia and Latvia tend to be closer to the guardian-insulator-estimator ends of the continuums, whereas the officials in Sweden and especially Norway lean towards the developer-mediator-modeller end of the scale. The division between the initiator vs follower roles is less clear-cut.

Keywords: fiscal bureaucracy, fiscal policy, budgeting, comparative analysis

1. Introduction

A number of studies on fiscal governance have pointed to the increasing power of the finance ministries, following the recent financial, economic and fiscal crises (Allen et al. 2016; Di Mascio et al. 2013; Raudla et al. 2015). Finance ministries have already tended to be *primi inter pares* among the ministries since they are responsible for “formulating and implementing the core financial functions of government” and are “at the center of economic and fiscal policy-making” (Allen et al. 2016, 3). The growing importance of the financial dimension in governance gives the finance ministries – and especially the “fiscal bureaucracy” part – an even bigger role in the governmental ecosystem. By “fiscal bureaucracy” we mean the civil

servants who are involved in and contribute to budgetary and fiscal policy; hence, it covers officials working for the departments of budgeting, fiscal policy and macro-economic analysis in the finance ministries.

In light of their growing importance, it is somewhat curious that the finance ministries have received only limited attention in scholarly research so far. Indeed, as Allen et al. (2016, 4) put it, “the literature on the functions and organizational structure of finance ministries is relatively slim”. However, anecdotally, the power and importance of fiscal bureaucrats is rarely doubted, often feared and vilified as in this following exchange from *Yes, Prime Minister* (1986):

James Hacker: But that’s an outrageous view.
Sir Humphrey Appleby: Yes indeed, it’s known as Treasury Policy.

Thus, it comes as a surprise that the role of bureaucracy in policy-making is an understudied question – or even a “missing variable” (Meier 2009, 7) – even though it is often admitted that bureaucrats can play a significant role in policy making (Baekgaard et al. 2015; Howlett 2011). If the volume of studies on finance ministries and the role of bureaucracies in policy-making is “slim”, the literature on fiscal bureaucracies is even thinner. In Krause’s (2012, 149) words: “Budget officials are bureaucrats but bureaucracy is mostly absent from literature on budgeting.” Given their increased power and relevance, however, it would be useful to open up the “black box” of fiscal bureaucracies and take a closer look at the kinds of roles they play and the types of “faces” they can have. In doing that, we have followed the call of Yesilkagit (2012, 35), who, when elaborating the future research agenda in the field of executive politics, called for “recalibrating” the images we have of bureaucracies by undertaking more studies about the bureaucrats’ roles, beliefs and perceptions.

Thus, the research question this paper addresses is: What kinds of roles can be assumed by fiscal bureaucrats in fiscal policy-making and budgeting? While Allen et al. (2016) analyze the functions and organization of finance ministries as a whole, in this paper, we zoom in closer on the fiscal bureaucracy part of finance ministries. We propose four dichotomies that can be employed for examining the roles played by fiscal bureaucracies: 1) developers vs guardians; 2) initiators vs followers; 3) mediators vs insulators; 4) modellers vs estimators. In developing these dimensions, we juxtaposed the insights from various streams of institutionalist research and also on literature on public budgeting and public policy with the themes that emerged from the interviews we conducted in four different countries: Estonia, Latvia, Sweden and Norway. In each country, 5-6 semi-structured interviews were conducted with fiscal bureaucrats during the period of 2014-2016. In choosing the interviewees we followed the logic of purposive sample and sought to cover officials who contribute to fiscal policy making and budgeting through different angles. The dichotomies we outline in this paper are, of course, continuums rather than binary in nature. For developing the first three dichotomies (developers vs guardians; initiators vs followers; mediators vs insulators) we were able to draw on the theoretical discussions in the existing literature. The last dichotomy (modeller vs estimator) emerged as an insight from our interviewees. It also points to a gap in the existing theoretical dis-

cussions on comparative public policy and bureaucracy – since we could not find any studies that would discuss the use of macroeconomic models by fiscal bureaucracies.

In choosing the countries, our goal was to cover a sufficient diversity of settings while keeping the cases comparable. All four countries are unitary states, parliamentary democracies with proportional electoral systems and coalition governments, and located in the same region. However, the two pairs – Estonia/Latvia and Sweden/Norway – have very different characteristics in terms of prosperity, economic development, styles of policy-making and ideational heritage. Sweden and Norway are older democracies, Estonia and Latvia newer ones. Sweden and Norway are high-income countries, Estonia and Latvia on the medium level. Sweden and Norway have a long heritage of social democratic governments, while the Estonian and Latvian governments have, since the 1990s, been primarily driven by the neoliberal policy agenda. The countries also vary in terms of their integration with the European Union (EU). Estonia has been a Eurozone member since 2011, Latvia since 2014. Sweden is a full EU member but does not have the Euro. Norway is not a member, but it is closely integrated through the European Economic Area (EEA) agreement. By looking at the different settings, we can explore the variation in the perceived roles and faces of fiscal bureaucracies.

The main empirical goal of this paper is not to offer generalizations but to explore the nuances under the dichotomies we have proposed – to “fill them with life” and with the actual “voices” of the fiscal bureaucrats themselves. Thus, our aim is to provide a more nuanced discussion of fiscal bureaucracies than just focusing on the formal authority and institutional competencies would allow, and zoom in on the “subtler” roles they can play. We do point to some patterns where we observed them, but these should be viewed as tentative conjectures. In other words, the overall goal of our analysis was to explore the diversity of the attitudes rather than to converge on premature generalizations. The paper is structured as follows: sections 2-5 cover the four different dichotomies we have proposed, with each section first providing some theoretical considerations, followed by empirical analysis. Section 6 concludes with a discussion.

2. Guardians of the Purse or Developers of Economy?

In the literature on budgeting, finance ministries are usually expected to fulfil the role of the “guardian” of the purse (Heclo and Wildavsky 1974; Rubin 2016; Krause 2012; Wildavsky 1986; Wildavsky and Caiden 2004). As Krause (2009, 3) puts it, “Modern finance ministries should be lean and mean guardians of public money.” While the line ministries have incentives to expand spending, the finance ministries also look at the revenue side and evaluate the overall tax burden. Indeed, the “performance” of fiscal bureaucracies is usually evaluated by how well they manage to balance demands and available resources (Heclo and Wildavsky 1974; Krause 2012). They are expected to take the “Treasury view”, be the “responsible housekeeper” of the government (Wanna et al. 2003) and “discipline” the spending-prone line ministries.

The role of the “guardian” can be played out by adopting either a “macro” or a “micro” approach to budgeting (Krause 2009; Schick 1986, 1988). *Macro-budgeting*

is aimed at controlling the budget totals, leaving more discretion over the details of the budget to the line ministries. *Micro-budgeting* focuses on controlling the more detailed line-items, influencing the daily operations of spending ministries and essentially acting as a “command and control post” (Schick 2001, 9). The general tendency in the Organisation for Economic Co-operation and Development (OECD) countries has been to move from micro-budgeting towards macro-budgeting, entailing a stricter control over the totals and relaxation of more detailed input controls (Schick 2001).

Alongside fulfilling the “guardian” role, fiscal bureaucrats can also be expected to consider the effects of the budget on economic development, i.e. to assume what we call a “developer” role. Given the increasing importance attributed to fiscal policy in the post-crisis period and extensive debates in the academic and policy communities that have unfolded since the Great Recession (see, e.g. Ban 2015; Blyth 2013; Dellepiane-Avellaneda 2015; Vail 2014) we would also expect that fiscal bureaucracies had to (re)-reflect on what role fiscal policy could or should play in the development of the economy. The “developer” role can entail various tasks, ranging from developing counter-cyclical fiscal policies and fine-tuning the economy to undertaking a more extensive role in using fiscal policy tools to promote favourable development of the economy.¹ While not contradictory to the “guardian” role per se, combining the “Treasury view” with the “economic development” view can impose contradictory demands on the fiscal bureaucrats. Thus, we were interested in how these potentially conflicting imperatives influence the predominant role perceptions of the fiscal bureaucrats and their attitudes towards fiscal and budgetary policy-making in the four countries covered in our study.

