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THE REGIONAL DIMENSION OF TAXES AND PUBLIC EXPENDITURE IN IRELAND

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THE REGIONAL DIMENSION OF TAXES AND PUBLIC EXPENDITURE IN IRELAND

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Abstract: In Ireland as in many other countries there has been an ongoing debate on the nature, degree and trends of regional imbalance. However, relatively little is known about the effects of policies at the regional level in Ireland. This paper considers two aspects of public policy namely the fiscal system and public expenditure. In particular regional government accounts are constructed, which identify the level of taxation, subsidisation and public expenditure at the regional level. The analysis of this data confirms that the fiscal system does reduce relative income differences in Ireland. Furthermore there are substantial resource transfers across regions.

JEL Code: H72, H77, R11.

Keywords: Regional Disparities, Government Expenditure, Taxes.

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3 Les impôts et les dépenses publiques en Irlande: le point de vue régional.
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7 Morgenroth
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10 En Irlande, comme dans la plupart des pays, on discute du déséquilibre régional, sa
11 nature, son importance et ses tendances. Cependant, on sait très peu en Irlande des
12 retombées régionales. Cet article considère deux aspects de la politique publique, à
13 savoir le régime fiscal et les dépenses publiques. On construit en particulier des
14 comptes de l'administration régionale qui identifient le niveau des impôts, des
15 subventions et des dépenses publiques au niveau régional. L'analyse des données
16 confirme que le régime fiscal ne réduit pas en Irlande les écarts des revenus relatifs.
17 Qui plus est, il y a d'importants transferts de ressources à travers les régions.
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22 Ecarts régionaux / Dépenses publiques / Impôts
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26 Classement JEL: H72; H77; R11
27
28

29 **Die regionale Dimension von Steuern und öffentlichen Ausgaben in**
30 **Irland**

31 EDGAR Morgenroth
32
33

34 Abstract:
35

36 In Irland gibt es wie in vielen anderen Ländern eine anhaltende Debatte über
37 die Art, das Ausmaß und die Entwicklung von regionalen Ungleichgewichten.
38 Über die Auswirkungen der Politiken auf der Regionalebene von Irland ist
39 hingegen relativ wenig bekannt. In diesem Beitrag werden zwei Aspekte der
40 öffentlichen Politik untersucht, nämlich das Fiskalsystem und die öffentlichen
41 Ausgaben. Insbesondere werden regionale Regierungskonten konstruiert, mit
42 denen das Steueraufkommen, die Subventionen und die öffentlichen
43 Ausgaben auf regionaler Ebene identifiziert werden. Die Analyse dieser
44 Daten bestätigt, dass das Fiskalsystem die relativen
45 Einkommensunterschiede in Irland tatsächlich verringert. Darüber hinaus
46 finden zwischen verschiedenen Regionen erhebliche Transfers von
47 Ressourcen statt.
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52 JEL Code: H72, H77, R11.

53 Keywords:

54 Regionale Disparitäten

55 Staatliche Ausgaben

56 Steuern
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La dimensión regional de impuestos y el gasto público en Irlanda

EDGAR Morgenroth

Abstract:

Al igual que en otros países, en Irlanda ha habido un continuo debate sobre la naturaleza, el grado y las tendencias del desequilibrio regional. Sin embargo, se sabe relativamente poco de los efectos de las políticas a nivel regional en Irlanda. En este artículo considero dos aspectos de la política pública, es decir, el sistema fiscal y los gastos públicos. En particular, se crean cuentas regionales del gobierno que identifican el nivel de tributación, subsidio y gasto público a nivel regional. Al analizar estos datos se confirma que el sistema fiscal reduce las diferencias relativas de ingresos en Irlanda. Además, hay considerables transferencias de recursos entre las regiones.

Keywords:

Disparidades regionales

Gastos público

Impuestos

JEL Code: H72, H77, R11.

Introduction

In Ireland there has been an ongoing debate about regional disparities going back at least to the 1950's with the enactment of the Underdeveloped Areas Act in 1952¹. Despite or perhaps in spite of the recent strong growth performance there is a perception of growing regional disparities. This perception is supported by the data on output measures (see O'Leary, 2001 or Boyle, McCarthy and Walsh, 1999), but it is not supported by population and labour market trends (see Walsh, 2006). The debate about the existence and scale of regional disparities has been accompanied by a debate about appropriate regional policies and the appropriate allocation of resources across the regions, which however, has not been matched by rigorous analysis of existing policies. Exceptions to this are a number of papers on the effect of industrial policies and a recent contribution on the effect of a tax incentive scheme.

Killen and Ruane (1998) found that company and job survival rates in the foreign owned sector are higher overall than in the indigenous sector, and that survival rates are generally higher for foreign companies at the periphery and for indigenous companies at the cores. An econometric study found that 27 per cent of the job generation in the designated (lagging) areas over the relevant period could be explicitly linked to regional industrial policy (Meyler and Strobl, 2000). However, according to Barrios, S., H. Górg and E. Strobl (2006) the policy to disperse industry across all regions, that was pursued in the 1970s was only effective in attracting low-tech firms to the disadvantaged areas. Furthermore, urbanisation economies were a more important locational determinant for high-tech firms than public investives.

In order to increase economic activity and promote growth in the Upper Shannon Region the Irish government introduced a Rural Renewal Tax Scheme that consisted of special tax breaks in respect to construction developments. Keane and Garvey

