

# Legislatures and Budgeting

Paul L. Posner

George Mason University

**“Given enough eyeballs, all errors are shallow”**

Wikipedia

# OECD Working Group

- Meeting in Paris in October, 2006
- Nine nations participating with a mix of constitutional systems
  - Presidential
    - Mexico
    - United States
  - Semi-Presidential
    - France
    - Korea
  - Westminster Parliament
    - United Kingdom
  - Nonwestminster Parliament
    - Italy
    - Japan
    - Netherlands
    - Sweden

# The Power of the Purse

- Appropriations as the foundation for democratic budget formulation
- Accountability to legislatures through appropriations accounts
- Controls over executive budget execution
- Oversight and review

# Factors Influencing Legislative Roles

- Constitutional foundation
  - From Presidential separation of powers to Westminster Parliamentary systems
- Cohesiveness of party systems
- Institutional features of legislatures
  - Bicameral
  - Full time governing bodies vs. part time
  - Capacity to review executive budgets
- Comprehensiveness of budget

# Factors Associated With Legislative Influence in Budgeting

## STRONGER

- Separation of powers
- Multi party system
- Bicameral
- Full time
- Budget Controllability
- Effective staff support

## WEAKER

- Parliamentary
- Cohesive two party
- Single chamber
- Part time
- Limited budget control
- Limited staff

# 20<sup>th</sup> Century as Executive Century

- Legislative Roles Eclipsed
  - Little role in fiscal policy targets
  - Limited authority to change executive budgets
  - Limited time and capacity to review budgets

# The Nature of the Japanese Budget

## ◆ Significance of the budget

- Estimation of the expenditures and revenues of the fiscal program during a fiscal year.
- Fiscal authorization from the Diet to the government.

## ◆ Difference between a budget and a law

- Unlike laws, a budget is self-contained and has its own set form.

	Budget	Law
Preparation/submission	Only the Cabinet can formulate and submit a budget	Any member of the Diet has the right to submit a legislative bill
Passage	The House of Representatives has the right of first consideration and convention right (Joint Committee of Both Houses, automatic passage)	A bill becomes a law on passage by both Houses in principle
Amendment	Diet amendment of government proposals is limited.	Diet amendment of government-sponsored bills is not limited.
	➤ Budgets and laws are unrelated, and one cannot be amended by the other.	



