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Parliaments and the Budget Process: Eight Trends*

Involvement in setting public budgets and overseeing their implementation has traditionally been a key power of parliaments, alongside law-making and control of the executive. Yet, although budgeting is a core parliamentary function, essential features of public budgeting and parliaments' role in the budgetary cycle – ranging from initial discussions about the overall shape and balance of the public budget to the scrutiny of public accounts – have been subject to rapid and often far-reaching change in many countries. The present paper highlights eight trends in public budgeting and discusses their implications for parliaments. These trends include efforts aimed at improved (i) sustainability; (ii) information; (iii) integration; (iv) equity; (v) transparency; (vi) oversight and accountability; (vii) inclusiveness; and (viii) international coordination. Taken together, these eight trends have the potential of transforming the manner in which parliaments engage in public budgeting.

The trends highlighted in the following draw on the experiences of both

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member states of the European Union and parliaments associated to PUIC – Parliamentary Union of the Organization of the Islamic Conference. The paper draws primarily on the presentations and debates at the International Symposium “The Changing Role of Parliaments in the Budget Process: Experiences of PUIC Countries and EU Member States”, held in September 2010 at Afyonkarahisar. It also takes into the consideration the SIGMA Peer Review Report “The Administrative Capacity of the Turkish Grand National Assembly” of August 2010 and selected academic writings.

When considering trends in how parliaments engage in the budget process, one must, of course, be sensitive to the pronounced differences in the constitutional and political position of parliaments both in the EU and, even more so, amongst the PUIC countries. Almost all member states of the EU are parliamentary democracies (though some with a directly elected president with executive powers), but the parliamentary accountability of government, although obviously important, does not in itself establish a balance of powers between government and the legislature. Thus, across the 27 EU member states, both constitutional powers and actual political influence of parliaments in public budgeting continue to differ greatly. The same observation applies with even more force in the case of PUIC countries. Not all of the PUIC member institutions are composed of elected representatives and some are restricted to a consultative rather than a decision-making role.

Nonetheless, even though the eight trends highlighted here may not apply uniformly and the starting points of country-specific reform initiatives differ greatly, both practitioner and academic analyses point to a progressive parliamentarisation of public budgeting. Parliamentarisation does not necessarily imply that the content of public budgets is increasingly determined by legislatures; as is discussed below, there is, on the contrary, evidence to suggest that the discretionary scope for national decisions on state budgets is increasingly restricted. However, parliaments’ powers to increase the transparency of public budgets through improved information, to monitor their implementation, to assess and evaluate their consequences, and to make governments answerable for their budgetary decisions appear on the increase.

There is also strong evidence to suggest that an effective strengthening of parliaments’ engagement in budgeting relies not just on constitutional and

other legal provisions and political traditions, but, just as importantly, on adequate organisational and administrative capacities. Amongst the key requirements in this respect are committee structures and procedures that allow for detailed scrutiny of budget forecasts, budget bills, implementation reports and public accounts; information systems that enable parliaments to assess and, where necessary, challenge budget-related data provided by the government; and personnel policies that ensure that parliaments are able to compete successfully for expert staff with top qualifications in public sector budgeting.

1. Improving Sustainability

Traditionally, public budgeting – involving both the executive and parliament – has tended to follow a more or less fixed annual cycle, with predetermined sequences, schedules and deadlines. Increasingly, the aim of ensuring the long-term sustainability of public finances has been seen to conflict with the relatively short time horizons that annual budget rounds entail. While annual budgets adopted in parliament are still the norm, in a growing number of countries the annual exercise has been complemented by, and embedded in, multi-annual financial forecasting and budget planning with the aim of fostering longer-term predictability in public finances and time consistency. The greater need for predictability and long-term sustainability of public finances has not least been driven by the requirements of financial markets and their insistence on the credibility of long-term policies for the management of public finances.