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3 (2006) showed that while this scheme reduced unemployment, the costs associated
4 with it were too high for the scheme to pass efficiency tests.
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8 Recently the issue of expenditure across regions has become the focus of debate.
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10 For example the Dublin Chamber of Commerce called for more investment in the
11 Dublin region arguing that, “as a driver of economic growth, innovation and
12 employment for the whole island, the needs of the Greater Dublin Area must be
13 prioritised” (Dublin Chamber of Commerce, 2007). On the other hand residents of the
14 less developed regions feel that they are not receiving enough attention particularly in
15 relation to public investment. For example Senator Margaret Cox resigned from the
16 largest government party (Fianna Fail) in early April 2007 because “failure of this
17 Government to spend all the money we promised to invest, and to deliver the projects
18 we committed to, is adversely impacting the daily life of people living in the West”².
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32 This latter view is at least partially driven by the experience with the last National
33 Development Plan (NDP) 2000-2006, for which however data was only available for
34 the two NUTS 2 regions. Fitz Gerald, McCarthy, Morgenroth and O’Connell (2003)
35 showed in their Mid-Term Evaluation (MTE) of the 2000-2006 NDP, that for all
36 spending areas the Southern and Eastern Region was to receive a substantially larger
37 allocation of resources than the Border, Midlands and Western (BMW) region, which
38 of course reflects the different relative size of the regions in terms of population. In
39 per capita terms, however, expenditure in the BMW region was planned to exceed
40 that of the Southern and Eastern region, although the relative allocations within
41 Operational Programmes vary in some cases. When it came to the actual progress the
42 *MTE* showed that these differences were magnified in the outturn with expenditure
43 significantly lower in the BMW region.
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3 While this debate has been ongoing, little is known about the extent and effect of
4 the fiscal system and government expenditure on regional disparities. Thus, the
5 disparities might well be worse if current policies were not in place.
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10 As Bradley and Morgenroth (1999) note, the fact that the regional disparities in
11 income are smaller than those in output may be due to the redistributive effect of the
12 fiscal system. However, they did not carry out any analysis to back up this assertion.
13 Since regional government accounts are not available for Ireland, which contrasts
14 with the situation in many other countries, such an analysis is not straightforward.
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20 Internationally, fiscal transfers and the distribution of government expenditure at
21 the regional level have been a subject to substantial analysis and debate. For example
22 in the case of the UK the Barnett formula, which is used to distribute resources across
23 regions has been subject to substantial criticism (see McLean and McMillan, 2003).
24 MacKay (2001) showed that total government expenditure exceeds what is expected
25 in four regions namely London, South East, Scotland and Northern Ireland. However,
26 Gripaios (2002) argued that some of this is related to defence expenditure, which has
27 been particularly high in Northern Ireland due to the 'Troubles' and show that once
28 one accounts for defence, expenditure is disproportional in London, the South East
29 and the South West. A recent analysis by Gripaios and Bishop (2005) using new UK
30 data analysed public spending at the regional and sub-regional level. This study
31 showed that spending was higher in London, that there is no relationship between the
32 levels of per capita public expenditure and per capita GDP in the UK and that
33 government spending does little to alleviate regional inequalities in the UK. Likewise
34 there has been a debate in Germany (Berthold, Drews and Thode, 2001), Canada
35 (Rodriguez, 2006) and Portugal (Nogueira Ramos, 2000). Gordon et al. (2004)
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3 showed that London makes a substantial net contribution the UK exchequer, implying
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5 that revenue collected in London is redistributed to other regions in the UK.
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8 Despite the ongoing debate a robust analysis of these issues has not been possible
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10 in Ireland due to the lack of data. It is the purpose of this paper to construct a
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12 consistent dataset and analyse this with a view to identifying the level of cross
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14 regional transfers. As such it directly addresses some of the topics of the recent
15
16 debate.
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19 This paper is organised as follows. The next section provides a brief outline of the
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21 fiscal relations across counties, regions and central government. This is followed by
22
23 an analysis of the impact of taxes and transfer on average income in each county. As
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25 this only covers a small part of the fiscal system, regional government accounts are
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27 constructed using existing data in conjunction with a number of strong assumptions.
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29 This data is then used to identify cross regional transfers.
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37 **A Brief Guide to the Irish Regions**

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39 There are eight NUTS 3 region, and these make up two NUTS 2 regions,
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41 namely the Border, Midlands and West region and the Southern and Eastern region.
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43 Table 1 illustrates some of the key characteristics in terms of size and economic
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45 development for the most recent years for which data is available. Firstly the table
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47 shows that the regions differ quite significantly in terms of size their populations and
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49 territory. While Dublin contains a population, which is almost five times the size of
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51 the population of the Midlands region it covers the smallest territory.
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57 The table also shows the relative position for index of per capita Gross Value
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59 Added (GVA), which is expressed as a percentage of the national average. This shows
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that there is a significant gap (67%) between the region with the highest GVA

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3 (Dublin) and that with the lowest (Midlands). What the table hides is that the
4
5 dispersion of relative output measures has increased over time and once one
6
7 amalgamates the Dublin and Mid-East regions which together form a functional
8
9 region the gap has also increased substantially. As output variables are susceptible to
10
11 biases due to commuting patterns and transfer pricing by multinational firms, it is also
12
13 useful to consider an indicator of personal income. Immediately apparent is that gap
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15 between the 'richest' and 'poorest' region is substantially smaller at just 23.5%.
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20 Finally, turning to labour market statistics the table shows the low rate of
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22 unemployment in Ireland as well as the relatively small regional variation.
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24 Furthermore the implied dependency rates of between 1 and 1.28 dependents per
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26 worker are also small with a relatively small gap.
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40 **The Structure of Fiscal Transfers in Ireland**

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43 Before we turn to the effect of the fiscal system on regional income differences
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45 and the degree of redistribution across regions it is useful to review the nature of
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47 local, regional and national government expenditure at the regional level³.
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50 As highlighted in Morgenroth (1999) Ireland has a very centralised government
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52 structure. Regional governance is very weak even though two layers of regional
53
54 government exist, namely the Regional Assemblies (NUTS 2) and the Regional
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56 Authorities (NUTS 3). The regional Assemblies are however the managing authorities
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58 for the regional operational programmes of the National Development Plan (NDP)
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60 which includes the EU structural funds. Apart from this they along with the Regional

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3 Authorities are responsible for the production of regional development plans and the
4 promotion of co-ordination among the local authorities and town councils. These have
5 a number of functions social housing, water supply, sewerage, refuse, pollution,
6 recreation, fire protection, roads (other than national) and planning. These roles
7 involve the supply of local public goods such as fire protection, the supply of
8 congestable public goods such as roads and the supply club goods such as recreation.
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11 This centralised structure also implies that expenditure is highly centralised. Thus
12 the regional assemblies (NUTS2) and regional authorities (NUTS3) have no tax-
13 raising powers, while local authorities have very limited tax-raising powers. There is
14 no system of regional equalisation payments. Instead the Central Government gives
15 grants to the local authorities. General taxes and subsidies (with the exception of
16 commercial rates and user charges) are uniform throughout the State and thus these
17 are not aimed to directly influence regional development.
18

19
20 The local authorities can raise revenue through commercial property rates.
21 Furthermore, they receive all the vehicle registration taxes for vehicles registered in
22 their local authority area. These are paid into the so-called General Fund, which is
23 topped up by central government. In addition to this the central government gives
24 State Grants to local authorities. Figure 1 shows the importance of the different revue
25 streams. Most noticeable is the very high importance of grants from central
26 government, which on average was 76% of total current revenue. Interestingly this
27 share has been increasing over recent years so that the dependence of local authorities
28 on central government is increasing. Thus, rather than becoming less dependent on
29 central government, through charges for services provided, local authorities are
30 actually becoming more dependent on central government. The miscellaneous
31 category, which includes receipts from the provision of goods and services, increased
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3 in importance over the 1980's but has been declining over the 1990's. This might
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5 suggests that in fact the privatisation of services is reducing the importance of
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7 independent revenue streams for local authorities. Capital revenue (not shown here) is
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9 also dominated by transfers from central government, which account for about 65% of
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11 capital receipts. Overall, just 8.9 percent of revenues to local and central government
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13 are collected by local authorities, while these are responsible for 40 per cent of total
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15 expenditure of local and central government.
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27 **The impact of taxes and transfers on incomes**