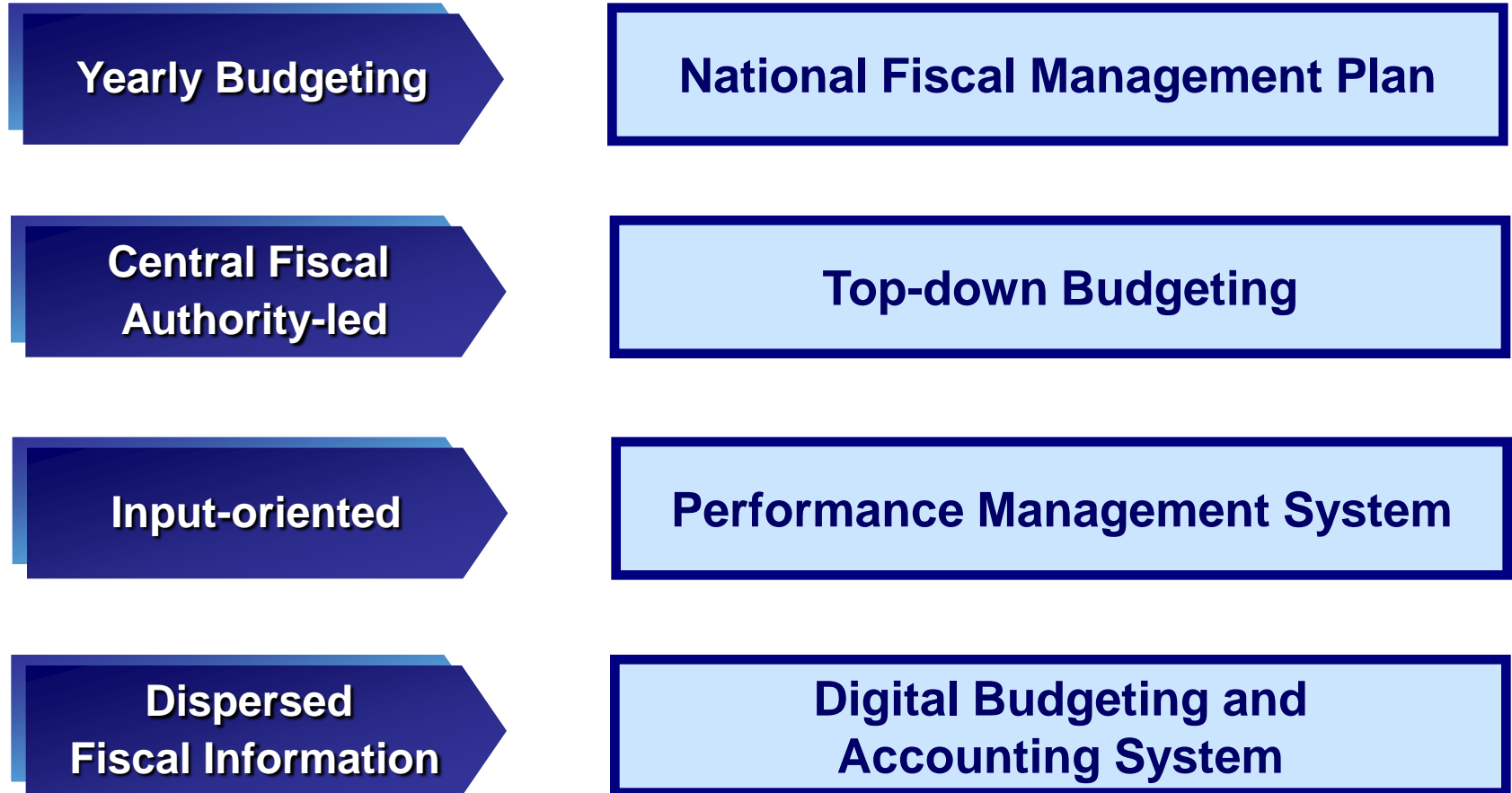
# Resurgence of Legislative Influence in Budgeting

- Fiscal pressures
- Fragmentation of party systems
- Democratization
- Competition with executive
  - Executive reforms prompt legislative reaction

# Legislative Changes

- Ex Ante Fiscal Frameworks
- Making budgets more comprehensive
- Strengthening deliberative process
- Enhancing legislative capacity
- Changing appropriations and budget execution
- Enhancing ex post oversight

# Innovating the PEMS



# Sweden: Multi Stage Budget Approval Process

- April – Government presents expenditure ceilings for Riksdag review
- September – Government presents the Budget Bill and opposition presents alternatives
- November – Riksdag establishes expenditure ceilings for 27 areas and decides on revenues.
- December – Riksdag votes on detailed annual appropriations

# Coalition Agreement: Informal Bargaining in the Netherlands

- Set of political agreements on the most important policy-matters
- Made by coalition-parties after negotiations
- Guidelines for the 4-years period of a cabinet
- Contains also agreements on the basics of budgetary policy (goals for reduction of deficit and debt, caps for level of expenditure, etc.)

# The Challenge of Comprehensiveness

- Norms of unified budgeting
- Challenging areas
  - Special funds
  - Entitlements
  - Tax Expenditures
- Korea among the nations expanding legislative control of all public funds

# The Deliberative Process

- Legislatures institute changes to structure the budgetary process
- Greater time afforded for review of executive requests
  - United States Congress receives budget 8 months before fiscal year
  - United Kingdom presents estimates two weeks before Parliamentary consideration
- Committees as the heart of legislative influence
  - Emergence of Budget Committees
  - Roles of authorizing committees

# The Range of Legislative Influence

- Range of Influence Across Legislatures
  - Budget making legislatures – capacity to formulate their own budget
  - Budget influencing legislatures – amend executive proposals
  - Budget marginalized legislature – limited capacity to change executive proposals



