

Back from the Sidelines?

Redefining the Contribution of Legislatures to the Budget Cycle

Joachim Wehner

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Following a period of decline in influence, it appears that many legislatures are starting to reclaim a more active role in the budget process. Democratization and constitutional reform, in particular, provide opportunities for legislatures to redefine their contribution to public budgeting. Effective legislative participation provides essential checks and balances, enhances openness, facilitates public debate, and provides a platform for broadly based input that can help to deepen consensus about budget choices. While some legislatures exert significant influence and affect budget outcomes at various levels, others remain passive rubberstamps. A range of variables combine to determine such differences between countries, including constitutional structure, the design of budget amendment powers, party political dynamics and the technical capacity of legislatures to engage with budgets. The challenge is now to establish supportive institutional mechanisms that can help to reconcile legislative activism with fiscal prudence, and to tailor these mechanisms to different national circumstances.

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Contents

Acronyms iv

Foreword v

Back from the sidelines? Redefining the contribution of legislatures to the budget cycle 1

1. THE CHANGING LANDSCAPE OF LEGISLATIVE BUDGETING 2
2. WHY LEGISLATURES SHOULD HAVE A ROLE IN BUDGETING 2
 - 2.1 *Constitutional requirements and the 'power of the purse'* 3
 - 2.2 *Checks and balances as ingredients of 'good governance'* 3
 - 2.3 *Openness and transparency* 3
 - 2.4 *Participation and consensus building* 4
3. ASSESSING THE IMPACT OF LEGISLATIVE PARTICIPATION 5
 - 3.1 *Extent of budget policy impact* 5
 - 3.2 *Impact on budget outcomes* 7
4. EXPLAINING THE DIFFERENCES 8
 - 4.1 *Presidential versus parliamentary systems* 9
 - 4.2 *Design of parliamentary powers to amend the budget* 9
 - 4.3 *Party political dynamics* 10
 - 4.4 *Legislative budget research capacity* 11
 - 4.5 *Access to relevant information* 11
 - 4.6 *Legislative committees as the 'engine room' for financial scrutiny* 13
 - 4.7 *Time for scrutiny and the timing of the budget process* 13
 - 4.8 *Other factors and considerations* 13
5. THE SEARCH FOR SUPPORTIVE INSTITUTIONAL MECHANISMS 14

References 16

Useful Websites 19

Endnotes 20

Acronyms

IPU	Inter-Parliamentary Union
OECD	Organisation for Economic Co-operation and Development
WBI	World Bank Institute

Foreword

As part of its Governance program, the Poverty Reduction and Economic Reform Division of the World Bank Institute (WBIPR) has sought to strengthen parliamentary oversight – in part of helping parliamentarians understand better the role of parliament in the budget cycle. In parallel, efforts are being made within WBIPR and elsewhere in the Bank to promote enhanced government financial accountability, including through strengthened fiscal oversight by parliaments.

WBIPR’s program of parliamentary strengthening focuses on building the capacity of those parliamentarians – and staff – involved in parliamentary oversight of the budget and, in particular, the development and implementation of Poverty Reduction Strategies (PRSPs). We work closely with Bank Operations, supporting Bank loans and credits which seek to build the capacity of parliaments and with international and national organizations such as the Inter-Parliamentary Union, the Commonwealth Parliamentary Association, the Parliamentary Centre (Canada), the National Democratic Institute for International Affairs (United States) and the King Prajadhipok Institute (Thailand). For more information on our program, visit our website www.worldbank/wbi/governance/parliaments

This paper looks at the role of parliaments in the budget process, from the role of finance and budget committees which scrutinize proposed government budgets prior to parliamentary approval, to the role of public accounts and departmental committees which ensure that actual government spending is in line with that approved by parliament. A comparative approach is taken, whereby presidential and parliamentary systems are reviewed, and where the differences between parliaments’ *constitutional* power and *current practices* are highlighted. An additional focus is given to the research and information needs of parliaments as they deliberate the budget and the importance of parliamentary committees as the “engine room” for financial scrutiny.

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Back from the sidelines?

Redefining the contribution of legislatures to the budget cycle

The struggle over parliamentary participation in financial decisions defined key moments in the evolution and rise of modern democratic government (Harris 1975, Reid 1966). As the budget is the key economic policy tool of the government, and constitutes arguably its most comprehensive statement of priorities, one would expect that once gained, powers over financial decisions would be jealously guarded by the national legislature.¹

Year after year, legislatures across the globe consider the annual state budget and authorize governments to raise revenues and carry out expenditures. Following budget execution, independent audit institutions produce reports that inform the legislature whether the budget it approved was properly implemented. But a formalized process of scrutiny does not automatically translate into a meaningful budgetary role for legislatures. It appears that parliamentarians across countries are asking very similar questions as to how they can engage more effectively with the budget process. While circumstances and challenges differ, many express a need to strengthen their role. Some legislatures have taken active steps to do so.

To answer to this quest, it is important that we improve our knowledge of the role of legislatures in budgeting. Historically, the study of the impact of legislatures on policy and budgets has been most fully developed in the United States (Oppenheimer 1983). But we still know little about these issues in non-congressional systems and in developing countries in particular. The purpose of this paper is to provide an initial overview of the emerging terrain of legislative involvement in budgeting.