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30 As mentioned above Bradley and Morgenroth (1999) pointed to the fact that the
31
32 functioning of the welfare and tax system through their redistributive functions might
33
34 be responsible for reducing the gap in incomes as compared to the gap between output
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36 measures across regions. While this requires a substantial amount of analysis, it turns
37
38 out that it is relatively straightforward to identify the impact of transfers and taxes on
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40 incomes. This comparison is facilitated by the detailed breakdown of sources of
41
42 income and taxes available in the published data available from the Central Statistics
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44 Office (CSO) as part of the County Incomes and Regional GDP statistical releases.
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46 This data is available at the county level, which identifies incomes in 27 counties.
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48 Figure 2 shows the gap between the county with the lowest per capita income and that
49
50 with the highest per capita income using three different measures. These measures are
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52 income net of subsidies, total income and total income net of taxes (disposable
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54 income). The figure clearly shows that the gap is significantly lower once subsidies
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56 and taxes are taken into account proving that the operation of the tax and welfare
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3 system in Ireland does indeed reduce differences. Interestingly the gap increased for
4 all measures until 2002 but the increase is particularly marked for income net of
5 subsidies. Again the differences show the effect of the fiscal system in reducing
6 differences.
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20 In addition to the comparison of the level of gap between the counties with the
21 lowest and highest incomes it is also interesting to consider the differences in each
22 income measure for individual counties. Figure 3 provides such a comparison for the
23 five counties with the lowest income and the five counties with the highest income.
24 This graph clearly shows that the impact of the fiscal system improves the relative
25 income of the poorer counties while disimproving the relative position of the richer
26 counties.
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39 {INSERT FIGURE 3 HERE}
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45 **Construction of Regional Government Accounts**

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47 Of course personal taxes on personal income and personal subsidies are not the
48 only fiscal transfers that take place, since government also provides services and
49 invests in the regions. Consequently it is also useful to consider how wider
50 government expenditure and taxes are distributed across regions. This analysis can
51 however not readily be carried out since data on such flows is not published in a
52 readily usable form, rather the data needs to be assembled into one comparable
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3 source. In particular some published data does not correspond to national accounts
4 totals. For example total tax revenue for the state (local and central government) was
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6 €44.3 billion in 2004 while the figures from the regional accounts and county incomes
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8 add to only €37.6 billion, a difference of €6.7 billion. Furthermore, the Regional
9
10 Accounts do not contain information on all major government activities such as public
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12 investment and expenditure on health and education. We therefore aim to produce a
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14 consistent set of regional government accounts that correspond to the national
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16 accounts total for the whole economy.
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22 Given that only certain data series are available at the regional level it is not
23
24 possible to construct accounts that are as comprehensive as those available at the
25
26 national level. However, using the data in conjunction with some strong assumptions
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28 it is possible to produce regional government accounts that contain the main
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30 components. For this purpose it is useful to first split the government accounts into a
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32 revenue (largely taxation) and expenditure side.
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36 Within revenue and expenditure we can identify a number of subheadings for
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38 which we aim to construct data. For revenue these are taxes, transfers from abroad
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40 and other revenues. Taxes are further subdivided into household taxes, product taxes
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42 and other taxes. Since these do not add to the total taxes identified a further category
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44 of remaining taxes, which is constructed by apportioning the unaccounted remainder
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46 of taxes according to the regional shares of recorded taxes. Other revenues, which
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48 include investment income, rental income, loan repayments and borrowing and
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50 transfers from abroad, are distributed across the regions according to population
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52 shares. In total these latter categories of revenue account for about 14% of total
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54 revenues and clearly using population shares to attribute these revenues results in
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56 more even revenue generation across regions. However, it appears reasonable for
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3 example to attribute the investment income and loan repayments (18% of other
4 revenues), which derives from investment in public corporations and investments by
5 the Central Bank of Ireland on a per capita basis. Likewise borrowing (16% of other
6 revenues) is naturally distributed across the population. Thus, while this might
7 introduce a bias into the analysis it is likely that the bias is negligible.

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15 These calculations yield the following table for 2004 (Table 2) where the first
16 three rows are taken directly from the County Incomes and Regional GDP statistical
17 release and the remaining data at the county level being constructed as outlined. In the
18 table the row totals for total tax revenue, transfers from abroad and other revenues
19 match the corresponding entries in the National Income and Expenditure (NIE)
20 accounts.
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32 {INSERT TABLE 2 HERE}

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35 As with taxes, some published data of transfers at the regional level are available
36 from the County Incomes and Regional GDP, but again they do not add to the total in
37 the NIE tables. In some years this case the total slightly exceeds that from the NIE so
38 instead of adding a small amount is subtracted to align the data with NIE. As before
39 the differences are attributed on the basis of the regional shares of recorded subsidies.
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47 The wage bill, which forms part of expenditure on goods and services, is
48 calculated using the employment numbers from the Quarterly National Household
49 Survey (QNHS) and the average wage (obtained from the ESRI Macroeconomic
50 database⁴). For this calculation the data is disaggregated into health and education and
51 public administration and defence. The wage bill does not cover other current
52 expenditure, which is covered in NIE (e.g. stationery etc.). This is allocated according
53 to the shares of public workers in the regions. Thus the total expenditure on goods and
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3 services is derived. Clearly this approach assumes that the mix of grades within the
4 public service is equal across regions and it assumes that there is only limited
5 commuting across regions, neither of which may hold in practice. However,
6 alternative approaches are not readily available. At least in relation to commuting it is
7 possible to consider the likely impact, and once one amalgamates the Dublin and Mid-
8 East regions between which substantial commuting flows take place, a relatively
9 modest level of commuting across regions is observed. Based on calculation using the
10 2002 Census of Population Commuting Micro-data, other than the Mid-East for which
11 net commuting outflows account for about 32% of workers and Dublin where the net
12 inflow is about 16% only the Midlands region which has a net outflow of about 10%
13 no other region records substantial cross regional commuting.
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29 This leaves just two items, namely other expenditure, which includes loan
30 repayment and redemption of securities etc. and Gross Physical Capital Formation.
31 Other expenditure is simply allocated to the regions according to population shares,
32 while it is possible to apportion the GPCF more precisely using the data from the
33 Construction Industry Review and Outlook⁵. This is used to derive the shares for each
34 type of investment, which goes to each region and using this, the total GFCF is
35 derived. In many cases the total investments in the NIE are very similar to those in the
36 Construction Industry Review and Outlook so the resulting regional totals should be
37 quite robust.
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58 Analysis

59 Having constructed regional accounts in the manner outlined above it is possible
60 to analyse trends in the various indicators⁶. Firstly we consider the trends in real per

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capita resource transfers, that is the per capita excess of expenditure over revenue, which is shown in Figure 4. The figure clearly shows that the level of redistribution has increased over time, which implies that the gap between resource inflows and outflows has increased. This suggests that the Irish fiscal system despite not having explicit equalisation rules acts to reduce regional disparities. This is supported by correlation coefficients for the correlation between the implied transfer of resources and real per capita gross value added (GVA) which are negative and range from 0.86 (1996) to 0.99 (2003) and are all statistically significant (see Table 4). Not surprisingly, the table also shows that revenue is highly correlated to GVA. However, while expenditure is also positively correlated with GVA this correlation is smaller than that for revenue, declining over time and not statistically significant for more recent years. Overall these results correspond to those found by Gordon et.al (2004) in that the capital city makes a net contribution to the exchequer, which is redistributed to other regions. Furthermore, the results suggest that the fiscal system does ameliorate regional disparities, which corresponds with that of MacKay (2003) who showed that poorer regions in the UK receive transfers. Overall, Dublin and the South-West region contribute substantially to regional transfers. For example in 2004 just over €2,000 per person were transferred across regions while in the same year the Midlands region received a transfer of just over €3000 per person. In absolute terms the level of transfers is also substantial. In 2004 just over €3 billion were transferred from the 'net surplus regions' Dublin, South-West and Mid-West to the other regions⁷. Overall the tax burden (including social contributions) averages at €11,000 per person in 2004 with a high for Dublin with almost €14,000 per person and a low of €8,500 per person in the Midlands.