# OECD Survey on Legislative Influence

- Legislatures have unrestricted powers to amend budgets in 18 or 30 nations.
- Some can only decrease proposed spending; others can change if deficit neutral
- Legislative vote to change government budget considered confidence vote in 16 of 30 nations

# Critical role of informal executive-legislative relationships

- Formal change only one measure of legislative influence
- Legislatures influence budget proposals prior to publication
  - Executives anticipate legislative views
  - Advanced negotiations with party factions

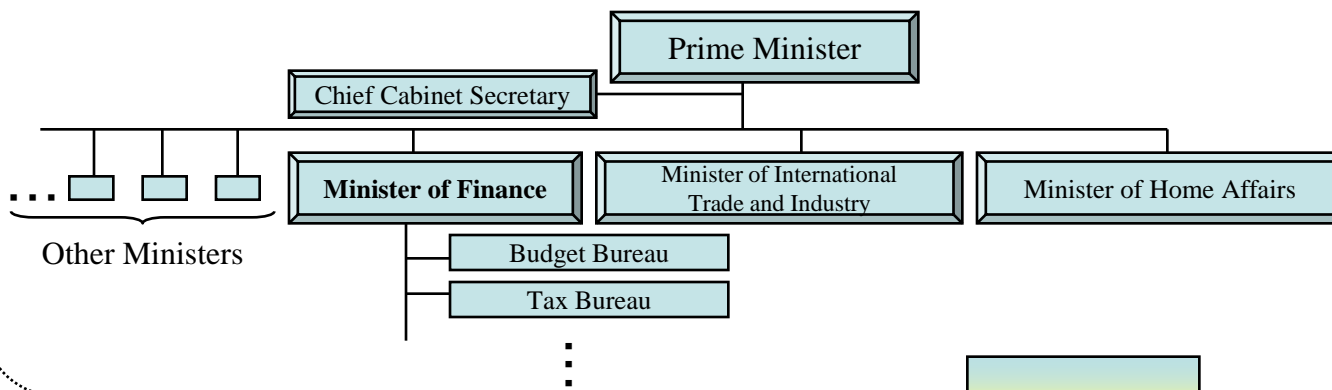
# Legislative Capacity

- Six of the nine nations have independent budget offices
- Functions vary
  - Review executive estimates
  - Provide independent legislative estimates
  - Prepare independent economic and budget forecasts
- Examples
  - Korean National Assembly Budget Office has over 100 staff members
  - Budget offices for Italy's two legislative chambers
  - United States Congressional Budget Office