In all four countries, the overall approach to the budget process follows the top-down approach of macro-budgeting, with Sweden being the clearest example (with its fixed multi-year expenditure ceilings) (Anderson et al. 2006; Downes et al. 2017; Kraan et al. 2009; Raudla 2010; Wehner et al. 2008). In all four countries, the interviewed officials did indeed point to their “guardian” role in the budget process, sometimes even using the very same term. As the Latvian officials put it: “We play the role of defender and keep the spirit of fiscal discipline because currently there is a real desire to spend” (Interview L2). “We serve the role of a watchdog, who’s barking all the time” (Interview L6). In Estonia, the interviewees repeatedly emphasized that their role is to “keep the house in order”, very much echoing the “responsible housekeeper metaphor” described above. A Swedish official remarked, “Spending ministries tend to exaggerate their expenditure forecasts and we usually follow a rule of thumb to adjust them downwards” (Interview S6). The “guardian” orientation was particularly clear in the case of officials working for the *budgeting* departments, which are in charge of gathering the spending proposals and negotiating with the line ministries. Even in Norway, where the scarcity of resources is somewhat lower than in the other countries, the interviewee noted that, “We have the oil revenue, but still, the politicians need to prioritize. They need to stop doing things and propose cuts and savings in order to prosper” (Interview N4).

¹ This can take different forms from spending rules to managing public development banks or state-owned companies. We also have to remember that many central banks were governed by respective Treasuries up to the latter decades of the 20th century, i.e. they were not autonomous (O’Connell 2014).

The guardian role of the fiscal bureaucracy has become more complicated in recent years, given that the EU fiscal rules pertain to the *general* government sector, which, in addition to the central government also includes local governments and state-owned and municipal enterprises. That means that if the latter run higher deficits, the central government has to lower its deficit in order to make sure that the general government deficit meets the EU target(s). Thus, in Estonia and Latvia, for example, local governments have to obtain a permission from the Ministry of Finance (MoF) in order to incur a loan – which adds another dimension to the MoF’s guardian role.

It emerged from the interviews that there are other, more subtle ways to exercise the guardian role than exercising a direct control of the expenditures in the annual state budget. Increasingly, the fiscal bureaucrats in the four countries have been in charge of designing *fiscal rules* – either as a result of the EU mandates (in Estonia and Latvia) or on their own initiative (in Sweden and Norway).

This more nuanced “guardian” role can be observed particularly clearly in the case of Estonia, where the interviewed officials admitted that when writing the new fiscal rule – the structural balance requirement – into the new organic budget law in 2013, it was the initiative of the fiscal policy department’s officials to establish a *stricter* target than was foreseen by the European mandate. While the Fiscal Compact required the member states to establish a structural *deficit* target of 0.5% of GDP, the Estonian fiscal bureaucracy proposed (and succeeded in) establishing a structural *balance* target (see also Raudla et al. 2016a). The fiscal bureaucrats also designed an automatic compensation mechanism (in the form of having to run budget surpluses), should it turn out, *ex post*, that a government has violated the structural balance rule. This was another requirement, which was not, in fact, covered by the European mandate. The fiscal bureaucrats hoped that these provisions would serve as additional checks on fiscal discipline. As one of the interviewed officials explained: “The current government is fiscally responsible but future governments may not be. Thus, we have been more conservative [in designing the fiscal rules in the new organic budget law] in order to avoid getting immediately into a big mess, should a more profligate government get into office. The stricter provisions in the organic budget law will hopefully keep the future governments in check” (Interview E2).

The *fiscal rules*, in turn, provide the MoF officials with a focal point in their “guardian” role: the rules allow them to take a firmer stance towards the line ministries. In Estonia and Latvia, it is the structural deficit (or balance) rule and multi-annual expenditure ceilings, adopted as a result of the requirements of the Fiscal Compact; in Sweden, it is the surplus target and multi-year expenditure ceilings; in Norway, the fiscal rule stipulating how much of the oil (or pension) fund can be utilized annually.² We also observed, however, that while the fiscal rules can strengthen the position of the fiscal bureaucracy in the budget process, vis-à-vis other actors, such rules can also impose contradictory demands on them. In the case of Norway, for example, the idea of the fiscal rule is to restrict spending of oil revenues to the return on the oil fund, but since the rule applies to a whole business cycle, it

² The Norwegian rule established a reference level for the budget deficit: over the business cycle, the deficit should equal the expected real return (4 per cent) of the petroleum fund (Mjøset and Cappelen 2011).

does not entirely rule out the kind of political business cycle behaviour (government spending timed to elections) that fiscal bureaucrats want to avoid. Furthermore, such rules can force the “guardians” to adopt “creative” approaches in order to comply with the rules. A Swedish official explained that in order to adhere to the expenditure ceilings, the MoF has used some “canny” solutions (e.g. postponing payments) to make sure that formally the rules are followed (Interview S6). As he emphasized, such an approach is necessary for avoiding a slippery slope: “Once the expenditure ceiling is exceeded, it is much easier to exceed it also next year. ... So we have a dual role of defending the system as a whole but in order to provide the needed flexibility, especially in more urgent situations where expenditure cuts cannot be undertaken, we have to introduce measures that more or less circumvent the rules” (Interview S6). Thus, in a paradoxical way, strict fiscal rules can force the guardians to “circumnavigate” the rules in order to “keep” the rules.

As mentioned above, the identification with the “guardian” role is particularly evident in the case of the officials working for the *budget departments*. When looking at the fiscal bureaucracies as a broader group of officials (including also those from departments dealing with fiscal policy, economic policy, and/or macro-economic analysis), the diversity of views with regard to the position in the “guardian vs developers” continuum is more pronounced, both between countries and within them. We explored these themes with the help of more general questions (e.g. asking the civil servants to outline the goals of fiscal policy) but also with more specific questions (e.g. how would they react in the case of recession, what is their evaluation of recent fiscal policy actions). Finally, in order to locate their answers in a broader ideational context, we posed questions with an explicit reference to Keynesian ideas and whether such ideas are or could be applied in their country.

In all four countries, the interviewees’ views were similar with regard to what the *general goals* of fiscal policy should be. They all agreed that fiscal policy should be counter-cyclical, play a role in economic stabilization and foster economic development. We could, however, observe differences among the interviewees with regard to what it would mean in terms of specific policy actions. In Sweden and Norway – when asked the question, “if a recession were to hit your country next year, what would the response be?” – *all* the officials answered that the government would respond with a fiscal stimulus. One of the Norwegian officials noted that in 2016 and 2017 they would, in fact, have “expansionary fiscal policy to counteract the downturn in the economy” (Interview N2). One of the Swedish officials explained that in order to stimulate the demand, the government could increase the child allowance, spend more money on the municipalities, and increase the infrastructure and housing investments (Interview S4). Another noted, “It is important to get people back to work” (Interview S3). In Estonia and Latvia, the answers to the same question (“how would you react to a recession?”) were more divided: some officials argued for consolidation measures, others for stimulus measures.³

Also, when evaluating the actions taken during *the most recent recession*, we can observe considerable differences between the assessments of the interviewees. The

³ At the same time, most of the officials in all four countries noted that in order to be ready for the next crisis, it is important to build reserves – so that there would be fiscal space for taking actions.

Swedish and Norwegian officials all pointed to fiscal stimulus measures that were undertaken in 2008-2010 and found them justified, although there were diverging views between the officials with regard to whether the measures were too small or too large, in hindsight. Some of the Swedish interviewees noted, however, with a view to the 1990s crisis, that in some cases, *fiscal consolidation* may improve the economic situation. As one of the officials explained, “In the 1990s we had this big fiscal crisis and there was a lot of discussion of non-Keynesian effects – that budget cuts could actually stimulate the economy. The evaluations afterwards of whether that was true or not have shown mixed results. Some findings indicate that when you have such a big fiscal crisis – we had a deficit of more than 10 per cent of GDP and exploding central government debt – it is possible that budgetary retrenchments could actually be expansionary because you increase the trust” (Interview S6).⁴ The interviewee added, however, “In a normal situation, when you have sustainable public finances – at least relatively sustainable – as in Sweden today, then an expansionary fiscal stance has a positive demand effect on the economy and budgetary cuts would have the opposite effects” (Interview S6). In Latvia, all the interviewed officials found the consolidation measures in response to the recent crisis justified – with the arguments echoing the same aspects as those mentioned by the Swedish official. In Estonia, some of the officials saw the consolidation measures as fully justified, whereas others suggested that perhaps they went too far and were contractionary.⁵

When asked to evaluate the current state of fiscal policy, both in Sweden and Norway, however, the officials expressed concerns over excessively expansionary fiscal policy. The interviews with the Swedish officials also indicated concerns over the potentially overly expansionary fiscal policy: “We are not being as careful with the money as we should be in fiscal policy, given that we are going through good times, labour market and production-wise. The government is over-expanding the economy now” (Interview S3). “Our GDP gap now is close to zero or even positive. We are now close to full utilization of resources and to avoid expansionary fiscal policy we should go back to surplus” (Interview S6). In the Norwegian context, parties represented in the parliament can demand that the party’s budget proposal is checked on the macroeconomic models maintained by Statistics Norway. Commenting on one of these exercises, a Norwegian official complained, “On fiscal policy they are a bit soft. They had some analysis a few years ago when they saw additional spending of 40-45 bn NOK on infrastructure every year. I found it to be too stupid in a way. ... It was then used in parliament for arguing for more spending in a situation where we didn’t really need it” (Interview N3). Referring to discussions on whether the Norwegian fiscal rule should be tightened by lowering the 4 per cent estimated return to 3 per cent, another official noted that the 4 per cent estimate “could give too high impulses to the Norwegian economy in a situation where we actually need to transform, and if you push too much money into the economy, that could stop the transformation you need rather than helping it” (Interview N1). In the Estonian case, we could observe a noteworthy diversity – even contradictions –

⁴ For academic discussions on the issue, see, e.g., Erixon (2015), Flodén (2013).