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11 Another interesting fact emerges when one considers the distribution of both total
12 revenue and total expenditure across regions. While there is a transfer of resources
13 largely from Dublin and the South-West to other regions, which implies that these two
14 regions account for a larger per capita revenue, expenditure in these regions is also
15 above average but not to the same degree as revenue. For example over the period
16 1995 to 2004 Dublin accounted for 28.9% of the population, 35% of revenue and
17 31.4% of expenditure. The Midlands, which accounted for just 5.7% of the population
18 and 4.6% of revenue accounted for 5.5% of public expenditure. Thus while being
19 redistributive the fiscal system does not appear to unduly disadvantage the better off
20 regions.
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34 Given that the debate has been concentrating on expenditures and particularly
35 investment it is particularly interesting to consider trends in real per capita public
36 investment. As figure 5 clearly shows that in real terms the level of investment has
37 increased substantially in all regions. However, the Dublin region received a
38 disproportionate share of investment with the level of disproportionality increasing
39 over time. It should however, be noted that given the population of Dublin, in per
40 capita terms Dublin is not favoured when it comes to capital expenditure. Indeed no
41 clear pattern of 'excess' per capita capital expenditure can be detected in the data.
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59 It is also possible to conduct some simple policy evaluation using the constructed
60 data. An interesting example is the so-called 'decentralisation' of 10,235 public sector

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3 jobs, which was announced by the Irish Minister of Finance, Charlie McCreevey, as
4 part of Budget 2004^{8,9}. It should be noted here that the Irish ‘decentralisation’ does
5 not involve the transfer of government functions to the regional or local level, rather it
6 refers to the relocation of central government jobs outside of the capital city, Dublin.
7
8 The planned relocation of jobs would, if implemented entirely in 2004, have led to a
9 relocation of 32% of public administration and defence jobs that existed in Dublin in
10 2004 away from Dublin¹⁰. The scheme to relocate public servants to towns and cities
11 outside of Dublin was justified by the government as a measure to help promote more
12 balanced regional growth.
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16 It is possible to assess this rationale in terms of the impact on government
17 spending using the assumptions outlined above. These calculations show that
18 ‘decentralisation’ increases public expenditure in all regions except Dublin, with these
19 increases ranging from 1.2% in the West to 3.9% in the Midlands Regions, while
20 Dublin would have experienced a decline in public expenditure of 4.9%¹¹.
21
22 Unfortunately, it is not straightforward to identify the impact of ‘decentralisation’ on
23 regional taxation as it is difficult to assess the degree of leakage of income out of the
24 regions (e.g. through shopping in another region, cross regional commuting etc.) so it
25 is not possible to identify the impact of decentralisation on overall public expenditure
26 balances. However, as revenue collected directly from the civil and public servants
27 will be a fraction of their total income (wage bill) the overall impact is likely to
28 further reduce imbalances. Of course the proposed decentralisation scheme was to be
29 implemented over a number of years and indeed the pace of implementation has been
30 slow so that the overall impact of the scheme to date has been very limited¹².
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Conclusions

This paper attempts to bring some factual basis to the ongoing debate on regional government expenditure. As such it first considers the degree to which taxes and subsidies at the household level reduce the relative differences in average incomes across counties. That analysis confirms that the fiscal system does reduce relative income differences in Ireland. Since household taxes and subsidies are only a small component of the fiscal system and since the bulk of central and local government revenue is collected at the central level the paper also attempts an analysis of a wider set of regional government accounts, which given that such accounts are not readily available, are constructed in a consistent basis. This requires some strong assumptions, and clearly the estimates derived are dependent on the validity of these assumptions.

The data show some interesting results. Dublin and the South-West contribute to a substantial resource transfer to other regions. The level of transfers is found to be highly related to the state of development. In other words the fiscal system works in a progressive manner in relation to regional disparities¹³. Nevertheless the better off regions receive an above average level of expenditure so that the system only partially equalises. This is particularly pronounced in relation to public gross fixed capital formation, where Dublin gets a significantly larger share in per capita terms than other regions. The result that the tax and expenditure system is progressive across regions stands in contrast with the finding that in Ireland this system has only moderate redistributive qualities across individuals (see Nolan and Smeeding, 2005).

The debate about regional expenditure is implicitly a debate about the trade off between equity and efficiency. Thus poorer regions would argue that that they deserve a 'fair share' of the nation's wealth, while richer regions would argue that this wealth

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3 could only be created if there is sufficient investment in their regions. In as much as
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5 the analysis presented here can address this debate, the results would suggest that the
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7 Irish fiscal system does provide a mechanism to achieve more equity, while at the
8
9 same time preserving a higher level of expenditure in the wealth generating regions.
10
11 The finding that the system provides a significant degree of regional equity is largely
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13 the result of the centralised nature of revenue collection in conjunction with the aim to
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15 provide similar levels of service across the full range of government activities in all
16
17 regions. In order to achieve a similar level of equity with a less centralised system
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19 would require a more sophisticated system of fiscal equalisation payments across
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21 regions. Thus, while many have argued that the Irish system is too centralised (see
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23 Morgenroth, 2000) this centrality turns out to be an asset in terms of achieving
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25 regional equity.
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32 The conclusion that the system is indeed equitable is based on per capita levels of
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34 revenue and expenditure rather than an assessment of needs. However, while this
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36 issue was raised in the early 1990s (e.g. Ridge, 1992 and Ridge and Smith, 1992)
37
38 since the year 2000 the level of transfers from Central to Local government through
39
40 the General Purpose Local Authority Fund, which accounts for approximately 20 per
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42 cent of Local Authority revenue, has been allocated according to a needs and resource
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44 model which seeks to account for different needs (see INDECON, 2005).
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49 Whether the levels of transfers provide an optimal balance between equity and
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51 efficiency cannot be determined with the analysis provided here. However, at least
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53 some researchers have commented on an excessive bias towards equity. For example
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55 O'Leary (2002) argued that regional equity considerations might undermine efforts to
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57 increase productivity growth, which will be the main driver of future prosperity. In
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59 this respect it is noteworthy that public investment accounts for a relatively small
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3 percentage of public expenditure and as there is no clear pattern of 'excess' capital
4 expenditure in the less developed regions, it appears that the bulk of the re-
5 distribution does not tackle any structural deficiencies in those less developed regions.
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8 Given the experience in other less developed regions of Europe such as the Italian
9 Mezzogiorno, which despite being the destination of substantial transfers have not
10 converged, the analysis provided here points in favour of the arguments put forward
11 by O'Leary (2002).
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20 An important point to note is that the analysis could not account for regional price
21 differences, which might well reduce real disparities since the price level in more
22 urbanised regions tends to exceed that of poorer more rural regions. Thus the level of
23 subsidisation may actually be understated. Furthermore, this paper has only
24 considered levels of expenditure and revenues, which may mask differences in the
25 cost of providing public services. For example, the costs of providing utilities such as
26 electricity and telecommunications, which are provided to broadly the same standards
27 throughout the country, is higher in rural areas. Thus, since some services are cheaper
28 to provide in more densely populated areas and may be subject to scale effects the
29 richer more urban areas may require a lower expenditure to provide an equal service.
30
31 On the other hand more urbanised regions may face higher costs for example in the
32 provision of public housing. Consequently the degree to which differential costs of
33 providing public services across regions affects cross regional redistribution would
34 need to be assessed through further research.
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56 Notes