Improving sustainability has meant that governments and, to a lesser extent, parliaments have devoted increasing attention to better forecasting of social, economic and, in particular, demographic changes and their likely budgetary implications. Extending time horizons beyond annual budget rounds or three to four year electoral cycles is not, of course, without problems. The greater the emphasis on long-term targets, the smaller the room of manoeuvre to effect significant changes during the parliamentary stages of the annual budget round. However, the more parliaments are involved in shaping the longer-term assumptions and objectives of public budgeting

policy, the more they can help to counterbalance traditional executive domination in the preparation of annual budget bills. In other words, improving sustainability through extended time horizons provides parliaments with growing opportunities to help shape assumptions and objectives rather than playing an essentially reactive role.

2. Improving Information

Improved sustainability entails the capacity to gather, analyse and interpret information and to turn information into knowledge capable of informing parliamentary deliberation, decision-making, scrutiny, and oversight and control. There has been a clear trend in many countries to supplement the annual budget bill with additional information ostensibly intended to assist parliament in making informed decisions and to reduce the oft-criticized informational asymmetries between the executive and parliaments. In Turkey, e.g., the implementation of the amended Public Financial Management and Control Law has meant that, in addition to the annual draft budget and a National Budget Estimation Report, the TGNA is now provided with a range of additional documents to aid its deliberations, such as a budget memorandum, which includes the medium-term fiscal plan; the annual economic report; the schedule of public revenues renounced to do tax exemptions, exceptions, reductions and similar practices; the public debt management report; the last two years' budget realisations and the next two years' revenue and expenditure estimates of public administrations within the scope of the general government; budget estimates of local administrations and social security institutions; and a list of public administrations that are not within the scope of the government but are subsidised from the central government budget or of other agencies and institutions. Moreover, parliaments have access to rapidly growing amounts of budget-related information from central banks, international organisations and NGOs. There are also institutional innovations such as the Office for Budget Responsibility, set up in the United Kingdom in 2010 to provide independent analysis of the UK's public finances.

It appears, however, that the growth of available information often

outstrips parliaments' capacity to analyse, interpret and act upon the information made available. Some parliaments have sought to improve their analytical capacities by setting up specialised units for budget analysis; the aim has been to enable parliamentarians to be better able to scrutinize and, where necessary, challenge the information provided to them. As yet, however, the results appear mixed. Compared to the specialist expertise available in ministries of finance and also central banks, the relevant personnel resources in parliamentary administrations are very small and it can be difficult for parliaments to compete effectively for top specialist personnel.

3. Improving Integration

The degree to which decisions about public expenditures, as the classical reserve of the state budget, are formally and informally linked to decisions about revenue raising, especially through taxation, varies significantly across countries. In many respects, budgeting is, of course, highly path-dependent: budgets reflect decisions that have often been taken many years, if not decades ago. Under normal conditions, the room for major new initiatives and 'path-breaking' decisions is small, and fundamental reorientations typically occur as a consequence of acute crises in public finances. Thus, budgeting is typically incremental. Nonetheless, the annual budget exercise, although set within parameters that are strongly influenced by past decisions, requires and enables policy-makers to take a regular look at the pattern of state expenditure overall. By contrast, decisions on taxation and other forms of revenue raising are not normally subject to annual re-examination and the manner in which the state raises its revenues is almost never the subject of a comprehensive cyclical analysis. It is generally only in times of acute fiscal crisis that the revenue system is comprehensively re-examined. As a consequence, there is an ever-present danger that decisions on spending – and the political, economic and social considerations that inform them – are ill-coordinated and may, in fact, contradict the manner in which revenues are raised.

This being said, the need to submit a balanced budget – financed through taxation, other types of revenues and, in the case of budget deficits, debt – does, of course, require policy-makers – both in government and in parliament

– to consider decisions on expenditure against the background of assessments about the state’s capacity to extract revenue. Some countries, such as Germany, have long-established procedures of how to deal with this need for linking decisions on expenditure with decisions on revenues. Thus, the annual budget of the Federal state, which contains expenditure authorisations and authorisations for credits, is regularly complemented by so-called Budget Accompanying Laws that contain various amendments to legislation necessitated by the budget, in particular changes to taxation. Where such practices exist, parliament is, in principle, able to debate, and decide upon, the fundamentals of public finances in an integrated fashion.