⁵ For an overview of the consolidation measures undertaken in Estonia and Latvia, see Raudla and Kattel (2013) and Kattel and Raudla (2013).

among the attitudes of fiscal bureaucrats with regard to the “development” dimensions of fiscal policy. On the one hand, all the interviewees repeatedly noted that, indeed, an important function of the fiscal policy is to be counter-cyclical, to smooth the economic cycle and to stabilize the economy. On the other hand, the perception of the political reality is different. As one of the officials noted, “The idea that we should stimulate the economy in order to close the GDP gap is still somewhat alien here” (Interview E3). Also, while some of the officials support counter-cyclical economic policy, *in principle*, they appear to be reluctant to actually implement it by incurring loans. As one of the officials argued, “I do not support the idea of incurring loans ... The ideas that politicians are proposing for incurring loans are idiotic” (Interview E2).

In a similar vein, in Latvia, the overall attitude of fiscal bureaucracy appears to be that fiscal policy has a significant role to play in economic development and stabilization. However, as in Estonia, there is a reluctance to implement such a policy in reality – due to distrust towards the politicians. A Latvian official explained that in light of the low public debt level and low interest rates, running small deficits would be justified, and the loans could be used for financing infrastructure spending. The interviewee added, however, that “We don’t really trust our decision-makers: if we allow them to have a greater deficit, we cannot be sure that they would use it for investment. Instead they might spend it on consumption or pensions or something else that is politically profitable. Thus, our attitude is that we would be better off by not borrowing: that enables us to have lower debt maintenance expenses” (Interview L4).

When asked explicitly about their attitudes towards *Keynesian*-style fiscal policy-making and the applicability of Keynesian ideas in their country, the Norwegian fiscal bureaucracy appears to be most comfortable with it and they all agreed that Norwegian fiscal policy follows Keynesian principles. As one of the interviewees put it, “I think that Keynesian ideas are basically there in all institutions in Norway that are discussing economic policy” (Interview N1). According to another, “We have a very long tradition in Norway for using fiscal policy actively in stabilizing the economy, and that goes back several decades” (Interview N3). Another official noted that although since 2001, when the fiscal rule and the inflation target were introduced, monetary policy in Norway has been given the main role in stabilizing the economy, fiscal policy still plays a role during large fluctuations (as was the case in 2008-2009) (Interview N2). In Sweden, the interviewees also supported a counter-cyclical role for fiscal policy and noted that there is more widespread agreement about the importance of Keynesian-style activist fiscal policy after the crisis. They also interpreted the existing fiscal framework in Keynesian terms. As one of the interviewees explained, the expenditure ceilings still allowed for counter-cyclical action: “Those who criticized our actions during the recession, neglected the fact that the expenditure ceiling is expressed in nominal terms and at the same time we had a drop in inflation, in prices, in wages, and that counteracted the effect on nominal expenditures” (Interview S6).

In Estonia and Latvia, the attitudes towards Keynesian fiscal policy are more ambivalent. In Estonia, on the one hand, the interviews indicate that the officials tend to re-interpret the austerity measures in 2009-2010 as having been at least partially

“Keynesian” in nature and having provided a boost for the economy (see also Raudla et al. 2016b). Thus, while during the austerity period itself (2008-2010), Keynesian ideas were criticized in Estonia (see Raudla and Kattel 2011), in light of increasing acceptance of the Keynesian ideas following the crisis period in the international arena, the officials have felt the need to justify their policies also in those terms (see Raudla et al. 2016a, b). On the other hand, as discussed above, the interviews also indicate that there is clear reluctance by the fiscal bureaucracy to engage in borrowing, which would constrain implementing Keynesian policy actions in reality. In Latvia, on the one hand, the interviewees acknowledge that the Keynesian ideas of stabilizing the economy with fiscal measures are important, but, on the other hand, they are still convinced of the non-Keynesian effects of fiscal consolidation and are also sceptical of engaging in borrowing. As one of the officials explained, “If we compare the Keynesian theory that is taught in the university with what is going on in real life, we can see that the case of Latvia proves that in general we could restore growth by taking the path of expenditure cuts” (Interview L3).

As the discussion above shows, fiscal bureaucracies have more varied “faces” than just the “lean mean guardian”. The interviews indicate that the “guardian vs developer” continuum we proposed can indeed be a useful heuristic for exploring the role(s) of fiscal bureaucracy in a comparative setting. Overall, most of the fiscal bureaucrats especially in Norway but also in Sweden are closer to the “developer” role than the officials in Estonia and Latvia. At the same time, however, the interviews indicate that there can be considerable diversity in the role orientations also among the fiscal bureaucrats within the same country. Especially with the officials working for the budget departments – responsible for compiling the annual budget – the “guardian” orientation is dominant, whereas the civil servants from other parts of the fiscal bureaucracy tend to have more “developer” orientations. We can also see from the interviews that working in fiscal bureaucracy can often entail oscillation between the guardian and the developer role, with the civil servants trying to find a complicated balance between the contradictory demands placed on them. With the paradigm fights about the role of fiscal policy unfolding on the international arena, the fiscal bureaucracies are also likely to find themselves in the cross-fire of incongruous ideas, which may make it difficult to devise a more coherent policy agenda.

3. Initiators vs Followers

The second dichotomy for examining the roles of fiscal bureaucracy entails looking at whether the civil servants initiate policy changes or view themselves in the role of a “follower” who implements the decisions coming from “above”. As emerged from the interviews, it would be fruitful, however, to explore the “initiator vs follower” continuum at two levels: first, with regard to the politicians within the country and second, with a view to the supra-national context of policy-making and especially with reference to the European Union.

3.1 Bureaucrats vis-à-vis Politicians

The classical Weberian dichotomy of politicians setting goals and drawing up laws and policies, and administrators implementing them has long been questioned (Baekgaard et al. 2015; Hansen and Ejersbo 2002; Page and Jenkins 2005; Svava 1998). The division of labour between politicians and administrators is more complex – and their interactions and roles more diverse – than this dichotomy conveys. Administrators can be closely involved in formulating policy objectives, and politicians may be involved in specific constituency cases (Hansen and Ejersbo 2002; Page and Jenkins 2005).

Although the conventional vision often tends to cloak the role of the bureaucrats in “gray robes of anonymous neutrality” (Aberbach et al. 1981, 5), the civil servants working for the fiscal bureaucracy can influence policy-making in various ways. Importantly, they can structure the flow of advice politicians receive (Hall 1989; Page and Jenkins 2005). As Baekgaard et al. (2015) explain, elected officials are likely to consider only “few facets of a multifaceted matter” when paying attention; thus, what “passes through their bottleneck of attention” can be significantly influenced by bureaucracy (Baekgaard et al. 2015, 460) and hence influence the strategic calculations of the elected officials (Oliver and Pemberton 2004). Thus, bureaucrats can play a major role in policy-making by diagnosing problems⁶, outlining alternatives to deal with them, formulating policy proposals, and assessing the feasibility of policy alternatives (Baekgaard et al. 2015; Hecló 1974; Page and Jenkins 2005; Skocpol 1985). In addition to these straightforward avenues for influencing policy-making, the bureaucrats can shape policies by articulating the language of a specific policy, deliberately “framing” and “packaging” certain policy ideas to convince the elected officials (Campbell 1998).

In the field of fiscal policy – with its increasing technicality and need for expert input into devising policies – we can expect the civil servants to play a growing role in policy-making (Peters 2002). As Christensen (2013, 569) has pointed out, “technical expertise can augment the policy influence of officials by increasing their *ability* to set the policy agenda (active role), to evaluate and counter the policy proposals of politicians (reactive role), and to warn politicians about deficiencies of existing policies (proactive role).” On the other hand, it could be argued that the “fiscal” domain is still inherently political (Wildavsky and Caiden 2004), which would make it highly salient to elected officials and hence potentially less permeable to bureaucratic influences (Baekgaard et al. 2015). Indeed, politicians may have less information about technical matters in less salient areas but might be more informed on politically more salient sectors (Baekgaard et al. 2015). Furthermore, as Peters (2002) has posited, civil servants who work for “super-bureaucracies” or coordinating organizations within government, like the finance ministries, are likely to have more “subservient” attitudes vis-à-vis their political masters: “if a civil servant is willing to accept a position in one of these organizations, this implies a willingness to accept the wishes of his political executives” (276). Thus, we might expect the

⁶ Indeed, in addition to proposing policy solutions, they can influence policy through “problem definitions”, and the way problems become framed influences the policy solutions (Mehta 2010).

fiscal bureaucracies to “have a special relationship to politics” and be “charged with implementing the wishes of a government to perhaps a greater extent than civil servants in operating departments” (ibid.).