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58 1. See Bannon and Lombard (1996), Killen, L. and F. Ruane (1998) or Morgenroth
59 (2003, 2008) for a review of the evolution of regional policy in Ireland.
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4 2. See <http://www.margaretcoc.com/> for more details.
- 5
6 3. This issue has been dealt with in a number of studies such as Foundation for Fiscal
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8 Studies, (1990), Advisory Expert Committee, (1991) and INDECON (2005).
- 9
10 4. http://www.esri.ie/irish_economy/databank/
- 11
12 5. The author would like to thank Annette Hughes of DKM Economic Consultants for
13
14 help with Construction Industry Review and Outlook data.
- 15
16 6. A summary of the major tax and expenditure categories for all regions over the
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18 period 1995 to 2004 is provided in Table A1.
- 19
20 7. Since the per capita comparison may mask differences in dependency rates, the
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22 implied transfer per worker was also calculated but this yielded the identical
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24 pattern to that shown in Figure 4 (correlation coefficient of no less than 0.99).
- 25
26 8. These include jobs in government departments and public agencies.
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28 9. Another important example would be the impact of the EU Structural Funds.
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30 However, as Fitz Gerald et al. (2003) note in their Mid-Term Evaluation of the
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32 2000-2006 National Development Plan, financial data on the expenditures under
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34 the Structural Funds in Ireland are not published at the NUTS 3 level. Thus, the
35
36 impact of including balanced regional development as an objective of the National
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38 Development Plan cannot be assessed easily.
- 39
40 10. Dublin accounted for about 35% of all public administration and defence jobs in
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42 2004 (31,825).
- 43
44 11. Not all jobs identified for 'decentralisation' had an alternative location identified
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46 in the Budget (13%). For the calculations these were allocated across the regions
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48 according to their 'decentralisation share'.
- 49
50 12. By the end of June 2007 decentralising organisations had established a presence in
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52 over 20 new locations with over 1,000 staff in place.
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13. Given the lack of detailed data it is not possible to consider whether the contrasting result compared to the UK is due to discretionary or non-discretionary spending.

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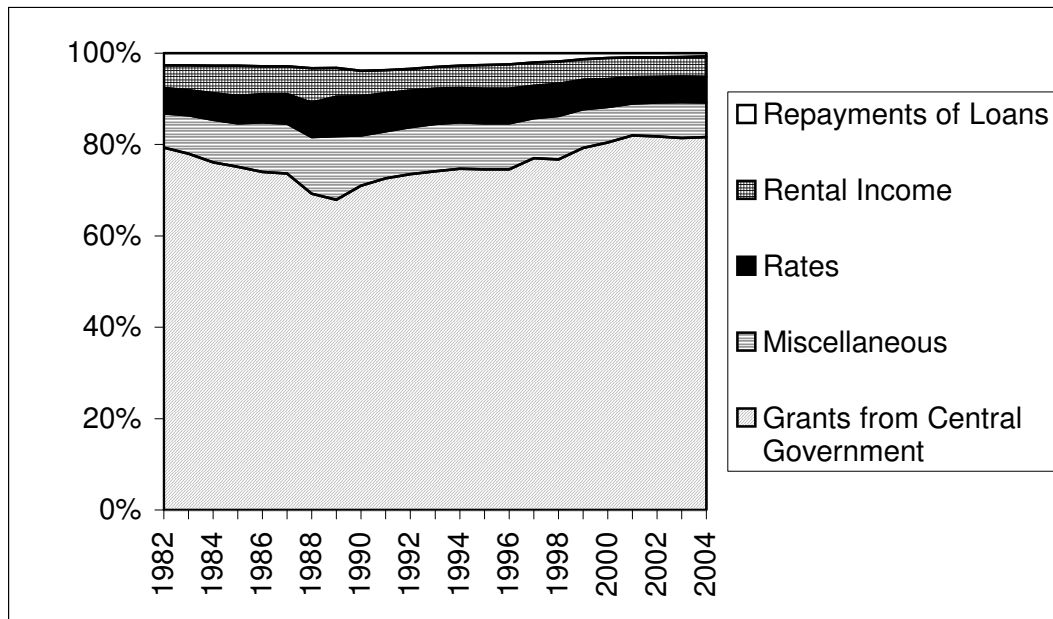
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Table 1. Summary Statistics on Key Variables on Regional Development

	Population (2006)	Area (km ²)	Per Capita Gross Value Added (% of National) (2004)	Per Capita Income (% of National) (2004)	Unemployment Rate (2006Q2)	Persons at Work (1000s) (2006Q2)
Border	468,375	1,234.6	74.3	91.6	5.0	205.2
Midlands	251,664	662.5	66.3	91.4	4.0	115.2
West	414,277	1,428.7	74.8	93.8	4.2	195.5
Dublin	1,187,176	92.1	133.3	113.0	4.8	595.4
Mid-East	475,360	606.134	73.8	98.9	3.3	225.6
Mid-West	361,028	824.9	93.2	100.5	3.9	174.2
South-East	460,838	945.2	81.6	89.5	5.0	213.6
South-West	621,130	1,224.2	122.3	97.4	3.7	292.3
State	4,239,848	7,018.2	100.0	100.0	4.3	2017.0

Source: CSO Census of Population, CSO County Incomes and Regional GDP,
Quarterly National Household Survey.

Figure 1. Sources of Local Authority Current Revenue (% of Total Current Revenue)

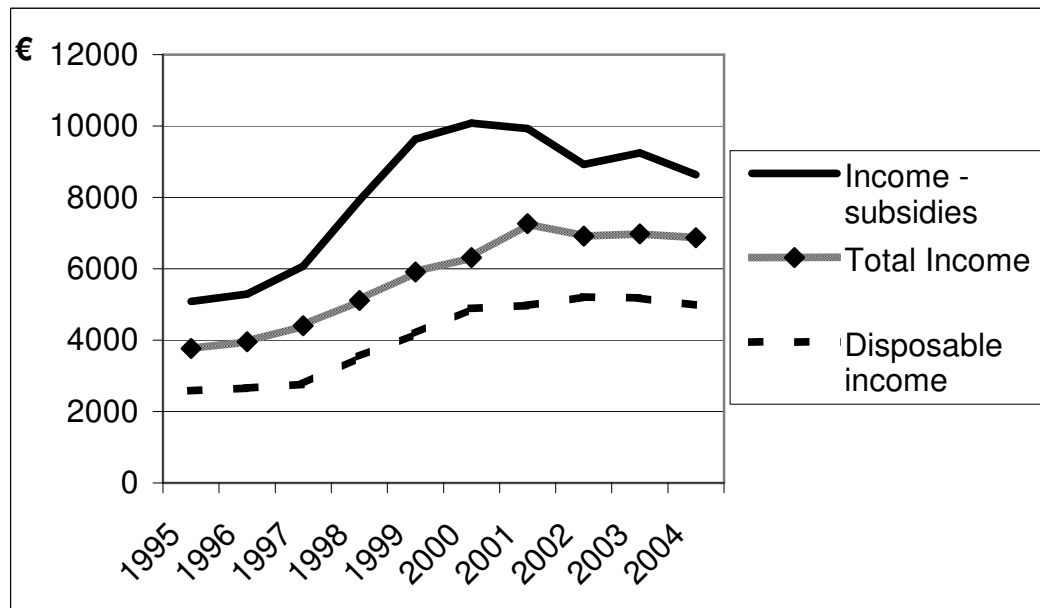


Source: CSO National Income and Expenditure, various issues.