At a time when there is renewed appreciation of the potential inherent in active legislative participation in the budget process, fiscal architects are challenged to ensure that increased activism can be made to contribute to, rather than detract from, sound budget outcomes. Ultimately, this paper argues, increased engagement of national legislatures with budgeting is desirable and can make a positive contribution to budget outcomes at various levels. But there are also risks involved in the expansion of legislative influence, which have to be recognized. The paper considers some possibly useful institutional devices for reconciling legislative activism and fiscal prudence.

1. The changing landscape of legislative budgeting

From a long term perspective the influence of national legislatures on budget policy making has declined in most industrialized countries (Coombes 1976, Schick 2002). The budgetary decline of parliament is perhaps most evident in Britain, where the House of Commons has long ceased to amend or otherwise influence expenditure and revenue measures proposed by the executive (Davey 2000).

Several developments explain this trend. The emergence of disciplined political parties has reigned in legislative independence. Devolution of spending, and to a lesser extent of revenues, has chipped away at the comprehensive control of public funds by national legislatures. In addition, the massive expansion of entitlement spend in the 20th century has substantially rigidified budgets and commensurately decreased the remaining margin for active legislative engagement in annual budgets. With the growth of public spending and the increasing complexity of public finances, the executive budget proposal became the standard against which legislative action was measured.

But there are now signs that some OECD country legislatures are attempting a budgetary comeback and start to regain a more active role. In France, for instance, the National Assembly recently initiated a wide ranging set of budget reforms. The resulting changes include a reclassification of the budget in order to support parliamentary oversight and an expansion of powers to amend expenditures (Chabert 2001).

In developing and transition countries, a substantial number of legislatures are moving towards budgetary activism. Perhaps the primary reason for this development is that democratization and constitutional change have opened up possibilities for legislature participation in many previously closed systems, notably in parts of Latin America, Africa and central Europe. A good example is the Brazilian Congress, which historically played no significant role in the budget process. Democratization in the 1980s led to constitutional changes that gave Congress powers to modify the budget and have resulted in substantial levels of activism (Blöndal 2003).

In addition, there has been a recent shift in international financial institutions and donor agencies towards participation in setting development goals and strategies. Developing countries are now asked to access international finance on the basis of comprehensive Poverty Reduction Strategy Papers (PRSPs) that are meant to be compiled through an in-country participative process. This shift is linked to renewed interest by the international donor community in the quality of the budget process and the governance of the budget for a variety of reasons, in particular the realization of the failure of conditionality in development lending and evidence on the effectiveness of aid (World Bank 1998). This provides an opportunity for legislatures in poor countries to reengage with development policy and budgets (Stapenhurst & Pelizzo 2002).²

2. Why legislatures should have a role in budgeting

The call for greater legislative participation in budgeting is often met with skepticism. While there are indeed risks involved, which are discussed further below, the case for effective legislative involvement in the budget process is often not fully appreciated. Some pertinent arguments are discussed in this section.

2.1 Constitutional requirements and the ‘power of the purse’

The ‘power of the purse’ is an incontestable democratic fundamental. This also means that there is an obligation on the legislature to ensure that the revenue and spending measures it authorizes are fiscally sound, match the needs of the population with available resources, and that they are implemented properly and efficiently. When legislatures fail to meet this obligation, a lengthy but ultimately ineffective legislative budget process is merely, as one parliamentarian put it honestly, ‘a total waste of time’ (quoted in Blöndal 2001b:54). A token involvement in the budget process relegates the legislative power of the purse to the realm of constitutional fiction.

2.2 Checks and balances as ingredients of ‘good governance’

One central dilemma of ‘good governance’ is that unmitigated executive power might be an asset in the initial phase of economic reform, but progressively becomes a liability (Santiso 2003).³ Checks and balances are necessary to ensure good governance in budgeting in the medium to long term, which requires the answerability of the executive to the legislature, and the ability of the latter to take appropriate action in cases of poor performance (Marshall 1991).⁴ This is increasingly recognized as an essential ingredient of a sound budgeting system, for example in the OECD’s Best Practices for Budget Transparency (OECD 2002a).⁵

Many economists have been skeptical of legislative participation in budgeting, backed up by an influential body of research that implies that weak legislatures are conducive to ensuring fiscal discipline (Von Hagen 1992). This perspective is not incontestable. First, legislatures are by no means the only source of overspending. As recent experience in the United States demonstrates, a deterioration of the fiscal balance can also be due to a significant degree to executive initiative.⁶ In such cases, legislatures can be a restraint on irresponsible or spendthrift executives.⁷ Second, legislative action does not necessarily need to weaken fiscal discipline. For instance, a recent paper on the budgetary impact of the German Parliament shows that the deficit was lower after parliamentary action, compared with the executive’s draft budget, in three out of four years covered by the study (Wehner 2001).⁸

Generalized arguments against legislature involvement in the budget process presume that executives automatically want to govern well and in the best interest of the public. Unfortunately, too often this has proven a naïve assumption. In particular where executive benevolence and integrity is not firmly entrenched in the culture of governance, and where electoral accountability is weakly developed, the absence of meaningful legislative checks and balances opens the door to waste and corruption and leads down the road of poor budget outcomes (Burnell 2001). In a few countries with deeply rooted and sound budgeting practices, it might perhaps be possible for the legislature to largely withdraw from the budget process without risking noticeably declining executive integrity. However, legislative withdrawal can be highly detrimental to fiscal health where the executive has not thoroughly internalized norms and standards of due process and an ethic of performance is largely lacking.