4. Improving Equity

At least three developments have combined to move questions about the allocational effects of budgets increasingly centre stage. First, a growing emphasis on ‘value-for-money’ in public expenditure in many countries has meant that public expenditure programs have been subject to increasingly sophisticated assessments of their effectiveness and efficiency. Thus, impact assessments of major programs, most notably in the fields of welfare state expenditures, have increasingly become the norm. As pressures on public budgets have grown, governments have been keen to shift political debate from a stress on the sheer volume size of public programs to their cost effectiveness. Second, growing budget deficits and acute budget crises in the wake of the financial crises since 2008 have forced many countries into making at times very painful cuts in public programs. Reliable information about the real impact of these cuts on different strata of society (and also on different regions of the country) is essential if major economic and social dislocations – and even social unrest – are to be avoided. Third, in democratising countries and countries that are seeking to establish the bases of a welfare state, considerations of social equity naturally assume growing importance in budgetary decisions. Historically, democratisation has gone hand in hand with an expansion of state budgets through the growth of the welfare state. Political and social enfranchisement are closely linked.

Regular and systematic assessments of the allocational effects of budgets

and expenditure-related legislation are, in most countries, still the exception rather than the norm. But many EU parliaments have sought to improve the information available to them as regards the implementation of parliamentary legislation, including budgetary decisions, and its effects. For example, in the French National Assembly, the Assessment and Monitoring Mission (MEC) has been set up in 1999 within the Finance Committee, charged with evaluating the results of selected public policies. Similarly, in 2004, the Cultural, Family and Social Affairs Committee has established the Assessment and Monitoring Mission for the Social Security Finance Laws (MECSS), whose main responsibility is to monitor the implementation of social security finance laws. In the United Kingdom, select committees are charged with monitoring the expenditure, administration and policy of each government department and report regularly on their findings. More recently, a new process of post-legislative scrutiny by Westminster parliamentary committees has been established, based on a mandatory report by the Government assessing the effect of legislation. In this task, committees are supported by the Scrutiny Unit, established in 2002 as part of the House of Commons administration, with a view to enhance parliament's scrutiny capacities.

5. Improving Transparency

It is widely accepted that the annual budget bill submitted to parliament should provide a detailed and comprehensive picture of the resources available to the state and, in particular, the pattern of its expenditure. But, in many countries, there have long existed non-budgetary funds outside the annual budget, often subject to little or no parliamentary scrutiny or control. The existence of such funds reduces both the transparency of public finances and parliaments' ability to exercise control over public expenditure.

Efforts have been in some countries to improve the transparency of the annual state budget by integrating non-budgetary special funds into the main budget. For example, in Turkey, as part of the far-reaching reform of the budgetary system, state funds previously not covered by the annual budget bills, have now been incorporated into the main state budget. Yet, governments are very inventive when it comes to creating new extra budgetary funds. For

example, in Germany, despite long-standing criticisms of the Federal Government's practice of keeping certain financial obligations outside the annual Federal budget plan, the Federation established a Special Fund for the Stabilisation of Financial Markets in the wake of the banking and financial crisis, which has provided extensive credit guarantees as well as new capital to German banks. By February 2011, it had provided capital *guarantees* of some 55 bn Euros as well as direct capital injections of nearly 30 bn Euros. As this example shows, improving transparency of public finances through an integrated budget and effective parliamentary control through the annual parliamentary decision on the budget bill constitutes an enduring challenge.

In encouraging governments to improve budgetary transparency, parliaments and SAIs have key roles to play, but their work will only achieve lasting effects if the media devote attention to budgetary issues. Where media take no interest in, or are prevented from reporting freely on, matters of public finance, transparency cannot flourish.