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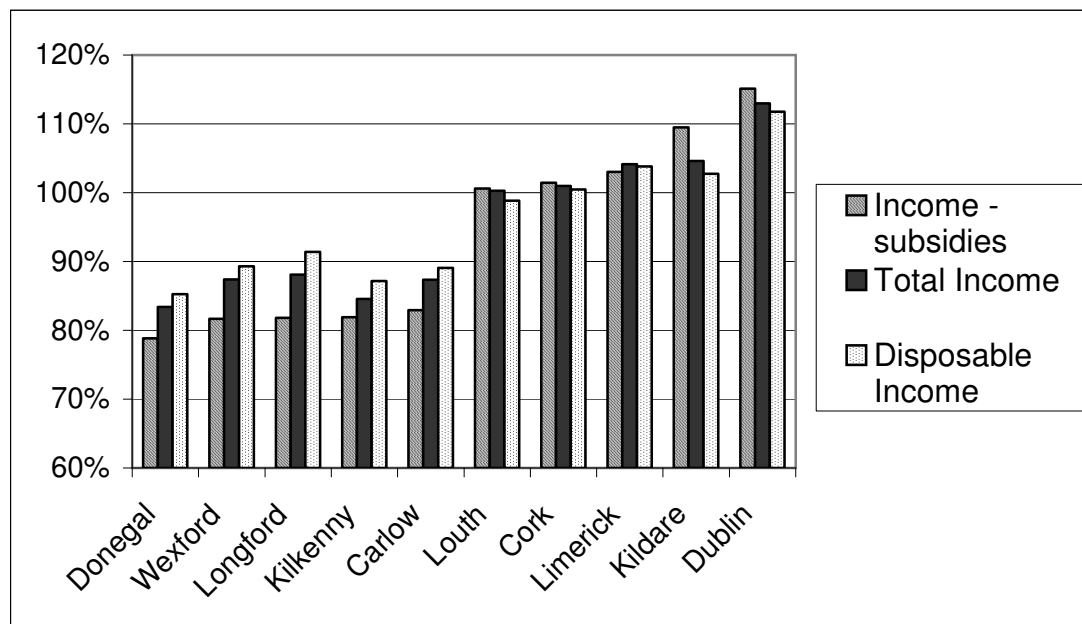
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Figure 2. Gap between the 'richest' and 'poorest' counties in different income indicators accounting for fiscal impacts.



Source: Own calculations using CSO County Incomes and Regional GDP various issues.

Figure 3. Relative Index of various income measures for the 'poorest' and 'richest' 5 counties (State=100%), 2004



Source: Own calculations using CSO County Incomes and Regional GDP various issues.

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Table 2. Regional Revenues for 2004 (€ million).

	Border	Midlands	West	Dublin	Mid-East	Mid-West	South-East	South-West	State
household taxes	1,762	933	1,547	5,997	1,980	1,555	1,607	2,574	17,955
Other taxes	135	57	99	540	89	91	133	218	1,362
product taxes	1,502	709	1,332	6,884	1,456	1,454	1,621	3,295	18,253
Tax revenue	3,399	1,699	2,978	13,421	3,525	3,100	3,361	6,087	37,570
Remaining taxes attributed	609	304	534	2,404	632	555	602	1,091	6,731
Total Tax Revenue	4,008	2,003	3,512	15,825	4,157	3,655	3,963	7,178	44,301
Transfers from abroad	73	39	65	188	72	57	72	98	663
Other revenues	738	390	649	1,884	720	569	725	983	6,658
Total revenues	4,819	2,432	4,225	17,897	4,948	4,281	4,760	8,259	51,622
Per Capita Revenues (€)	10,755	10,271	10,716	15,639	11,315	12,393	10,809	13,831	12,766

Source: Own calculations using National Income and Expenditure 2005 and County Income and

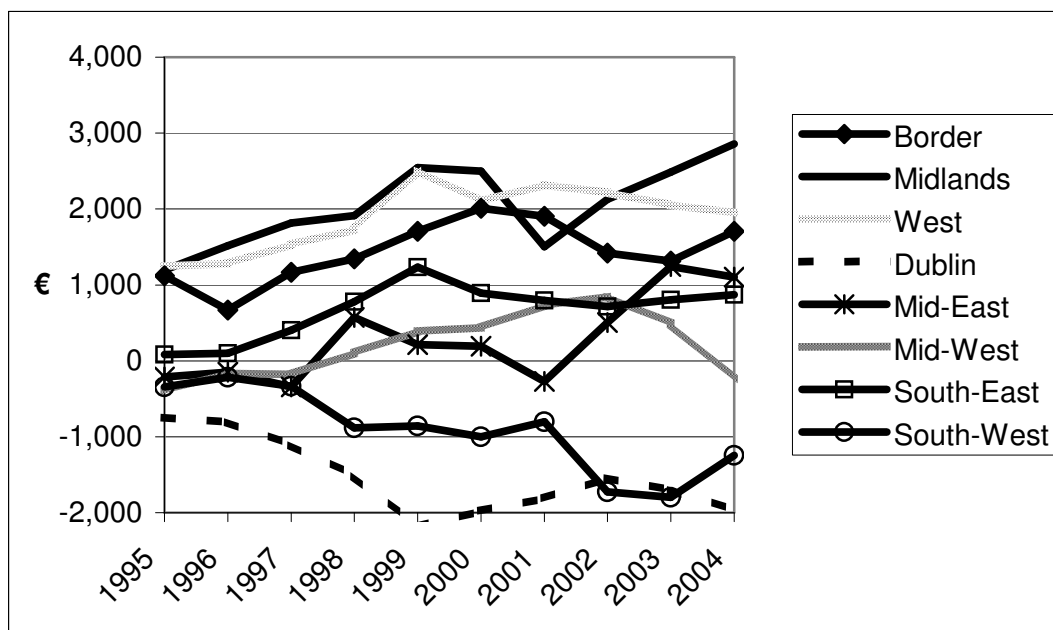
Regional GDP 2004.

Table 3. Regional Expenditure for 2004 (€ million).