In order to capture their role in policy-making – and to explore whether they are closer to being active initiators of policies or just neutral followers of political instructions⁷ – we delved into various themes in our interviews, including open questions about how the officials view the existing division of labour between civil servants and elected officials in fiscal policy-making, where new initiatives tend to come from, and what the officials view as the main contribution to fiscal policy-making.

Overall attitudes towards politicians' role in fiscal policy-making

While all the interviewees in all four countries emphasized that in a democracy, final policy decisions should be taken by politicians, we could also observe considerable variations among the interviewed officials in their assessments of politicians' role in fiscal policy-making.

There were significant differences between the countries with regard to how much the civil servants *trust* the politicians. As was already pointed out in section 2, in Estonia and Latvia, the civil servants display considerable degrees of distrust towards the elected officials. In Estonia, the mistrust concerns primarily how the politicians spend the borrowed money, whereas in Latvia it pertains to “excessive” fiscal profligacy of the politicians overall, alongside with the misgivings about their spending priorities. In the words of the officials: “This idea about fiscal discipline, is the idea that we are nursing [within the bureaucracy], and not really an idea that comes from politicians” (Interview L2). “In the heads of politicians, it seems that the idea of a strict framework for fiscal policy, that you have to save in the good years in order to spend in the bad ones, is still not acceptable” (Interview L2). “The political parties are too populist in their approach to fiscal policy. We still have a long way to go to political maturity” (Interview L3). In contrast, in the Swedish and Norwegian context, the trust towards politicians seems to be considerably higher than in Estonia or Latvia. As one of the Norwegian officials explained, “We may rely more on political decisions than some other countries, for instance Sweden. But I think that it is closer to the democratic ideal. From my point of view, I cannot really see any huge costs in involving politicians – Norwegian politicians at least – in quite a lot of issues, because I don't really feel that they have a polluted agenda or agenda that somehow makes decisions less effective to a great extent” (Interview N1). Another interviewee explained, “In the academic world, many researchers take the opposite view, that you need fiscal councils, you need fiscal rules to prevent the politicians from doing something irresponsible, which they would always do. And that is taken

⁷ According to the existing literature (e.g. Hecló 1975), we could, in principle, label the “followers” as “neutral competents”. However, since the initiators are also likely to be highly competent, the initiators vs neutral competents dichotomy might be somewhat misleading. The “follower vs initiator” dichotomy helps us more accurately to capture the differences in the overall stance that the bureaucrats may have towards policy-making.

as given. The starting point in Norway is completely different. There are not that many people involved in fiscal policy: it is the minister of finance, it is the prime minister, a few people in the parliament. And they take the responsibility, and they should take the responsibility, and we should not weaken them in any way. It has worked well so far” (Interview N3).

It is also noteworthy that despite the frustrations that fiscal bureaucrats may have vis-à-vis their political masters, especially in Estonia and Latvia, they do appear to appreciate “clarity” and “decisiveness” from their principals. One of the Latvian officials explained it as follows, “It is very difficult for bureaucrats to suggest and to develop policy, if the position from the political side isn’t really clear” (Interview L2). Another noted, “Since the budget is the main instrument for governing the country, it is the task of politicians. There should be a clear position in their political programmes whether they see the country as more social democratic or more liberal” (Interview L3). One of the Estonian interviewees complained that “If policy initiatives come from the politicians, these are often populist slogans” (Interview E3). Another official argued that “Politicians should be more decisive, in the sense that painful decisions should be made earlier in the budgetary cycle (e.g. in spring) and not in the fall. They keep on hoping that if they postpone a painful decision, maybe things improve and they don’t have to adopt it” (Interview E1).

With regard to the advice fiscal bureaucracies give to politicians, we could observe varying perceptions of how it plays out. On the one hand, there were officials – especially in Norway – who appreciated the political need for *advice*. “What is nice about how things function in this house [the Ministry of Finance] is that politicians want our advice. That’s without exception really. We change governments but they want to have advice” (Interview N1). “It is fair to say that politicians listen to us to a large extent. Compared to other countries, I think we have influence on fiscal policy” (Interview N2). On the other hand, several interviewees in Estonia and Latvia complained that the politicians do not ask or listen to the bureaucracy’s advice sufficiently. One of the Latvian officials noted, “Unfortunately, when politicians make decisions, they don’t often consult with bureaucrats or listen to them before making that decision” (Interview L3). An Estonian official quipped, “Ideally, politicians should say what the problem is and civil servants could then outline alternative solutions to the problem. However, politicians don’t usually start with formulating a problem that needs to be solved but already come with a solution” (Interview E3).

Where do policy initiatives come from? How much freedom do the officials have in making the proposals?

In all four countries, according to our interviews, fiscal bureaucrats play an active role in identifying policy problems, initiating policies, formulating policy proposals, communicating them to the elected officials, and persuading them. Thus, they do not just wait for signals from their political principals but also act on their own initiative. Overall, our interviews indicate that policy proposals tend to originate *more* from the civil servants than from the politicians. As an Estonian official stated, “We have taken the role of policy designers and don’t expect guidelines from the government” (interview E4). In the words of a Norwegian official, “We are not just sitting

and waiting. We are worried all the time” (Interview N2). In all countries, the officials pointed to varying success in persuading the elected officials of their proposals – sometimes they succeed, sometimes they did not.

Also, in all countries, the interviewees noted that the civil servants usually make a proposal with regard to what the *budget position* should be (e.g. how large the deficit or surplus should be) whereas the politicians are responsible for the *expenditure and revenue* decisions. Even here, however, the civil servants sometimes have to venture into more political domains: “If politicians want to spend more, we may get a task to find revenues for covering those – and finding new revenues entails making political proposals” (Interview E2).

In the Norwegian context, the important role of *committees* in generating policy proposals was noted as well, “It is often so that if the politicians want something to be done in an area, they set up a commission that figures out how to do it” (Interview N2). The interviewees also explained that while in many other countries such commissions are totally independent from the ministries, in Norway, the civil servants usually form the secretariat for these commissions. Thus, the close connection to these committees gives the Norwegian fiscal bureaucracy additional clout in making policy proposals.

The fiscal bureaucrats in all four countries noted that in the power balance between the civil servants and the elected officials, *information* plays a major role. As one of the Estonian officials put it, “Politicians don’t often understand many topics in fiscal policy. Thus, our role is to help them decide. ... They could have a bigger role in fiscal policy-making if they were more informed” (Interview E2). Another noted, “Cabinet meetings are short; so we [the finance ministry] are the competence centre that has all the necessary information” (Interview E4). A Latvian civil servant explained it as follows: “In reality, the Ministry of Finance has relatively few constraints, because a significant amount of the proposals come from bureaucracy. Elected officials have very few things to offer because they don’t have access to information and the analytical capacity. Macro-level objectives are set by politicians but when it comes to the mechanisms and means to reach these objectives, the bureaucracy plays a great role and has substantial freedom. Often there isn’t really a high quality alternative solution to what bureaucracy offers” (Interview L4). A Swedish official also noted, “When you are dealing with the technical details, then of course civil servants can influence decisions. ... But we try to influence the bigger decisions as well ... with the help of models and calculations” (Interview S5). At the same time, in the Swedish case, it was emphasized several times that Andres Borg, for example, was technically very competent as a finance minister, and that gave him significant power vis-à-vis the bureaucracy in the finance ministry. In Latvia, too, it was noted that when Valdis Dombrovskis (a former chief economist at the Bank of Latvia) was prime minister and Andris Vilks (a former chief economist of the SEB Latvian branch) was the finance minister, both considered to be very competent economists, the politicians’ power vis-à-vis the civil servants was considerably enhanced.

With regard to how *free* the civil servants feel in making policy proposals, most of the interviewees in all four countries perceive that they have considerable freedom. In the Estonian context, however, we could observe diverging assessments

about that. While some of the interviewed Estonian officials feel that they are free to propose any ideas and policy alternatives to the politicians, others (especially from the lower ranks of the hierarchy) believe that they have to exercise some “self-restraint”. As one of the officials put it, “We are free to make proposals but everybody knows which proposals are worth making. ... Certain fundamentals are fixed and cannot be challenged and there is not much to discuss” (Interview E1). Another admitted, “There is a lot of self-censorship among civil servants with regard to fiscal policy ideas. Everybody knows which ideas are welcome and which not. The survival instinct is strong and nobody wants to have a conflict with a superior during uncertain economic times” (Interview E3). He added that “Together with some colleagues we have tried to expand the range of topics to discuss but without any real outlet. For most other officials the parameters of fiscal policy are so fixed that they don’t even attempt to think outside it” (Interview E3).