Whilst governments are ingenious when it comes to finding ways of limiting the comprehensiveness of the annual budget bill and, thus, the parliamentary scrutiny that tends to come with it, parliaments have made some progress in extending their role throughout the different stages of the budgetary cycle. Thus, formal submission of the budget bill to parliament and parliamentary consideration and approval are increasingly complemented by parliamentary involvement in the planning processes prior to the submission of the budget bill. For example, the practice of pre-budget statements by governments in parliament several months prior to the presentation of the budget bill has become widespread in European countries so as to allow for a debate of the government's overall approach to the budget prior to its finalisation.

Of arguably greater importance are initiatives aimed at monitoring the implementation of the budget and at the evaluation of budgetary outcomes and effects. In this respect, parliaments' relations with Supreme Audit Institutions (SAIs) and changes in public sector auditing have been noted. Thus, the traditional emphasis on the legality of public sector auditing has increasingly been complemented by an stress on performance auditing. SAIs are expected to operate independently of the government and, in most countries, all of their

reports are routinely made available to parliament for consideration. There has been a continuing professionalization in the work of SAIs driven, in part, by international standard setting through the International Organization of Supreme Audit Institutions; but parliaments in many countries have found it challenging to make full use of the growing amount of information made available to them by SAIs. All too frequently, SAI reports are received by, but not publicly debated in, parliaments and, thus, effectively shelved.

Perhaps the chief reason why many parliaments have found it difficult to keep pace with the changing nature of public sector auditing and to make full use of the information that SAIs reports provide has to do with the logic of political attention. First, with the exception of major, high-profile cases of maladministration or corruption, there is little political capital to be made out of the detailed examination of public accounts, not least because of the inevitable passage of time between the misuse of public funds, its detection and eventual publication. The predominant focus of parliamentary work on present problems and future initiatives tends to marginalise the essentially retrospective auditing of public accounts. Second, it is clear that only where there exists a vigorous opposition in parliament, parliamentary control and oversight are likely to flourish, since it is, inevitably, the parties opposed to, or critical of, the government on which the main burden of holding the executive to account falls.

7. Improving Inclusiveness

Traditionally, budget-making has been understood as the preserve of the executive and parliaments, with very little formal involvement of other actors. The fact that budgets were often prepared within the executive under conditions of secrecy militated against inclusiveness. To this day, in many countries, the contents of the budget bill are kept ‘under wraps’ until its formal submission in parliament. Inclusiveness is made all the more difficult where parliaments are given only a very short time for deliberating and deciding on the budget bill.

Although it may be an overstatement to suggest that one can observe a general trend towards greater societal inclusiveness in how budgets are put

together, there are several encouraging signs. Thus, the above-noted growing use of pre-budget statements and multi-annual budgetary frameworks allows social actors, such as organised interest associations and NGOs, to receive early information about the government's budget plans and to mobilise for their interests. Some initiatives, such as gender budgeting or social budgeting, actively encourage civil society involvement. Moreover, several governments and parliaments have made growing use of new communication technologies so as to encourage citizens' involvement, notably by encouraging citizens' online comments and suggestions on legislation, including budgetary legislation. In more traditional settings, some efforts have been made to allow greater opportunities for the formal consultation with selected interest groups during the parliamentary stages of the budget process.

Despite such encouraging signs, there still remains, in most EU and PUIC member states, a great disparity between the evidently very wide-ranging social and economic ramifications of the state budget and the quite limited opportunities for societal inputs. Formal and informal societal openness and inclusiveness are often greater when it comes to ordinary legislation rather than the budget bill. Governments are not solely to blame. Many parliaments are, likewise, keen to keep tight control over the process, the more so since there are typically strict deadlines to follow. Even within parliaments, budget committees tend to be very wary of giving other committees an effective say in decisions on the budget bill (though the UK, e.g., lacks such a strong committee).

As was pointed out during the symposium, e.g. with reference to Pakistan or Kuwait, the strength of civil society involvement ultimately reflects the strength of parliament in the budgetary process. Where parliament's input is nominal, civil society actors have no incentive to engage with parliament in matters concerning the budget.