2.3 Openness and transparency

Traditionally, the drafting process of the budget in the executive has tended to be hostile to publicity.⁹ It is when the budget is tabled in the legislature that in-depth public debate becomes possible. Open discussion on the contents of the budget in the legislature enhances transparency and enables effective scrutiny.

There appears to be a growing trend for legislatures to open their proceedings and committee meetings to the media and the general public. For instance, more than half of Public Accounts Committees in the Commonwealth now report that their proceedings are open to the media and the general public (McGee 2002:99). And 63 percent (17 out of 27) of legislatures surveyed by the OECD report that their committee proceedings are open to the public (OECD 2002b). The reorientation of legislative bodies towards openness and accessibility signals the decline of secrecy in policy making and budgeting.

Some warn that there are risks involved in ending secrecy in legislative deliberations. Will opening the doors of committees simply shift real decision making to other forums such as working groups and party caucuses that are closed to the public eye? Critics usually fail to provide concrete evidence that this is indeed the case (Messick 2002). To the knowledge of this author, no legislature that has opened the proceedings of financial committees to the press and the public subsequently felt the need to reverse this decision and return to secrecy. The skeptics have not convinced legislative reformers.

2.4 Participation and consensus building

Legislatures can help to ensure a balance of views and inputs into budget decisions and thus provide a platform for establishing broadly based consensus with regard to difficult budgetary trade-offs. In many countries the business community traditionally has a strong voice during budget policy formulation. To complement and balance this perspective, legislatures can function as an entry point into the budget process for independent think tanks, academics and civil society groups. Increasingly, legislatures publicly call for submissions on the budget, in recognition of the value of broadly based input. As a result of civil society participation, some parliaments have been instrumental in pioneering important new perspectives on the budget (see box 1).

Box 1

Parliament and civil society partnership for gender budgeting in South Africa

A gender sensitive budget ensures that the needs and interests of individuals from different social groups are addressed in the government budget. In particular, it ensures that the needs and interests of women and men, girls and boys are sufficiently considered. The South African Women's Budget Initiative was set up in 1995 by the parliamentary Standing Committee on Finance and two nongovernmental organizations (NGOs). This partnership arrangement enabled parliamentarians to draw on research skills in civil society, while the NGOs benefited from direct access to policy makers. It took three years to carry out gender analyses of 26 votes of the national budget. In the following years the Women's Budget Initiative conducted further gender analyses, which dealt with issues such as local government finance, donor funding and government revenue. As well as longer reports, it put out simpler and shorter versions of the research, and published its work in different local languages to reach a broad audience.

Source: Budlender (various).

Demands for funds typically outweigh available resources, and difficult trade-offs become necessary. Will greater participation of civil society and interest groups polarize debates and lead to a multiplication of claims on the budget? This risk should be minimal if the legislature is empowered to independently assess the content of submissions, and debates them in an open and transparent manner. Rather, the effective involvement of a broad spectrum of participants can help to ensure that the constraints that shape the budget will be more widely appreciated and commitment to the budget is enhanced.

3. Assessing the impact of legislative participation

While there are good arguments for enhancing legislative participation in budget making, the actual role of legislatures differs markedly across countries. This section serves to highlight some of the differences with regard to the level and nature of engagement. The former refers to the *extent* to which a legislature can influence budget policy, the latter to the *effect* of its actions on budget outcomes. While this discussion sets out some important issues, further empirical research is needed for a comprehensive analysis of the budgetary impact of legislatures in particular with regard to budget outcomes.

3.1 Extent of budget policy impact

Legislatures can be distinguished in terms of the extent of their budget policy impact (see box 2). The most powerful legislatures are those that have the ability to write the budget. The United States Congress sometimes functions as a budget making legislature. Although the President submits a draft budget to Congress, the latter treats it as a proposal in only the strictest sense. In some years observers pronounce the presidential budget suggestion as ‘dead on arrival’ and Congress proceeds to independently define its own budget policy (Schick & LoStracco 2000:74-104). Aaron Wildavsky’s seminal work on the politics of the budget process is, in essence, a study of congressional policy making (Wildavsky & Caiden 2000). Few other studies of national budget processes would have to focus on the legislature to such an extent, for the simple reason that the ability of the United States Congress to shape budgets is probably unique. Only a few other legislatures report to make significant changes to executive budget drafts on a regular basis (see table 1).

Box 2

A typology of the budget policy impact of legislatures

Budget making legislatures have the capacity to amend or reject the budget proposal of the executive, and the capacity to formulate and substitute a budget of their own.

Budget influencing legislatures have the capacity to amend or reject the budget proposal of the executive, but lack the capacity to formulate and substitute a budget of their own.

Legislatures with little or no budgetary effect lack the capacity to amend or reject the budget proposal of the executive, and to formulate and substitute a budget of their own. They confine themselves to assenting to the budget as it is placed before them.

Source: Adapted from Norton (1993: Table 4.1).

Table 1
In practice, does the legislature generally approve the budget as presented by the government?

	With no changes	With minor changes only	With significant changes
Australia	X		
Austria		X	
Canada	X		
Czech Republic			X
Denmark			X
Finland		X	
France		X	
Germany		X	
Greece	X		
Hungary			X
Iceland		X	
Ireland		X	
Italy		X	
Japan	X		
Korea		X	
Mexico		X	
The Netherlands		X	
New Zealand	X		
Norway		X	
Poland		X	
Portugal		X	
Spain		X	
Sweden		X	
Switzerland		X	
Turkey		X	
United Kingdom	X		
United States			X
Total	6	17	4
Percent of total	22%	63%	15%

Source: OECD (2002b).