In sum, although according to the predictions of Peters (2000), fiscal bureaucrats should have relatively “harmonious” relationships with their political masters – approximating what he calls the “Village Life” model of political-administrative relations, with the elected officials and the civil servants sharing common values and policy goals – our interviews indicate that this is not necessarily the case. While in Sweden and especially Norway, the interactions between politicians and civil servants in fiscal bureaucracy come pretty close to the depiction of the “Village Life”, the relationships between the fiscal bureaucrats and politicians are considerably more adversarial in Estonia and especially Latvia, where we can observe considerable degrees of distrust towards the political masters.

3.2 Fiscal Bureaucracy vis-à-vis the European Union

On the one hand, fiscal bureaucracies can choose where they fall on the “initiator vs follower” role vis-à-vis the political “masters” in their own country. On the other hand, the civil servants can also play the follower vs initiator role in the supranational context. This dimension is particularly relevant for Estonia and Latvia, which are both members of the EU and the Eurozone but also for Sweden, which is a member of the EU. Given the increasing role of the financial dimension in the EU, we can expect there to be close interactions between the fiscal bureaucrats and the EU in those three countries. Yesilkagit (2012, 28) even goes as far as to conjecture that finance ministries “have essentially become the national branches of the European Commission rather than ministries of the national state.”

In the EU context, the civil servants of the member states play an important part by negotiating and bargaining with other countries’ civil servants in Brussels (Börzel and Risse 2003; Radaelli 2003, 2008; Weiler 1999; Yesilkagit 2012). Also, bureaucratic responses to EU mandates influence significantly whether and how EU policies get implemented at the national level (Knill and Lenschow 2005). Thus, in communicating between the national and the European levels they can help to mediate “the forces of integration and Europeanization” (Jordan 2003, 268). On the continuum of initiator vs follower, the fiscal bureaucrats can occupy different positions in the supranational context. First, domestic civil servants can take an active initiator role and attempt to upload “national models by defining the scope of issues before

they become solidified in Commission proposals” and to work “in EU committees to mitigate the potential impact of new legislation before it is ‘downloaded’ from the EU” (Jordan 2003, 268). Or, they can assume the role of a “reluctant follower” or even “saboteur”: if the national preferences are not reflected in the EU decisions, they can seek to minimize adjustment costs by engaging in partial (rather than full) implementation (Jordan 2003; Knill and Lenschow 2005). They can also play a significant role by “translating” a new rule into the local context and offering localized re-(interpretations) of the rules (Campbell 2004; Gutierrez 2010; Irvine 2011). Or, they can adopt a predominantly “follower” role by just transposing the EU mandates.

It is also likely that the increasing involvement of the fiscal bureaucracies in the supra-national policy-making venues of the European Union is likely to affect the bureaucrats’ interactions with elected officials in their own countries. Yesilkagit (2012, 20) has noted that despite the growing role of the EU in the political lives of its member states, very little is known about the possible effects of Europeanization on the relationships between politicians and bureaucrats.

Our interviews indicate that while the fiscal bureaucracies in Estonia and Latvia tend to be “initiators” vis-à-vis the politicians in their own countries, they are very much in the “follower” role in the multi-level governance context of the EU. All the interviewed officials in both Estonia and Latvia repeatedly emphasized that the main directions of fiscal policy in their country is shaped by the European Union. As one of the Latvian officials put it, “It wouldn’t be correct to state that we develop our own fiscal policy in Latvia. I would even go as far as to say that fiscal policy here is the EU fiscal policy” (Interview L3). Participation in EU policy-making does empower the bureaucrats vis-à-vis their political masters, by increasing their technical knowledge and also by giving them a clear starting point in proposing and drafting legislation. However, at least in the small-country contexts of Estonia and Latvia, the bureaucrats tend to be predominantly in a “follower” position vis-à-vis the supra-national authorities.

In Sweden, the officials have adopted much less of a “follower” approach in relation to the European Union. One of the interviewed officials stated that the EU does not affect fiscal policy debates in Sweden significantly. He added, “I think we have finally signed the fiscal pact, or whatever it is called, but we said that we won’t apply it. So we are in it with the typical Swedish EU attitude – we are in but not really” (Interview S1). Another official emphasized that Sweden created its fiscal framework with the expenditure ceilings, surplus target and the fiscal council on its own initiative; thus, “other countries have learnt from us” (Interview S6). Another interviewee noted that Sweden has designed “a pretty good system for fiscal policy”, and the officials like the approach; hence, “the EU coming, saying ‘you should do this now’ can irritate a lot of people here” (Interview S3). He added that the approach to policy-making in Sweden is very much consensus-based and the EU saying “this is how you should do that ...” is just not the right way to approach Sweden, if they want it to be on board.

The Norwegian officials noted that the EU does not play an important role in fiscal policy-making in Norway. Out of the external actors, the OECD appears to have a more significant influence than the EU on the adopted reforms. For example, the OECD report recommended a productivity reform, which was adopted (Interview N4).

In sum, it appears that using the “initiator vs follower” continuum for comparatively exploring fiscal bureaucracies in different countries can provide useful insights about the varying roles civil servants can play in fiscal policy-making. We can also see that being an “initiator” in the national arena does not automatically translate into being an “initiator” in the supra-national setting. While in Estonia and Latvia, the fiscal bureaucracies assume very much an initiator role vis-à-vis the politicians in their own countries, they play a predominantly follower role in the EU context. We can also see that although Sweden, like Estonia and Latvia, is a member of the EU, the fiscal bureaucrats there have less of a “follower” attitude and more of a “bargainer” attitude in relation to the EU. In Norway, in contrast, the civil servants view themselves to be in more of a “follower” position vis-à-vis elected officials but not internationally speaking.

We can also see that – as was the case with the “guardian vs developer” continuum – the role space of “initiator vs follower” can be characterized by contradictory attitudes and demands, especially in the Estonian and Latvian context. The fiscal bureaucrats in those countries complain that the politicians do not listen to their advice but at the same time, they would like elected officials to be clearer in their directions and more decisive. In those two countries, the civil servants feel that in a democracy, the politicians should play a major role in fiscal policy but, at the same time, believe that the civil servants should play a dominant role in fiscal policy because the politicians cannot always be trusted to act responsibly. Indeed, the glaring contrast between how much the Baltic (especially Latvian) officials distrust the politicians and how much more positively the Norwegian bureaucrats view the elected officials is one of the starkest differences we found from a comparative perspective. Another important observation that emerged from the interviews is that when we ask fiscal bureaucracies whether they feel free to propose policies and give advice, the reported “freedom” can also be constrained by self-censorship.

4. Insulators vs Mediators

In addition to the “faces” of fiscal bureaucracy in their relations with the political principals, the line ministries and the EU, the civil servants can also assume different roles in how they interact with independent actors outside the government. Given the potential contributions academics and social partners (i.e. the employees’ and employers’ associations) can make to fiscal policy-making, we zoom in on whether the fiscal bureaucracies view themselves as “mediating” these inputs or, in contrast, attempt to “insulate” fiscal policy-making from these influences.

4.1 Academia

The fiscal bureaucracy can serve the role of “mediators” between knowledge suppliers in academia and the government (Howlett 2011) or, in contrast, attempt to “insulate” fiscal policy-making from ongoing academic debates and analyses. Academic studies can be used for raising issues, formulating new policies, evaluating existing programmes, changing ways of thinking, and mobilizing support (Weiss and Bucuvalas 1980). Scholarly research can be utilized before a policy-related decision is taken or used afterwards for confirming or legitimizing a decision already

taken (Rich 1997; Schrefler 2010). In Weiss's (1980) terminology, by bringing in academic research to the policy-making process, civil servants can also trigger "knowledge creep" throughout the organization. Thus, the permeability of the fiscal bureaucracies to academia can potentially play a relevant role in policy-making (Campbell and Pedersen 2011; Hall 1989; Pekkarinen 1989; Weir 1989; Weir and Skocpol 1985). The more open the civil servants are to advice from outside economists, the faster the developments in economic theory can be incorporated into policy; conversely, the more insulated the bureaucracy is from academic advice, the more slowly the policy shifts are likely to unfold (Hall 1989; Weir 1989).