8. Improving international coordination

Budgeting has traditionally been understood as a national matter involving largely domestic actors; yet, increasingly, budgetary decisions are embedded in a wider set of institutions and procedures. At least three developments are

of relevance in this respect. First, amongst the PUIC states, several have public finance systems that are closely interwoven with the international financial institutions, notably the IMF and the World Bank. Where public finances – both on the revenue and the expenditure sides – are closely monitored, if not, in fact, partly or wholly subject to the approval of international financial institutions, budgeting inevitably becomes a multi-level activity. Under such conditions, the discretionary influence of parliament on the shape of the budget is, inevitably, very restricted. Yet, at the same time, parliament's ability to monitor the implementation of the budget and to hold the government to account may, in fact, increase due to the requirement of transparency in public finances that comes with assistance by international financial institutions.

Second, as far as the EU member states are concerned, Economic and Monetary Union (EMU) has, of course, been accompanied by rapidly growing demands on the coordination of public finances across the member states in general, and members of the Eurozone, in particular. In the wake of the financial crises and acute pressures on public finances in several members of the Eurozone – especially Greece, Ireland and Portugal – there has been a further drive to coordinate public finances and, especially, public budgets across the EU, with an increased emphasis on monitoring and surveillance, but also, and in particular, on intervention in the case of excessive public deficits and debt. Again, the consequences of multi-level budgeting in the EU are ambiguous when considered from the perspective of national parliaments. On the one hand, there can be no doubt that EMU has progressively restricted national discretion in budgetary policy. Whilst initially this restriction was mostly felt on the expenditure side – through deficit and debt ceilings –, there are now renewed attempts to coordinate economic and fiscal policy, including taxation, across the member states. As national policy-makers need to determine national budgets on the basis of increasingly detailed and binding European agreements, the discretionary scope of national parliamentarians inevitably decreases. At the same time, however, to the extent that member state parliaments play an active role in shaping their countries' European policies, parliaments develop an increasingly international outlook. Thus, member state parliaments have a strong incentive to

cooperate more closely across countries and levels than in the past. Third, as recent developments have served to highlight, the dynamics of public budgeting and parliaments' role in the process can only be understood if we take account of the extent to which states are dependent on national and international capital markets for deficit and debt financing. There are, of course, great variations amongst both EU and PUIC countries as regards their reliance on international capital markets to finance public expenditure. But just as there is evidence of growing coordination across countries and levels of government, coordination needs between the public sector and financial markets are also increasingly evident. At least at first sight, it may appear that parliaments can be little more than bystanders in this process, for it is the task of the government and often specialised public executive agencies to ensure that sufficient capital is raised to meet expenditure needs. Yet, here, too, they have a role in ensuring the greatest degree of transparency in how funds are raised and public debts managed.

9. Parliaments and the Budget Process Reconsidered

What conclusions emerge from the above discussion? Proponents of parliamentary democracy have long decried the fact that parliaments' central prerogative of deciding on the budget has, in many instances, been undermined by executive dominance. Governments develop the budget bill; expenditure estimates and authorisations are often presented in a manner that allows for considerable executive discretion; not all public expenditures are included in the bills; budget bills have to be considered in parliament under often great time pressures; and the opportunities for amendment by parliamentarians are sometimes very limited, with the result that budget laws are frequently virtually identical with the bills introduced by government. If parliaments' role in the budget process is primarily identified with shaping the budget during the annual budget procedure and parliamentarians' ability to deviate significantly from the government's proposals, then parliamentary budget control may, indeed, be largely a "myth", as some have suggested. To those who put their trust in the executive, this may not be an unwelcome development, for it has been suggested that strong parliamentary involvement

in shaping the budget tends to push up public expenditure, as parliamentarians seek to garner favour with their voters by expanding public programs.

Yet, such an interpretation partly misconstrues the decision-making function of parliaments; more importantly, it neglects their role in ensuring the transparency of public finances and the accountability of governments. As was noted above, the substantive emphases of state budgets largely reflect earlier legislative decisions with expenditure implications, whether they concern social welfare programs, education, or other public programs. Thus, most of what an annual budget bill contains has previously been decided through legislation. This explains the incremental nature of public budgeting and the normally very limited scope for discretionary spending not mandated by law.