The largest group of legislatures appears to fall into the middle category of budget influencing legislatures, and approve the budget proposed by the executive with minor changes only. Sixty-three percent (17 out of 27) of legislatures surveyed by the OECD indicated that they generally make marginal adjustments. The group covered the legislatures of the Nordic countries, most of continental Europe, and Korea. To say that budget changes are minor does not necessarily mean that they are unimportant. When ministers fail to convince the legislature of the necessity of certain expenditures, cuts of the relevant items can free up additional resources to address more urgent needs elsewhere. A moderate level of amendment activity also demonstrates to the executive that it needs to take legislative scrutiny seriously, or face the consequences.¹⁰

At the other end of the spectrum are legislatures that do not exercise any significant influence on budget policy, and simply rubberstamp executive draft budgets without any changes. This group is primarily comprised of Westminster type parliaments, where any successful amendment to the budget is considered a vote of no confidence that would prompt the resignation of the government

(see box 3). A few other parliaments not guided by Westminster traditions also fall into this category, such as those of Japan and Greece (OECD 2002b).

Box 3

The confidence convention in Westminster type parliaments

The last time the British Parliament voted down a request for money was in 1919, when the Lord Chancellor was refused funding for a second bathroom. Amendment experience in many other Westminster type legislatures is similarly dated. It appears that the last time an allocation was reduced in the New Zealand Parliament, for instance, was in 1930 when the vote for the Department of Agriculture was reduced by five pounds. Nowadays, in the Westminster tradition, successful attempts by parliament to amend the budget proposal of the executive are considered tantamount to a vote of no confidence in the government. This interpretation has evolved from the historical constitutional convention of the right of the Crown to 'financial Initiative'. Notwithstanding the constitutional power of parliament to amend the budget, in many democracies inspired by the Westminster system the government would resign if any changes to its budget proposal were approved, for example in Australia, Canada, India and New Zealand.

Sources: Davey (2000), Lok Sabha (1998), OECD (2002b).

Are amendments the only way to measure the extent of legislative impact on budgets? Although some parliaments cannot or do not change the budget, the Westminster model has changed greatly in recent decades, and there is now substantial presentation of information on the fiscal framework ahead of the tabling of the budget, and often more parliamentary debate, backed by greater transparency. If the legislature's views are effectively taken into account during the drafting process of the budget or through a process of consultation on medium term budget policy, this might diminish the need for amendment activity.¹¹ In addition, much of public spending is a continuation of existing policy. There are substantial opportunities for parliamentarians to debate and seek change to policies when these are first introduced, or when legislation has to be amended. In this sense, the budget is to an extent the reflection in appropriations of policies that have already been discussed in parliament, although it is also important to continuously assess whether the existing base of expenditures is still relevant.¹² In other words, the absence of amendment activity might not have to be equivalent to a complete lack of legislative influence on budget policy. But it is usually difficult to quantify any non-amendment impact on the budget (Meyer & Naka 1998).

3.2 Impact on budget outcomes

What is the effect of legislative action on budget outcomes? While we have some comparative data on the level of legislative engagement, in particular thanks to the survey work of the OECD, the nature of legislative impact on budgets is under-explored. Public expenditure management theory postulates three interrelated objectives: the maintenance of aggregate fiscal discipline, the prioritization of funds in accordance with policy and program effectiveness, and operational efficiency in budget implementation (Schick 1998). These three objectives are also linked to the revenue side of the budget. Fiscal discipline is not possible without adequate revenue levels and accurate forecasting of available resources. Allocational decisions have a revenue flipside when we consider tax incidence – the distribution of the tax burden across different sectors and individuals. And efficient tax administration is essential for ensuring that a maximum amount of revenues is available within the parameters set by fiscal and tax policies.

If a legislature decides to engage with aggregate and allocational decisions, it will have to do so through *ex ante* scrutiny during the approval stage of the budget process. By contrast, issues of op-

erational efficiency are primarily considered by the legislature through *ex post* scrutiny on the basis of audit findings produced by the supreme audit institution after budget implementation. In other words, *ex ante* scrutiny focuses on the content and direction of budget policy, and *ex post* scrutiny on the quality of its implementation. If the process is effective, legislators can draw on the insights gained from audit findings during the consideration of future budgets.

It would seem that legislatures differ with regard to their emphasis of engagement (Schick 2002:33-35, Wehner 2003). For instance, the United States Congress pursues an elaborate *ex ante* process in which various financial committees decide fiscal parameters, tax policy and the allocation of available funds. The impact of Congress on aggregate and allocational choices can be substantial, but it has no dedicated committee for the consideration of audit findings. By contrast, most Westminster style parliaments rubberstamp the budget, which precludes substantial influence on budget policy. Instead, the emphasis is on operational issues through an in-depth *ex post* assessment of public spending in the Public Accounts Committee. Perhaps this is the only focus possible for parliaments that lack the capacity to amend the budget. In between is a group of legislatures that blend *ex ante* and *ex post* scrutiny functions in a single committee. In the German *Bundestag*, for example, the Budget Committee both approves the annual budget and later considers audit results. This 'mixed' model possibly strikes a more even balance between the scrutiny of policy and its implementation, and hence legislative engagement with the different objectives of public financial management.