According to "rationalistic" approaches to policy-making, civil servants systematically seek out and use policy-relevant *research* in their policy field in order to enhance policy outcomes (Bennett and Howlett 1992; Howlett 2009; 2011; Schrefler 2010). Also, Hansen and Ejersbo (2002) argue that administrators are more likely to be driven by "deductive" logic of action, whereas politicians follow a more "inductive" logic. Given the "deductive" logic followed by academia, civil servants can hence play an important role since it follows their "deductive" orientation as well.

Many studies, however, have pointed to rather limited use of scholarly research in policy learning (Caplan 1979; Howlett 2011; Landry et al. 2003; Oh 1996; Rich and Oh 2000), resulting from problems in both the supply and demand of scholarly research. First, in order to be utilized for policy learning, pertinent research on the policy issues has to be produced by the academics in the first place (Weiss and Bucuvalas 1980). Second, civil servants may face time and resource constraints in collecting, analyzing and interpreting the research findings from the academic community (Howlett 2009; Wildavsky 1969), especially if the interactions between the two communities are limited (Landry et al. 2003). Also, the language of scholarly research may not be easily accessible to civil servants, and the focus of the studies may not correspond to their informational needs (Caplan 1979; Landry et al. 2003). Third, the civil servants belonging to the fiscal bureaucracy – in light of the ideological aspects of fiscal policy – may face pressures to follow the ideological line of the elected officials in power and hence discount scholarly evidence that goes against the prevailing ideological position (Hird 2005).

On the scale of "mediators vs insulators", the fiscal bureaucracies in Estonia and Latvia appear to be closer to the insulator end. All interviewees noted that there are no formal routines for interacting with the academics, and if there are contacts, these are based on informal personal networks. Most of the interviewees in both countries noted that they do not have the time to read academic works, and if they do read anything "academic", it usually comes from the EU, the OECD or the International Monetary Fund (IMF). As one of the Estonian officials explained it, "In the European Union, there is a big machinery that digests the academic studies and we can get an overview from them. I don't keep a close eye on academic discussions but I do pay attention when these discussions reach to the level of the EU or IMF" (Interview E2). Thus, it appears that the "follower" role vis-à-vis international organizations – discussed in the previous section – can spill over to absorbing academic studies as well.

The Estonian officials complained that the research conducted in Estonia on fiscal policy issues often lags behind policy needs or is driven by specific ideological positions. In the words of an interviewee, "In many cases, the academics don't have

the most recent information and it takes time until they figure things out” (Interview E2). In Latvia, several interviewees noted that there is almost no research or academic debate conducted in Latvia about fiscal and/or budgetary policy.

In Sweden and Norway, in contrast, our interviews indicate that the fiscal bureaucracies appear to be closer to the “mediator” than the “insulator” part of the scale: they have more systematic and open interactions with the academics in their countries.

The interviewees in Sweden noted that several aspects of the Swedish fiscal framework (e.g. the fiscal council, the expenditure ceilings) were inspired by academic research. One of the Swedish officials explained that when Andres Borg came to office, he wanted to have more PhD level economists in the MoF and also “more academic research to back up their claims on what they wanted to do”. Borg “thought of himself as being very academic and wanted to use modern research to find the best way forward” (Interview S3).

In Norway, most of the interviewees noted that they are not able to follow academic debates and read scholarly works as much as they would like to, due to time constraints, but academic research does play a role in the decision-making on fiscal policy. As one of the interviewees explained, “Before we introduced the fiscal rule, we scanned the economic literature on those kind of topics to see what’s done in other countries and what is written in academic journals” (Interview N2). Another official noted, “The question the ministry faces at the moment is: what should be the equity share of the pension fund. Should we increase it to 70 or 80 per cent or should it be reduced to 50? In that discussion, they of course draw on the research front internationally. When we have that kind of questions, then we are, of course, reading a lot” (Interview N2). At the same time, the interviewee added, “But we are a ministry and not a research institution, so most of our work is in between academics and politicians” (Interview N2).

Importantly, regular contacts between academics and the fiscal bureaucracy in Norway take place via committees, established for various topics. One of the interviewees noted that these committees also summarize current academic knowledge on the topic (Interview N2). Another interviewee remarked, “A few years ago we established a modelling committee, where academics from the outside take part. Mainly professors, alongside in-house experts, as participants” (Interview N1). As mentioned in section 3, the MoF officials are actively involved in such committees themselves, which provides them with regular exposure to the academics. Such an attitude towards committees contrasts clearly with what was observed in the Estonian case, where all of the interviews were sceptical of using the committee format. One of the interviewed officials even quipped, “If we don’t want to solve a problem, we set up a committee” (Interview E2). With regard to involving outsiders in discussing models, another Estonian interviewee noted, “There are no open discussions about models: it is technical work and there is not much to discuss” (Interview E1).

In addition to the topical committees, the MoF officials in Norway took the initiative in setting up an academic advisory panel to the ministry: “We felt we needed to have a more regular contact with the academic world” (Interview N3). This panel is a forum for discussion of state-of-the-art research (models and methods), not for policy advice. The interviewee noted that the advisory panel has been very useful for

the ministry but also for the academics who have participated: “Fiscal policy is really very interesting, but no ministries of finance have research departments. And the universities and academics find it more difficult to analyze fiscal policy because it is so complex and so difficult to understand. By having an advisory panel and more regular contacts, it is easier for them to read budget documents. And it may open up more research on fiscal policy, which would be good, I think” (Interview N3).

4.2 The social partners

In addition to acting as mediators between academia and policy-making, bureaucrats can influence which interest groups would be included in policy-making and which not (Rose 1987; Page 1987). Interest groups could be the source of expertise that can be used by officials to enhance their position, and civil servants could also be involved in mobilizing consent from the interest groups (Rose 1987). We were specifically interested in whether the fiscal bureaucracies play a role in mediating the positions of the *social partners* (i.e. employers’ unions and trade unions) in fiscal policy-making. Varieties of capitalism research have long argued that different institutional frameworks provide different kinds of engagement opportunities for interest groups. Coordinated market economies rely on a complex web of socio-political and administrative relations with institutional pathways to engage social partners while liberal market economies rely on fluid competitive institutions, where access and engagement patterns can shift quickly (Hall and Soskice 2001). While Norway and Sweden represent coordinated market economies, the neoliberal Estonia and Latvia are closer to the liberal model (Bohle and Greskovits 2012). In our context, the exact features of different types of capitalism matter less than an overall expectation that the economic and institutional context would predict a different role for fiscal bureaucracies, as well, vis-à-vis social partners.

In Estonia, Latvia and Sweden, the fiscal bureaucrats themselves appear to have no regular or formal contacts with the representatives of social partners. The interviewees remarked that while the social partners may have more direct contacts with elected officials, the bureaucracy does not play a mediating role here. As for Sweden, that country had fairly extensive corporatist consultation through the early post-war period, but there was a striking reversal since the early 1990s. Employers exited from all such cooperative boards, and the union confederation (LO) has been significantly weakened. One of the Swedish interviewees noted that while labour party politicians of course have ties with the unions, “there are no organized meetings with the social partners in the finance ministry where we would discuss the budget for the next years” (Interview S6). In Estonia, the officials noted that it would not even be meaningful to directly involve the social partners in fiscal policy discussions. One of the interviewees put it as follows, “It is already known what the position is – so there is no point in asking” (Interview E3). Another noted, “It would only make sense to involve them if they [the social partners] were a lot smarter and understood the economic cycle and other budgetary issues” (Interview E2).

In Norway, the fiscal bureaucrats have more direct contacts with the social partners through the above-mentioned committees. As one of the interviewees explained it, if the finance ministry is faced with a problem, it creates a committee and invites

external actors to participate in it, and depending on the topic of the commission, social partners can also be included (Interview N1). Another added that the social partners “influence [fiscal policy-making] through their participation in commissions – that is an important channel for them” (Interview N4).

In sum, the fiscal bureaucracies in Estonia and Latvia fall closer to the “insulator” end of the continuum both with regard to academics and social partners. In Sweden, they play a more extensive mediator role with academics but less so with social partners, whereas in Norway the fiscal bureaucrats are close to the mediator end of the spectrum vis-à-vis both sets of actors. In the Estonian and Latvian cases, it is interesting to observe that alongside politicians, the fiscal bureaucrats also distrust other local societal actors – like academics and social partners – whereas they have extensive trust in the machinery of the EU “digesting” worthwhile academic materials for them. In the Norwegian case, it appears that the regular interactions fiscal bureaucracies have with the academics and social partners via committees help to build a more trustful stance of the civil servants towards those actors, which, conversely, addresses and alleviates some of the supply problems that can often undermine the utilization of academic research in policy-making.