	Border	Midlands	West	Dublin	Mid-East	Mid-West	South-East	South-West	State
Social transfers	1,766	870	1,533	4,634	1,398	1,390	1,733	2,285	15,609
Other Subsidies	92	39	100	55	29	54	49	76	494
Product Subsidies	174	82	154	796	168	168	187	381	2,110
Total Subsidies	2,032	991	1,787	5,485	1,595	1,612	1,969	2,742	18,213
attribution	104	51	91	281	82	83	101	140	932
Total Subsidies	2,136	1,042	1,878	5,766	1,677	1,695	2,070	2,882	19,145
wage bill	1,474	862	1,354	4,395	1,550	1,038	1,286	1,940	13,900
other exp on goods and services	829	459	763	2,381	830	592	713	1,092	7,658
expenditure on goods and services	2,303	1,321	2,117	6,777	2,380	1,630	2,000	3,031	21,558
Other Expenditure	606	320	533	1,547	591	467	595	807	5,467
Capital Expenditure									
Roads	175	180	155	369	377	140	168	267	1,832
Water & Sewerage	70	27	69	94	52	53	61	65	489
Health	37	46	34	165	43	25	36	97	482
Social Housing	100	45	55	374	61	53	81	103	871
Public Buildings	11	18	31	100	50	14	9	17	249
Education	21	12	16	94	18	26	15	60	264
Other	125	99	108	361	182	94	111	184	1,264
Total GFCF	539	426	467	1,556	784	406	480	794	5,451
Total Expenditure	5,583	3,109	4,995	15,646	5,431	21,077	4,198	5,145	7,515
Per Capita Expenditure (€)	12,460	13,129	12,667	13,672	12,420	12,154	11,683	12,585	12,766

Source: Own calculations using National Income and Expenditure 2005, County Income and Regional GDP 2004 and Construction Industry Review and Outlook.

Figure 4. Implied Real per capita Resource Transfers (2004 prices)



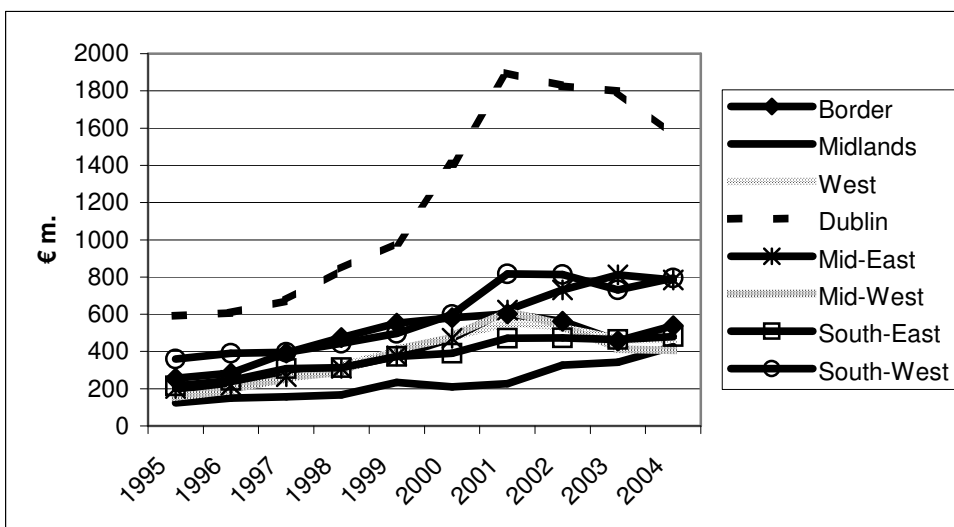
Source: Own calculations.

Table 4. Correlation Coefficients for the relationship between per capita real GVA and per capita real revenue, real expenditure and real transfers

Year	Per-capita revenue	Per- capita expenditure	Per-capita transfers
1995	0.99***	0.71**	-0.88***
1996	0.98***	0.80**	-0.86***
1997	0.97***	0.75**	-0.89***
1998	0.96***	0.68*	-0.96***
1999	0.97***	0.66*	-0.96***
2000	0.95***	0.57	-0.95***
2001	0.92***	0.66*	-0.90***
2002	0.95***	0.48	-0.98***
2003	0.97***	0.39	-0.99***
2004	0.98***	0.42	-0.96***

Note: * denotes significance at the 90% confidence level, ** denotes significance at the 95% confidence level and *** denotes significance at the 99% confidence level.

Figure 5. Real per capita Public Gross Fixed Capital Formation, (2004 prices)



Source: Own calculations. The deflator is taken from Construction Industry Review and Outlook

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Table A1. Summary Regional Government Accounts (million €)

1995	Border	Midlands	West	Dublin	Mid-East	Mid-West	South-East	South-West	State
Total Tax Revenue	1,557	7141,244	6,158	1,578	1,425	1,551	2,597	16,824	
Transfers from abroad	112	56	96	288	95	87	108	150	992
Other revenues	883	442	754	2,264	745	684	846	1,180	7,797
Total revenues	2,552	1,2132,093	8,710	2,418	2,195	2,505	3,927	25,614	
Total Subsidies	943	437	815	2,672	673	738	846	1,271	8,395
Expenditure on goods and services	910	439	718	2,921	844	609	725	1,156	8,323
Other Expenditure	870	436	742	2,230	734	673	834	1,162	7,681
Total GFCF	148	71	120	341	116	88	123	207	1,215
Total Expenditure	2,870	1,3832,396	8,163	2,367	2,109	2,527	3,797	25,614	
Balance	-318	-170	-302	547	51	86	-22	130	0
1996									
Total Tax Revenue	1,760	7871,400	7,023	1,717	1,548	1,712	2,803	18,751	
Transfers from abroad	107	54	92	278	91	83	103	143	952
Other revenues	1,212	6121,049	3,149	1,034	944	1,165	1,627	10,791	
Total revenues	3,079	1,4532,541	10,450	2,842	2,575	2,980	4,573	30,494	
Total Subsidies	1,001	470	864	2,922	723	800	907	1,347	9,034
Expenditure on goods and services	831	473	763	3,251	865	631	732	1,199	8,746
Other Expenditure	1,269	6401,098	3,298	1,083	988	1,220	1,703	11,299	
Total GFCF	173	91	139	371	134	118	149	238	1,413
Total Expenditure	3,273	1,6752,863	9,842	2,805	2,537	3,009	4,489	30,493	
Balance	-194	-222	-322	608	37	38	-28	85	1
1997									
Total Tax Revenue	1,958	8711,530	8,060	2,029	1,743	1,854	3,282	21,328	
Transfers from abroad	122	62	106	320	108	95	117	164	1,093
Other revenues	1,176	6011,020	3,089	1,040	916	1,133	1,582	20,556	
Total revenues	3,256	1,5342,656	11,469	3,177	2,753	3,104	5,027	32,977	
Total Subsidies	1,071	507	991	3,082	788	859	968	1,485	9,751
Expenditure on goods and services	971	533	764	3,613	962	662	789	1,382	9,676
Other Expenditure	1,320	6751,145	3,469	1,168	1,028	1,272	1,776	11,854	
Total GFCF	246	99	157	423	167	162	193	248	1,696
Total Expenditure	3,609	1,8143,058	10,587	3,085	2,711	3,222	4,892	32,977	
Balance	-353	-280	-402	882	92	42	-118	136	0
1998									
Total Tax Revenue	2,195	9371,764	9,218	2,125	1,992	2,067	3,759	24,058	
Transfers from abroad	126	65	109	331	113	99	122	169	1,133
Other revenues	865	445	750	2,278	779	678	840	1,167	7,802
Total revenues	3,186	1,4462,623	11,827	3,017	2,769	3,029	5,095	32,993	
Total Subsidies	1,161	5481,038	3,256	846	926	1,048	1,576	10,399	
Expenditure on goods and services	1,052	544	911	3,841	1,149	821	957	1,366	10,640
Other Expenditure	1,094	562	948	2,882	985	858	1,063	1,476	9,868
Total GFCF	313	110	211	556	205	191	207	293	2,086
Total Expenditure	3,620	1,7643,108	10,535	3,185	2,796	3,274	4,711	32,993	
Balance	-434	-318	-485	1,292	-167	-27	-245	384	0