Legislatures have to consider what balance of *ex ante* and *ex post* scrutiny is most appropriate in a particular context. For example, a legislative focus on changing budget policy during the approval stage might have little effect if operational management is weak and government has a poor record of budget implementation. A focus that combines legislative control of impoundments, continuous implementation oversight and effective *ex post* scrutiny might be more appropriate in such circumstances than trying to influence the direction of budget policy that does not get implemented.

Economists and political scientists have in recent years become interested in the impact of legislative institutions on fiscal outcomes, particularly the deficit.¹³ What has been neglected so far is to study the impact of legislatures at the allocational and operational levels. For example, is there a tendency for amendments to shift spending to certain sectors or particular programs; and if yes, why and under what conditions? Who benefits from legislative engagement with tax policy? How can we systematically assess the contribution of legislatures to forcing efficiency in government departments or agencies? Further methodological thinking and empirical research are needed to come to a fuller and more rounded appreciation of the impact of legislative action on public finances. Such a comprehensive assessment would have to look at budget outcomes at all three levels, and both the expenditure as well as the revenue sides of the budget. Another challenge is to explore, on the basis of systematic comparative research, precisely how an upward shift in legislative engagement, from budget approval to budget influence, and possibly to budget writing, affects budget outcomes.¹⁴

4. Explaining the differences

Why are there such differences in legislative impact on budgets across different countries? It is possible to distinguish a number of variables that interact to define the ability of parliament to engage with budget issues. These relate to the legislature's constitutionally intended role, as well as its legal, party political and technical capacity to deal with budgets. The presence of a critical number of enabling conditions is necessary to allow effective participation by the legislature. But no

single variable is sufficient on its own, and the significance of and interaction between variables may differ from case to case (Krafchik & Wehner 1998).

4.1 Presidential versus parliamentary systems

The nature of the state has fundamental fiscal implications. Variance in the relative budgetary influence of the legislature vis-à-vis the executive is to a large extent a function of the system of government.¹⁵ Parliamentary systems tend to be, by virtue of their design, conducive to cooperative legislative-executive relations. The government is directly dependent on majority support in the legislature. As a result, the composition of parliament and the executive are inherently intertwined, as are their electoral fortunes. For parliament to fundamentally rewrite the entire executive budget proposal would be tantamount to a vote of no confidence in the government.

On the other hand, the separation of powers in presidential systems can lead to great antagonism in executive-legislative relations. The legislature is likely to be more critical of budgets and policy proposals tabled by an executive with whom it may have little in common. Some of the most bitterly fought budget wars have occurred in countries with presidential systems of government, such as the United States (Williams & Jubb 1996) or recently Nigeria (Aiyede & Isumonah 2002, Wehner 2002). The separation of powers does not automatically lead to high levels of legislative-executive conflict. But it has a built in propensity to do so when it is complemented with a ‘separation of purpose’, for instance at times of divided government or when the party political ‘glue’ between the president and the legislature is weak (Haggard & McCubbins 2001).

4.2 Design of parliamentary powers to amend the budget

A second important variable is the nature of the legislature’s powers to amend the budget.¹⁶ Usually amendment powers are contained in a country’s written constitution, but they can also be based on convention, determined by ordinary legislation, or spelled out in parliamentary rules. The more amendment powers are circumscribed, the more control over budget outcomes is centralized in the executive.

Many legislatures have constitutionally unfettered powers to shape budgets, including those in Scandinavia, much of continental Europe, and the United States (see table 2).¹⁷ To the contrary, ‘reductions only’ restrictions apply in the Westminster tradition, so that parliament may only reduce existing items but it may not include new ones or increase existing ones. This configuration evolved during the early days of the House of Commons, when it met to consider demands for subsidies made by the Crown. Its task was to decide whether and to what extent it would comply with the demand and, if so, within what limits and by what means. Many countries in the Commonwealth have copied this configuration. A third set of amendment provisions constrain the legislature’s powers to modify budgets so as to promote the maintenance of the deficit or to protect aggregate totals proposed by the executive. Versions of this approach are used in some francophone and Latin American countries, for instance.

Table 2
Parliamentary powers to amend the budget

Rights	Number of countries
Unlimited powers to amend the budget	32
Reductions of existing items only	17
May reduce expenditure, but increase only with permission of government	4
Increases must be balanced with commensurate cuts elsewhere	13
Rights not specified	15
Total	81

Source: Adapted from IPU (1986: Table 38A).

It is possible to consider amendment powers on a declining scale of potential for legislative input. Unfettered powers allow legislatures, in theory, to rewrite the entire budget proposed by the executive. More constraining are deficit neutral amendment powers that ‘lock in’ the fiscal policy of the executive, but still allow substantial space for legislatures to shape budgets by reprioritizing expenditures within given aggregates. Finally, the Westminster tradition precludes a creative role for parliament in budget policy through the amendment process. Any amount from an expenditure item that is cut cannot be shifted to increase spending on a different item elsewhere in the budget.

4.3 Party political dynamics

Budgeting takes place in a broader political context; it is an expression of the power relations of political actors that participate in the process. How much influence parliament actually has, the *de facto* rather than theoretical extent of its budgetary action space, is to a large extent determined by party politics. While legal frameworks and the constraints they establish tend to be relatively long lasting, party political dynamics can be far more fluent. The following paragraphs discuss two particularly important variables that shape the party political balance of power in the context of which parliament exercises its budgetary functions, viz. party political majorities and party cohesion.