5. Modellers vs Estimators

In their role as analysts, fiscal bureaucracies can vary with regard to how extensively they use sophisticated (macroeconomic) models for their work. This was a clear difference that emerged from comparing the cases covered in our study: the fiscal bureaucrats in Estonia and Latvia use relatively simple models, whereas their Swedish and especially Norwegian counterparts use elaborate and complicated models.⁸ Although there have been studies that have spelled out the implications of macroeconomic models for policy-making (e.g. Chari and Kehoe 2006) and make normative recommendations about how such models could be used in fiscal policy (e.g. Kremer et al. 2006), the literature on how models are actually used in policy work is considerably “thinner” (den Butter and Morgan 1998, 445). Indeed, we could not find any “positively oriented” *theoretical* works that systematically discussed the use of models by fiscal bureaucracies and could serve as a foundation for comparative analyses. Thus, the discussion on the “modeller vs estimator” continuum we are proposing here is very much exploratory in nature and could be used as a starting point for more systematic analyses in the future.

As our interviews indicate, in Estonia and Latvia, the fiscal bureaucracies use smaller models for estimating tax revenues and expenditures but do not utilize a general macroeconomic model. On the one hand, the Estonian officials noted that they do not have capacities for developing and using such a model. As one of the interviewees remarked, “The central bank has a macroeconomic equilibrium model but they also have ten analysts with PhDs working on it; we [in MoF] have altogether three analysts working with economic analysis” (Interview E3). Another noted, “In Sweden and Denmark, for example, they have long time frames on the

⁸ A comparison of macroeconomic expertise and use of models in all five Nordic countries is available in Mjøset (2011, 399-408).

individual level: consumption, wage changes, etc. They have more capacity to build models. We don't have statistical capacities to collect such data" (Interview E1). On the other hand, the Estonian officials expressed scepticism whether using a macro-economic model would make sense in the Estonian context, given the short period for which data is available, the volatility of the economy and ongoing structural changes (Interviews E1, E2). Similarly, in the Latvian context, the fiscal bureaucrats expressed scepticism with regard to how useful a general equilibrium model (e.g. Dynamic Stochastic General Equilibrium (DSGE) model) would be for fiscal policy-making. As in Estonia, they referred to the lack of data and short time frames, "For structural models you need input-output tables, which, for the period of the last 20 years we probably have for three years" (Interview L4). The interviewee added, "I know that the Bank of Latvia has developed a general equilibrium (DSGE) model, but the reliability of this model in the Latvian conditions is ... let's say expert evaluation at times is more reliable and better" (Interview L4).

Increasingly, however, in both countries there are more extensive debates on which models to use in estimating the cyclical position of the economy and its impact on budgetary fiscal policy due to the fiscal rules of the Fiscal Compact. As shown by Raudla et al. (2016a, b), the diverging assessments of the cyclical position of the economy by the EU and the MoFs have triggered discussions on the models used in fiscal policy-making in both countries.

In Norway, there is already a long tradition of using extensive macro-economic models in budgetary and fiscal policy-making (Bjerkholt 1998). Currently, the main model used is called Modag – a big and detailed input-output-based model in the Cowles commission tradition, maintained by Statistics Norway for the government – in the fiscal policy-making process, inter alia, for assessing the effects of fiscal policy on the economy (Interviews N2, N3, N5).⁹ One of the Norwegian interviewees emphasized that for the purposes of fiscal policy, the MoF needed a lot more detailed input on the public sector than a typical DSGE model had (Interview N1), as the latter relied on national accounts data only, not on input-output tables.¹⁰ Indeed, while in other countries, the input-output analyses have been used for long-term planning, in Norway, they are also used for short-term planning in fiscal policy. Also, in other countries, the macroeconomic models used are much more aggregated, whereas in Norway, the models are highly detailed, comprising thousands of entries (Bjerkholt 1998). Another official noted, however, that over time, the role of the Modag model has diminished and the analyses are complemented with input from other smaller models and also expert analysis. As he explained: "So it helps us, but it does not have the same prominent role as it may have had before, going back 15-20 years. ... We don't think that the model has all the mechanisms that are in operation in the economy. Often you need to think outside the model. ... So very often the results that we present in our analysis and in the budget paper are partly based on Modag, partly our own judgement, and partly also other models." (Interview N3) Since 2017, a new, quarterly version of Modag, now called Kvarts, will be supplied

⁹ The interviewees also noted that it is a very Keynesian model (Interview N2).

¹⁰ For overviews of the development of different economic models used in Norway, see Bjerkholt (1998).

by Statistics Norway to MoF. The change from a yearly to a quarterly version will improve on some of the challenges mentioned.

In using the models like Kvarts, the MoF relies significantly on Statistics Norway (SN), which has the right to collect detailed data from firms and households. SN is exceptional when compared to other statistical bureaus in the world for it not only collects data but also has a large economic research department – in fact one of the largest research institutions in Norway – that builds and runs macro, micro and tax models (Anderson et al. 2006; Bjerkholt 1998). In developing the models the SN takes into account the specific needs MoF has for fiscal and budgetary policy-making. Indeed, the development of the different models has emerged from close interactions between the officials in the MoF and SN – and the models serve the specific needs of using the national budget as a planning tool (Bjerkholt 1998). Historically, Norway developed a specific constellation – called the “iron triangle” – between the national economics profession, the MoF and the applied research unit at SN (Mjøset 2011). However, since the 1990s, views within the economics profession have become more diverse, the central bank has its own research units based on DSGE models (although much smaller than in Sweden), and lately, some political networks have also become more sceptical about the key role of SN’s macroeconomic researchers. Our Norwegian interviews indicated that some of the MoF’s fiscal policy bureaucrats want to work with a broader selection of models. As already noted, MoF now also has a panel where professors together with in-house experts meet and discuss regularly (Interview N1).

In Sweden, as well, the fiscal bureaucracy is using several macroeconomic models. The interviewees had a critical stance towards the “mainstream” DSGE model used by the central bank, since it did not include a financial sector or unemployment. Hence, in the models they use themselves, they also include “the stock market, the housing market, how it affects wealth, and wealth affects consumption, for instance. So there is a link between the financial sector and the real sector in the economy” (Interview S5). However, the main centre for macroeconomic theory in Sweden is the central bank, and it works exclusively with DSGE-models. The macroeconomic modelling pursued in other units is empiricist exercises with econometrics. The difference to Norway in this respect is considerable.

In sum, the fiscal bureaucrats in Sweden and Norway are closer to the “modeller” end of the continuum than the Estonian and Latvian officials. Still, it is worth noting that even in the case of Norway, the fiscal bureaucrats do not just blindly trust their sophisticated models but use them cautiously.

It is likely that the location on this continuum can intersect in important ways with the other abovementioned roles. Indeed, it can be conjectured that the more elaborate and sophisticated models available to the fiscal bureaucrats in Sweden and Norway also enable them to play a more confident role as a “developer”. On the other hand, a more active mediator role vis-à-vis the academics can also allow the fiscal bureaucracies in those countries to improve their models. Also, as our exploratory analysis indicates, the resources available for the fiscal bureaucrats to develop and use macroeconomic models is an important dimension: the use and maintenance of sophisticated models is more feasible in more prosperous countries and more challenging in the less wealthy ones.

6. Discussion and Conclusion

In light of the growing importance of finance ministries and the “financial” dimension in policy-making, opening up the “black box” of fiscal bureaucracies is more warranted than ever. The goal of our paper was to put forth a set of dichotomies – or, continuums, to be more precise – for analyzing, in a more nuanced way than has been done in the academic literature so far, the different roles of fiscal bureaucracies. We used the proposed dichotomies – developers vs guardians, initiators vs followers, mediators vs insulators and modellers vs estimators – to explore the fiscal bureaucracies in Estonia, Latvia, Sweden and Norway. Figure 1 depicts the different roles of fiscal bureaucracies we have discussed in this paper and the main interactions with other actors these roles entail.

The taxonomy we proposed served as a useful heuristic for exploring the similarities and differences between the countries but also within them. Overall, we can see that fiscal bureaucracies in Estonia and Latvia tend to be closer to the guardian-insulator-estimator ends of the continuums, whereas the officials in Sweden and especially Norway lean towards the developer-mediator-modeller end of the scale. This can be related to the basic contrasts that we mentioned at the outset. As young democracies, relatively recent additions to a Western European world marked by tense interplay between financialization and European integration since 2008, the fiscal policy bureaucracies of Estonia and Latvia cannot draw on much national capacity in their fields. They thus emphasize the traditional treasury, “guardian” role, they strive to insulate economic policy decisions from both politicians, academics and social partners. In terms of macroeconomic assessment, they also show more dependence on the EU than what Sweden does. Our two Nordic cases, in contrast, are richer countries with institutions that link expert knowledge (data and models) to economic policy-making. They have more capacity both for fine-tuning and structural policies that develop the economy. Still, the differences are considerable between Sweden and Norway, with the latter displaying stronger institutional continuities with the early post-war period. In Sweden, patterns of mediation are not as strong as they used to be, and the models are general ones based on aggregate national accounts data. These contrasts have grown since the 1970s, as Norway embarked on its development as an oil-exporting economy, while in Sweden, manufacturing firms became highly internationalized, making industrial interests less reliant on the state.