# Council on Economic and Fiscal Policy

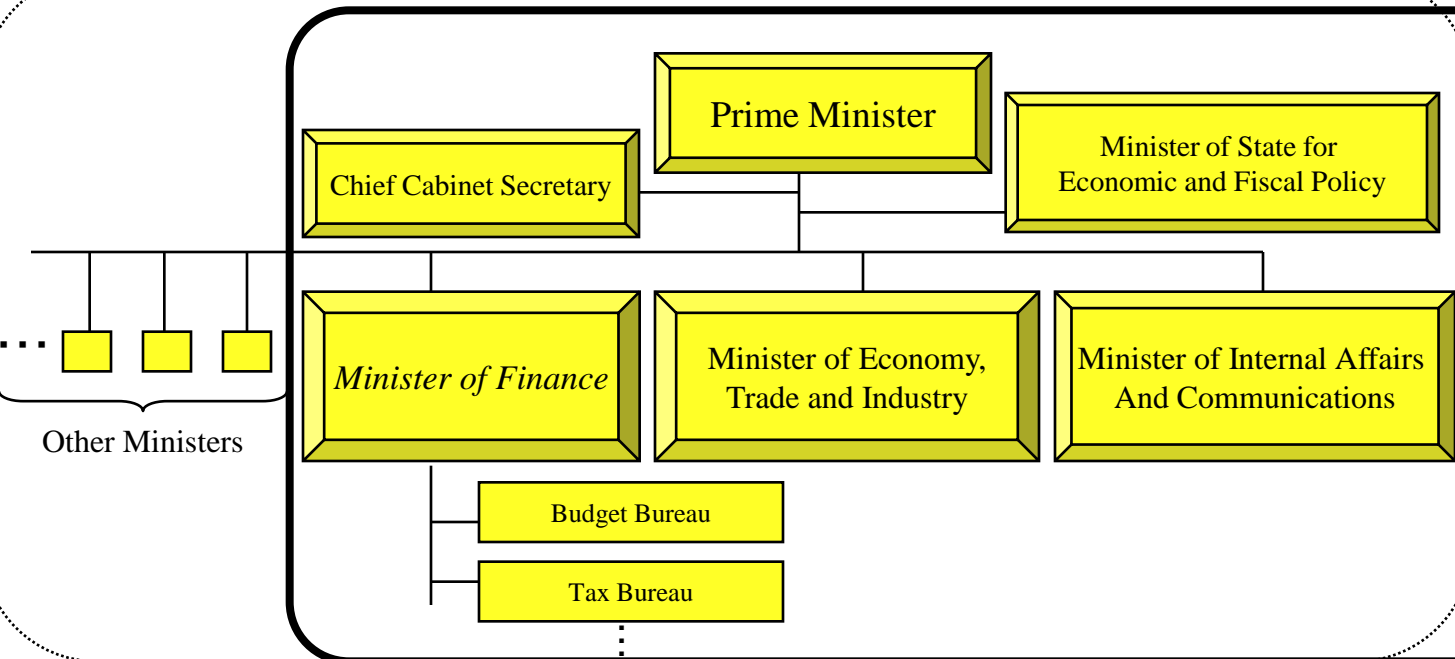
**Cabinet**

**Until 2001**



**Cabinet**

**FY2006**



**Council on Economic and Fiscal Policy**

- Governor, Bank of Japan
- corporate executive
- corporate executive
- scholar
- scholar

# Budget Execution

- Appropriations Accounts as Foundation of Legislative Accountability
  - Legislatures in Korea, Italy and France broaden account structures to promote performance accountability
- Legislative Controls Over Budget Execution Mixed
  - Transfers across appropriations items
  - Carry over of funds across fiscal periods
  - Contingency Funds

# French Programme Budget: The Justice Budget

Old: 30 Chapters, e.g.	New: 6 Programmes
Personnel	Administrative jurisdiction
Retired personnel	Judicial system
Departmental equipment	Prisons/corrections
Operating subsidies	Legal protection - youth
Sundry expenditure	Legal aid
Administrative and other facilities	Backing for judicial policy

# Legislative Oversight

- Enhanced Reporting and Information
  - Mexico requires monthly, bimonthly, quarterly and annual reporting
- Performance and financial management reforms yield systematic information
  - United Kingdom Spending Reviews
  - France Performance Plans and Reports
  - United States and Korea PART
- Legislative oversight committees
  - Public Accounts Committees
  - Netherlands Public Expenditure Committee
- Roles of National Audit Offices
  - From Financial Audits to Performance Audits

# Types of External Audit Offices

- Independent agencies reporting to the Legislature –
  - UK National Audit Office, U.S. Government Accountability Office
- Independent courts with judicial functions
  - Italian Courts of Account
- Independent agencies under the executive
  - Japanese Board of Audit



# Consequences of Expanded Legislative Budget Roles

- Implications for Competing Values
  - Fiscal Discipline
  - Allocation
  - Efficiency
  - Accountability
- Implications for Legislatures as Institutions
  - Centralizing effects on legislatures
  - Effects on executive-legislative relationships unclear
  - Implications of new public management for legislative power and control

# Issues to Consider: Strengthening the Budget Process

- Budget process reforms can enhance prospects for both legislative and executive control
- Executives can consider greater information sharing and collaboration with legislative officials
- Legislative officials can consider
  - Deliberate on overall fiscal targets
  - Continuing to strengthen capacity to budget
  - Support for strengthened oversight
- Joint initiatives to improve accountability in budgeting
  - Support for greater transparency
  - Bolster performance and financial management initiatives
  - Possible strengthening of independent institutions for oversight and economic forecasting