More importantly, parliaments' prime tasks, when it comes to budgeting, are to make sure that governments explain and defend their budget plans; to ensure the greatest possible degree of transparency in public finances, and to hold governments to account for their actions, notably in implementing the budget. Most of the trends highlighted above centre on parliament's capacity to perform these functions more effectively than in the past.

Changes at the levels of constitutions and ordinary law (most notably the legal framework governing the budget process) and also parliamentary rules of procedures are an important part of efforts to bolster parliaments' ability to promote transparency and accountability. Yet, as many contributions to the Symposium have underlined, changes in rules and regulations will remain ineffective unless they are accompanied by a strategy for strengthening the administrative capacity of parliaments, a point also forcefully argued in the 2010 SIGMA Peer Review that has been refereed to at the outset. Key elements of such a strategy will often include, but by no means be restricted to, a parliamentary committee system dealing with budgets and accounts that is properly resourced, especially in terms of highly qualified personnel; the establishment of parliamentary budget analysis units to aid parliamentary scrutiny (e.g., through the provision of economic forecasts, baselines estimates, analysis of budget proposals, and medium-term analysis); and personnel policies that ensure that parliamentary administrations are able to recruit, train and retain staff with the required competency profiles.

The Symposium's presentations and discussions have provided many

insights into institutional reform attempts designed to bolster parliaments' role in the budgetary process; but they have also highlighted, first, some counter-vailing forces and pressures and, second, the importance of political conditions for reforms to have lasting effects. Both observations deserve brief elaboration. The first point to note are the intensive pressures under which public budget have come in many EU member states and PUIC countries. An inevitable consequence has been that domestic actors' budgetary discretion has, in some cases, been drastically diminished; where the spectre of default on the state's debts could only be avoided with the help of external financial assistance, domestic decision-makers have been able to do little but to try to maintain domestic political majorities necessary to put through fiscal reform programmes. The implications of fiscal crisis management for parliaments are ambiguous. On the one hand, both external dependence and the expectations of financial markets inevitably serve to restrict the room for domestic budgetary choices; parliaments often have very little input into the international financial agreements that their governments conclude. Thus, budgetary programming by parliament may become merely notional. On the other hand, however, external involvement often acts as a catalyst for reforms in budgetary systems, including measures aimed at ensuring full budgetary transparency and greater economy, efficiency and effectiveness. In such reforms, parliaments, especially budget and accounts committees, are often given the role of ensuring greater transparency, oversight and control of public finances, together with enhanced SAI powers.

A second recurrent observation relates to the political context in which institutional reforms are set. In many PUIC countries, in particular, political reforms are under way that seek to strengthen the accountability systems within which executives operate, including both judicial accountability and popular accountability. There is, of course, great variation in the nature of executive authority, depending on the parliamentary, presidential or monarchical form of the political system. Invariably, however, improved popular accountability implies that executive authority accounts for its actions to a popularly elected assembly, even if the executive itself may not emerge from the assembly, as is the case of presidential systems or constitutional monarchies with executive powers. Transparency in the system of public finances is an essential ingredient of effective accountability systems. But it is clear that

parliaments can only play a central role in promoting transparency and accountability if, first, they are not seen as subservient to the executive and, second, can lay claim to a popular mandate. A growing number of PUIC parliamentary assemblies meet these conditions. As a consequence, their significance in setting, monitoring and evaluating public budgets and their outcomes is bound to grow in the coming years.

Further reading

The following selected references may help interested readers to gain further insights into the changing nature of parliamentary involvement in public budgeting:

Lienert, I. (2005) *Who Controls the Budget: The Legislature or the Executive?* (Washington, D. C.: IMF Working Paper).

OECD Journal on Budgeting

Stapenhurst, R. et al. (eds) (2008) *Legislative Oversight and Budgeting: A World Perspective* (Washington, D. C.: World Bank, WBI Development Studies).

Wehner, J. (2010) *Legislatures and the Budget Process: The Myth of Fiscal Control* (New York: Palgrave).