Party political majorities have been shown to have an important effect on the role of parliament in the budget process (Leston-Bandeira 1999, Young 1999). In essence, stable majorities ensure the predictability of voting outcomes. If the legislature features several parties without one of them having an outright majority of seats, the executive will have to assemble the support of a number of political parties to have its budget passed. It is likely to have to bargain and make concessions during this process. In this case the executive is faced with substantial strategic uncertainty as to whether it will be able to ‘get through’ its original budget proposal without significant changes.

A second and related variable is party cohesion or party discipline. It entails voting along party lines even if the outcome does not fully match the preferences of the individual legislator (Von Hagen 1992:34). Party majorities only ensure the predictability of legislative behavior when matched with tight party discipline, which is not always the case. In the United States, for example, over the past three decades the extent to which members of each party vote with their party colleagues has been as low as 66 percent in the case of Senate Republicans (Bowles 1998:170). Consistently low levels of party cohesion are usually associated with candidate centered electoral systems, where party affiliation is not a strong factor in the election of candidates. This contrasts with legislatures where the electoral fortunes of members are highly correlated with party affiliation, notably when party headquarters have a strong voice in choosing candidates and the electorate chooses mainly or exclusively according to party preference. Here, the primary role of members is that of party loyalists. Apart from a few prominent mavericks who can afford occasions of rebel-

lions behavior, parliamentarians who refuse to tow the party line risk damaging their prospects for a successful political career.

4.4 Legislative budget research capacity

Legislators have to understand the contents of the budget if they are to play a meaningful role in the process. Even when they have the legal and political space to shape budgets, technical capacity is necessary to optimally use this opportunity. Access to independent budget analysis can support legislators in assessing the integrity of the figures in the draft budget, deciding whether changes might be desirable, and evaluating the budgetary implications of proposed amendments.

Many of the more activist legislatures, in budgetary terms, have substantial own budget research capacity. Topping the list, the Congressional Budget Office in the United States has about 245 highly trained staff. There are almost 50 employees in the Congressional Planning and Budget Office of the Philippines. In Uganda the 2001 Budget Act has led to the establishment of a Parliamentary Budget Office staffed with 13 economists. But even research capacity on a lesser scale can play an important supporting role. Some parliaments have smaller research units that specialize in budget analysis, for example in Poland. Yet others have general research units that can deliver some budget related analysis when needed, such as the Scientific Services of the German *Bundestag*. Legislative research capacity can be supplemented with input from independent think tanks, academics and private sector economists.

Parliamentarians often complain that their access to budget research capacity is negligible or non-existent. There are, for instance, no specialized budget researchers attached to the parliaments of many African countries, such as those of Zambia or Namibia. In some cases, this is because of a lack of resources or prerequisite skills. Career prospects and pecuniary benefits might not be sufficient to attract high caliber parliamentary support staff. In other cases, legislatures themselves are perhaps to blame for their insufficient research capacity. One parliament recently visited by this author had only a staff of five to service two key financial scrutiny committees. But the same parliament employed approximately one hundred cooks! It would seem that substantial improvements in legislative budget research capacity could be achieved in a number of cases if parliaments themselves prioritized their own budgets accordingly.

4.5 Access to relevant information

Parliamentary decision making needs to be based on comprehensive, accurate, appropriate and timely information supplied by the executive and the audit institution (see box 4). Crucial in this is the amount of supporting documentation that accompanies the budget figures. In many countries, the budget document itself contains little narrative that outlines the policies underlying tax and spending proposals. Often the only source of additional information is the budget speech. This makes it difficult for legislators and their staff to understand the policy basis for the budget, and to evaluate whether the budget adequately reflects stated government policy.

Box 4
OECD best practices for budget documentation

The OECD has developed Best Practices for Budget Transparency that deal with the availability of budget information, specific disclosure requirements, and integrity and accountability fundamentals. The OECD recommends the following types of budget documentation:

A comprehensive budget encompasses all government revenue and expenditure, and includes performance data and medium term projections.

A pre-budget report states explicitly the government's long term economic and fiscal policy objectives, and its economic assumptions and fiscal policy intentions for the medium term.

Monthly reports show progress in implementing the budget, including explanations of any differences between actual and forecast amounts.

A mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the medium term.

A year-end report should be audited by the supreme audit institution and released within six months of the end of the fiscal year.

A pre-election report illuminates the general state of government finances immediately before an election.

A long term report assesses the long term sustainability of current government policies.

Source: Summarized from OECD (2002a).

Comprehensiveness of budget information is another major concern. In developing countries, all aid financed spending should be included in budgets. When aid funds as much as half of all expenditures, it is obvious that budget priorities cannot be identified if only a proportion of public spending is reflected in annual budgets. In addition, budget information is often not presented in a user friendly format, and one needs to be a seasoned practitioner of budgeting to decipher what is being proposed. Ideally, legislators and other users of budget documentation should be consulted about the format and content of documentation to ensure usefulness.¹⁸

Also needed are in-year actual spending information and timely, thorough and well-presented audit reports, so that legislatures can scrutinize the implementation of the budget. The latter is a crucial issue in many developing countries, where unauthorized expenditures and budget variance, that is the difference between approved and actual numbers, not infrequently run into double percentage figures. Budgetary decisions should be made in the knowledge of actual spending information, as much as possible, rather than on the basis of budgeted figures that might be little more than fiction.