Table A1. Summary Regional Government Accounts continued

1999	Border	Midlands	West	Dublin	Mid-East	Mid-West	South-East	South-West	State
Total Tax Revenue	2,443	1,017	1,951	10,939	2,616	2,282	2,327	4,332	27,907
Transfers from abroad	114	59	98	299	104	90	111	154	1,030
Other revenues	2,163	1,115	1,861	5,664	1,978	1,701	2,110	2,922	19,514
Total revenues	4,721	2,191	3,910	16,902	4,699	4,072	4,548	7,409	48,451
Total Subsidies	1,409	660	1,269	3,916	1,042	1,117	1,279	1,907	12,599
expenditure on goods and services	1,148	601	1,064	4,189	1,307	922	1,123	1,582	11,936
Other Expenditure	2,343	1,208	2,016	6,136	2,143	1,842	2,285	3,165	21,138
Total GFCF	401	169	294	715	273	295	270	361	2,779
Total Expenditure	5,301	2,638	4,643	14,956	4,765	4,176	4,957	7,015	48,451
Balance	-580	-446	-733	1,946	-66	-104	-410	393	0
2000	Border	Midlands	West	Dublin	Mid-East	Mid-West	South-East	South-West	State
Total Tax Revenue	2,721	1,238	2,431	12,246	3,079	2,655	2,784	4,964	32,119
Transfers from abroad	77	40	66	200	71	60	75	103	692
Other revenues	310	160	267	809	287	243	301	416	2,793
Total revenues	3,108	1,438	2,764	13,255	3,437	2,959	3,160	5,484	35,604
Total Subsidies	1,339	630	1,212	3,703	977	1,081	1,245	1,807	11,995
expenditure on goods and services	1,337	748	1,229	4,725	1,502	1,072	1,241	1,772	13,626
Other Expenditure	692	356	597	1,806	640	543	673	930	6,238
Total GFCF	472	171	385	1,144	382	388	317	486	3,745
Total Expenditure	3,839	1,906	3,423	11,378	3,502	3,084	3,476	4,996	35,604
Balance	-731	-468	-659	1,876	-65	-125	-316	488	0
2001	Border	Midlands	West	Dublin	Mid-East	Mid-West	South-East	South-West	State
Total Tax Revenue	2,842	1,421	2,434	12,772	3,415	2,741	2,977	5,250	33,853
Transfers from abroad	85	44	74	222	80	67	84	115	772
Other revenues	662	343	574	1,726	625	522	649	891	5,991
Total revenues	3,589	1,808	3,082	14,720	4,120	3,331	3,710	6,256	40,616
Total Subsidies	1,617	768	1,442	4,413	1,206	1,288	1,516	2,217	14,468
expenditure on goods and services	1,614	849	1,439	5,328	1,731	1,275	1,528	2,137	15,900
Other Expenditure	564	292	489	1,469	532	445	552	759	5,101
Total GFCF	533	201	492	1,680	552	548	417	724	5,147
Total Expenditure	4,328	2,111	3,862	12,891	4,021	3,555	4,012	5,836	40,616
Balance	-739	-302	-780	1,829	99	-224	-303	420	0
2002	Border	Midlands	West	Dublin	Mid-East	Mid-West	South-East	South-West	State
Total Tax Revenue	3,164	1,560	2,660	13,074	3,530	2,840	3,356	6,127	36,312
Transfers from abroad	86	45	75	222	82	67	84	115	776
Other revenues	1,920	1,000	1,688	4,984	1,831	1,507	1,880	2,576	17,386
Total revenues	5,170	2,605	4,423	18,280	5,443	4,415	5,320	8,818	54,474
Total Subsidies	1,806	875	1,608	4,829	1,419	1,439	1,723	2,497	16,196
expenditure on goods and services	1,815	1,044	1,709	5,898	2,001	1,480	1,866	2,438	18,250
Other Expenditure	1,609	838	1,415	4,178	1,535	1,263	1,576	2,159	14,574
Total GFCF	528	307	499	1,716	687	507	445	764	5,454
Total Expenditure	5,758	3,065	5,230	16,620	5,643	4,689	5,610	7,858	54,474
Balance	-588	-459	-807	1,660	-200	-275	-290	959	-1

Table A1. Regional Government Accounts (continued)

2003	Border	Midlands	West	Dublin	Mid-East	Mid-West	South-East	South-West	State
Total Tax Revenue	3,542	1,756	2,976	14,319	3,675	3,125	3,585	6,604	39,583
Transfers from abroad	62	33	55	160	60	48	61	83	563
Other revenues	864	453	764	2,232	837	674	850	1,158	7,831
Total revenues	4,468	2,242	3,795	16,711	4,572	3,847	4,496	7,846	47,977
Total Subsidies	1,987	966	1,743	5,329	1,543	1,567	1,914	2,707	17,755
Expenditure on goods and services	2,026	1,205	1,874	6,256	2,204	1,595	1,905	2,618	19,684
Other Expenditure	579	304	512	1,496	561	451	569	776	5,249
Total GFCF	442	330	449	1,735	783	398	447	706	5,289
Total Expenditure	5,034	2,804	4,577	14,816	5,091	4,012	4,836	6,807	47,977
Balance	-566	-562	-782	1,895	-519	-165	-341	1,039	0
2004	Border	Midlands	West	Dublin	Mid-East	Mid-West	South-East	South-West	State
Total Tax Revenue	4,008	2,003	3,512	15,825	4,157	3,655	3,963	7,178	44,301
Transfers from abroad	73	39	65	188	72	57	72	98	663
Other revenues	738	390	649	1,884	720	569	725	983	6,658
Total revenues	4,819	2,432	4,225	17,897	4,948	4,281	4,760	8,259	51,622
Total Subsidies	2,136	1,042	1,878	5,766	1,677	1,695	2,070	2,882	19,145
Expenditure on goods and services	2,303	1,321	2,117	6,777	2,380	1,630	2,000	3,031	21,558
Other Expenditure	606	320	533	1,547	591	467	595	807	5,467
Total GFCF	539	426	467	1,556	784	406	480	794	5,451
Total Expenditure	5,583	3,109	4,995	15,646	5,431	4,198	5,145	7,515	51,622
Balance	-764	-677	-769	2,251	-483	83	-385	744	0