The division between the initiator vs follower roles is less clear-cut. In Estonia and Latvia, the fiscal bureaucrats tend to serve the initiator role domestically but are clearly in the follower position in the context of the supra-national decision-making of the EU. In Norway, the fiscal bureaucrats are freer vis-à-vis the international dimension but tend to give the politicians a more prominent role than in the other countries. Even Sweden is closer to this “village life” pattern.

Different Faces of Fiscal Bureaucracy

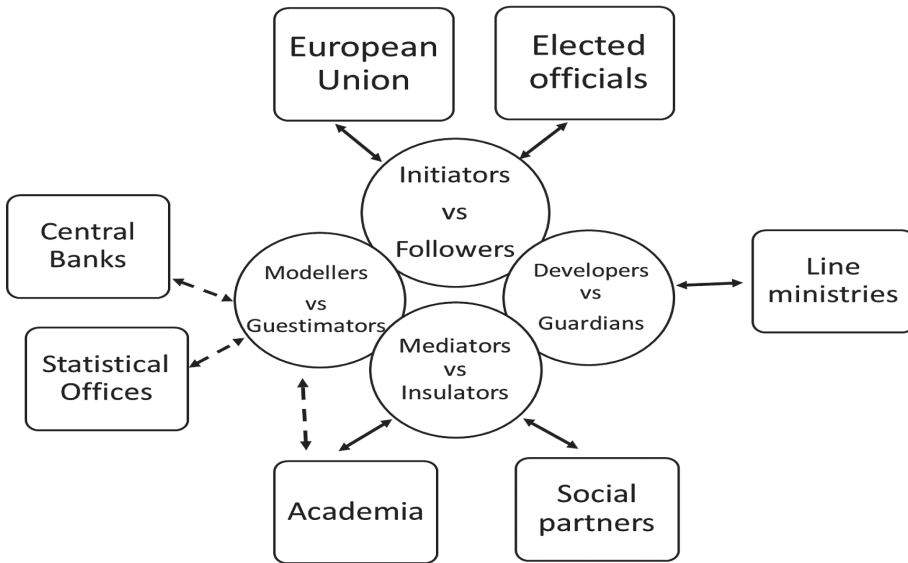


Figure 1: **Different roles of Fiscal Bureaucracy**

Our interviews also indicate that fiscal bureaucrats often have to balance contradictory demands placed on them and, indeed, their “faces” appear paradoxical at times. For example, the officials feel that politicians should listen to their advice but they also expect the elected officials to be more decisive and know what they want (e.g. in Latvia). Or, they claim that fiscal policy should be used counter-cyclically but are reluctant to incur loans (as in Estonia and Latvia). Or, they claim that they are “free” to make policy proposals but at the same time, exercise self-censorship, since “everybody knows which proposals are welcome and which not” (e.g. in Estonia).

Delineating the taxonomy for exploring the different roles of fiscal bureaucracies is, obviously, only the very first step in shedding more academically driven light on those policy actors. It can be used as a starting point for both further theorizing and empirical studies in the following ways.

First, further research could extend the number of countries covered and explore closer the possible configurations of roles. For example, are developers usually also modellers? If we assume that using fiscal policy for economic development policies needs sophisticated models, this is likely to be the case. Are the insulators more likely to be guardians than developers? If there are fewer interactions with societal interest groups, it might be “easier” to retain the role of the guardian given that the demands for development have fewer opportunities for entering the agenda. Are guardians usually followers or initiators? As emerged from our interviews, the Estonian and Latvian fiscal bureaucrats’ follower role vis-à-vis the EU has strengthened their guardian role vis-à-vis line ministries due to stricter fiscal rules imposed by the EU. Are modellers usually also mediators? As we could see, especially from the Norwegian case, the use of sophisticated models in fiscal policy-making benefit greatly from extensive interactions with academia and other knowledge producers (e.g. statistical offices).

Second, different subtypes under each category we have proposed can be developed. For example, the “developer” category can be divided further into “visionaries” vs “fine-tuners”, “infrastructure promoters vs promoters of broader societal investments”, “conveyers of international funds vs domestic fund-raisers” etc. The “guardian” category could be subdivided into “rule imposers” vs “negotiators”. Under the “mediator” role, we have only discussed interactions with the social partners and the academics, but the list of actors could be expanded to include other types of interest groups.

Third, the interactions between the dichotomies are worth exploring further. For example, in their follower-role vis-à-vis the EU, the Estonian and Latvian fiscal bureaucrats have used the structural funds for “development” purposes and hence have had to assume increasing “developer” roles. Also, in the Baltic countries, especially in Latvia, the follower role vis-à-vis the EU means that the “guardian” role has become re-emphasized due to the stricter fiscal rules imposed by the EU.

Fourth, Figure 1 depicts only the most basic (and predominant) interactions. In reality, the number of external actors involved in the “picture” is considerably larger and the interactions are likely to be overlapping as well. The “guardian vs developer” role could also entail interactions with the elected officials, statistical offices, central banks, the social partners, and the EU. For example, in Norway, the “developer” role of the fiscal bureaucrats is influenced by academia, the statistical office and the social partners. The modeller vs estimator role can also include interrelations with the EU (as it is in Estonia and Latvia) and with the social partners (as is the case in Norway). The societal interest groups can also influence the line ministries and elected officials directly, which would then influence the dynamics that the fiscal bureaucracies have with them. The figure and our discussion focuses on the EU as the main “external actor”, but further studies could expand the list of international organizations (encompass, inter alia, the OECD, the IMF, and the WB). All these more complex interactions could be explored closer in future studies.

Finally, the next steps would involve using this taxonomy (and the configurations of different roles) both as *explanans* and *explanandum*.

On the one hand, scholars could be interested in explaining how fiscal bureaucracies in different countries end up in specific role configurations and uncovering what kind of factors influence that. The configurations of the roles fiscal bureaucracies play are likely to be influenced by overall political and administrative culture, political institutions, recruitment patterns, civil service systems, civil service training, and resource constraints (Christensen 2013; Chwiero 2009; Fourcade 2009; Hecló 1974; Krause 2009; Marier 2005; Peters 2001, 2002). For example, specialized bureaucracies may identify more strongly with professional norms and be more open to new economic ideas – encouraging them to take a more activist approach in policy advice, whereas generalist bureaucracies might identify more closely with the norms of civil service as such, including the boundaries between the role of bureaucrats and elected officials, and hence adopt a more constrained stance towards policy advice (Christensen 2013). Also, open recruitment systems are likely to draw on more extensive expertise and allow easier inflow of new economic ideas (Christensen 2013). In addition, the institutional landscape outside the MoF is likely to influence the roles of fiscal bureaucrats. For example, having a Statistical Office which collects

statistics but also has a large research department with extensive capacities in macroeconomic modelling provides useful inputs for the “modeller” role of the MoF in Norway. The level of affluence is also likely to influence the configurations of roles that fiscal bureaucracies in different countries assume. According to our case studies, the developer-mediator-modeller configuration is more characteristic to affluent countries (Sweden and Norway), while the guardian-insulator-estimator configuration can be observed in the less affluent countries of Estonia and Latvia. Further studies could explore that link systematically and examine the potential mechanisms that link the level of prosperity to the roles fiscal bureaucracies assume.

On the other hand, it would be fruitful to examine the impacts of the different role configurations on policy outcomes, e.g. in terms of economic development, fiscal indicators, and societal indicators.

ACKNOWLEDGEMENTS

The research leading to these results has received funding from the Estonian Research Council Grant PUT-1142 and the Norwegian Financial Mechanism 2009–2014 under project No EMP264.

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Appendix 1: Interviews with fiscal bureaucrats

Estonia:

- E1: 18 August 2014
- E2: 9 September 2014
- E3: 9 September 2014
- E4: 10 September 2014
- E5: 18 August 2014

Latvia:

- L1: 16 September 2014
- L2: 17 September 2014
- L3: 17 September 2014
- L4: 13 October 2014
- L5: 20 October 2014
- L6: 5 June 2015

Norway:

- N1: 8 June 2016
- N2: 8 June 2016
- N3: 16 June 2016
- N4: 16 June 2016
- N5: 17 June 2016

Sweden:

- S1: 21 October 2015
- S2: 21 October 2015
- S3: 10 March 2016
- S4: 10 March 2016
- S5: 10 March 2016
- S6: 14 March 2016

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