The provision of relevant audit information reflects the quality of institutional linkages between the legislature and the audit institution. While the legislature depends on high quality audit reporting to be effective, the auditor in turn requires an effective legislature to ensure that departments take audit outcomes seriously. To ensure optimal coordination, some audit institutions have legislative liaison offices and accompany the scrutiny of audit findings by the legislature on an ongoing basis; others are directly attached to the legislature (Stapenhurst & Titsworth 2001).

4.6 Legislative committees as the ‘engine room’ for financial scrutiny

Committees are the ‘engine room’ of the legislature (Mattson & Strøm 1995).¹⁹ It is here that in-depth and technical debate can take place, away from the political grandstanding that often characterizes proceedings in the chamber. Where discussion takes place mainly on the floor of the house the budgetary influence of the legislature tends to be weak (Krafchik & Wehner 1998). Several factors make for strong committees, such as sufficient time for deliberation, resources in terms of support staff, and the length of average membership. Also important are the powers of committees to summons individuals and access all relevant information.

Internationally committee involvement in the budget process appears to be growing. For instance, the Australian Senate introduced a departmental committee stage for the approval process in 1970, India in 1994, and the Ugandan and Zambian Parliaments have recently created new committees to consider budget issues. Although these initiatives may have been implemented with varying degrees of success, they give an indication that legislatures appreciate the value of committee involvement.

The exact structure of committee involvement differs across countries (Crain & Muris 1995). In many cases a budget or finance committee has overall responsibility for the approval process. In some legislatures, it has sole responsibility to consider the draft budget; in others it acts as a coordinating body for the work of sectoral committees on departmental budgets (OECD 2002b). In addition, to assure itself that the budget it approved is implemented fully, efficiently and effectively, the legislature also requires committee capacity for the *ex post* scrutiny of audit findings supplied by the supreme audit institution. The arguably most effective legislative vehicle for this purpose is a dedicated Public Accounts Committee (McGee 2002, Wehner 2003).

4.7 Time for scrutiny and the timing of the budget process

Legislatures require both sufficient time as well as a properly timed budget process to participate effectively in decision making. International experience suggests that a minimum of three to four months is required for the approval of the budget on the basis of meaningful analysis and scrutiny. However, sufficient time by itself is not enough. The budget should also be tabled sufficiently in advance of the fiscal year to which it relates in order to make decisions that matter. This is because interim spending, for instances through ‘votes on account’, continuing resolutions or interim executive spending authority based on constitutional or legal formulas too often distort budget priorities. Historically, the British Parliament devised a tactic of voting appropriations near the end of the session as a means of forcing the Crown to utilize its own resources before relying on tax revenue raised from the public (Schick 2002:18). In a modern context, this centuries old tradition weakens an approval process that should aim at advance scrutiny. Regrettably, many countries in the Commonwealth have copied this poor practice, for instance in much of Anglophone Africa. Elsewhere, most budget processes are geared to ensure timely passage under normal circumstances.

4.8 Other factors and considerations

There are quite certainly other possible factors that can, temporarily or permanently, alter the budgetary balance of powers between the legislature and the executive. New and urgent issues, coupled with diverse and strong public opinion, might give parliament increased action space to shape budget policy. Also, legislatures in poor countries often face constraints on their room to maneuver due to high levels of foreign debt. When international financial institutions attach stringent conditions to loans, parliament’s role might be severely diminished to rubberstamping budgets

that reflect prior agreements between lenders and the executive. The above discussion of factors is therefore not exhaustive, although it points to some central variables that affect legislative capacity to purposefully engage with the budget. Legislatures operate in different contexts with varying challenges. Full understanding of a specific case requires thorough analysis of the particular factors that are relevant, as well as their interaction.

5. The search for supportive institutional mechanisms

‘As legislatures enhance their budget role, one of the challenges facing budget architects will be to balance the impulse for independence with the need to be fiscally responsible. The future of legislative-governmental relations will be strongly influenced by the manner in which this balance is maintained.’ (Schick 2003:14)

Concerns have been raised that an expansion of legislative influence on budgets can lead to a deterioration of fiscal discipline. The central question in this regard is whether legislatures can be both more disciplined as well as more independent in budgetary matters. Whether this balance can be achieved is likely to differ from country to country. Sometimes, a price might have to be paid for proper scrutiny and debate on government budgets and macroeconomic policy. There is, however, evidence that certain institutional devices can help legislatures to reconcile budgetary activism with fiscal prudence.

It appears that fiscal aggregates can be protected when an overall constraint is fixed before the legislature proceeds to consider sectoral spending. To harden the aggregate budget constraint, legislatures are increasingly shifting to a system where they vote on budget totals before the consideration of departmental appropriations. Fifty-nine percent (16 out of 27) of OECD country legislatures proceed in this way, some of them by passing a separate piece of legislation to fix the aggregate totals before the annual appropriations and revenue measures are considered. This decision making structure can be complemented with a legislative process that tasks the budget committee with enforcing the constraint and dividing the total between sectors, and allows departmental committees to prioritize departmental allocations (see box 5).

Box 5

The reform of the parliamentary budget process in Sweden

In the past, the budget approval process in the Swedish Parliament, the *Riksdag*, was described as ‘undisciplined’. The focus of debate used to be on individual appropriations with little consideration of the aggregate effect of parliamentary action. Parliament recognized a need to reform during a financial crisis in the early 1990s, and established a commission to formulate a reform proposal. The reformed parliamentary process has three key steps. Parliament fixes the aggregate level of expenditures and revenues in a Spring Fiscal Policy Bill, which is tabled in April and approved two months later. Following the tabling of the budget in September, the Finance Committee discusses and recommends the allocations for each of 27 ‘expenditure areas’, such as justice, communications etc. Once the house has approved the division of aggregate expenditures, sectoral committees allocate funding to individual appropriations within their expenditure areas. The sectoral committees are permitted to change the composition of appropriations but must remain within the agreed total for their expenditure area. The budget is approved in December, before the beginning of the fiscal year in January.

Source: Blöndal (2001:37-42)

It would seem that a process that fixes the totals before sectoral allocations are decided fulfills two interlinked objectives. On the one hand it protects the aggregates and therefore helps to maintain fiscal discipline, and at the same time it focuses attention on issues of prioritization within the overall hard budget constraint. Where legislative action simply consists of separate and isolated consideration of different expenditures and tax measures, and aggregates are only known at the end of the process, fiscal discipline is jeopardized and conscious prioritization cannot take place.

Other devices are available to safeguard fiscal prudence in the face of rising legislative activism. For instance, some countries have adopted fiscal rules that constrain budget makers (Schick 2003). Fiscal responsibility legislation and balanced budget requirements are some of the vehicles which are being tested, albeit with varying levels of success. In addition, legislatures should have reliable estimates of the budgetary effects of amendments over the short and medium term, and when appropriate, the long term. The costing of amendments can contribute to a transparent and thorough consideration of their fiscal effect in particular when projections are made publicly available.²⁰ This requires a strengthening of professional legislative budget research capacity, and an enhanced flow of relevant documentation provided by the executive.

Not all legislatures will be successful in reconciling budgetary activism and fiscal prudence. But it appears that institutional engineering can help to minimize the risk of legislative activism busting the bank. At a time when many legislatures are rethinking their contribution to the budget cycle, the challenge is to search for supportive institutional mechanisms, and to tailor these mechanisms to different national circumstances.

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Useful Websites

Commonwealth Parliamentary Association:

<http://www.cpahq.org>

Congressional Budget Office, United States:

<http://www.cbo.gov>

Institute for Democracy in South Africa (Idasa):

<http://www.idasa.org.za>

International Budget Project:

<http://www.internationalbudget.org>

International Organisation of Supreme Audit Institutions (INTOSAI):

<http://www.intosai.org>

Inter-Parliamentary Union:

<http://www.ipu.org>

Organisation for Economic Co-operation and Development:

<http://www.oecd.org>

Parliamentary Budget Office, Uganda:

<http://www.parliament.go.ug/budget%20office7.htm>

Parliamentary Centre:

<http://www.parlcent.ca>

World Bank Institute Parliamentary Program:

<http://www.worldbank.org/wbi/governance/parliament/>

Endnotes

¹ The focus here is on legislatures in democratic systems of government. This is not to ignore that there are important variations in the quality of democratic institutions across countries, although this discussion is beyond the scope of this paper (Collier & Levitsky 1997).

² It is important to point out that this opportunity has not been optimally utilized thus far. Many legislatures in developing countries have not participated significantly in the PRSP process. Comments by Warren Krafchik (International Budget Project).

³ George Philip highlights these ‘dilemmas of good governance’ in a recent study of economic policy making and its results in Latin America during the 1990s. His investigation shows that policy adjustments were most successful when either ‘the product of dictatorship’ or of ‘very powerful presidentialism... operating at best on the margins of constitutional government’ (Philip 1999:235). In his analysis, the former applies to Chile, the latter to Peru and Argentina.

⁴ Guillermo O’Donnell (1998) provides a useful conceptual discussion on the importance of effective horizontal accountability through checks and balances as an essential complement of vertical accountability to the electorate at election time.

⁵ The IMF’s Code on Fiscal Transparency is less well developed with regard to the contribution of the legislature than the OECD’s Best Practices for Budget Transparency and other budget transparency frameworks developed by civil society groups. This might reflect the fact that international financial institutions have a traditional bias to work with the executive.

⁶ A surplus estimated in 2001 at \$5.6 trillion over the following ten years, has since turned into a deficit recently projected at \$455 billion for the 2003 fiscal year alone. According to the executive’s Office of Management and Budget, only about half of the difference between the 2001 estimates and current projections can be attributed to economic hard times. Three tax cuts initiated by the President account for 23 percent of the difference, and spending increases played an equally large part (*Economist*, 19-25 July 2003).

⁷ A good example is the 1997 budget process in the Mpumalanga Provincial Legislature in South Africa. Here, the legislature discovered that the executive budget proposal was unbalanced, as income fell short of covering the executive’s expenditure proposals by between R600 and R900 million. This forced the legislature to embark on an unprecedented reprioritization exercise, with several tense moments as departments attempted to resist the necessary spending cuts. Ultimately, the legislature produced a new appropriations bill that was more cognizant of aggregate constraints (Newham 1997).

⁸ In the remaining year covered, the deficit figure was not altered by legislative consideration.

⁹ The need for secrecy during the drafting stage is sometimes exaggerated, and more openness can have positive effects. In Finland, for instance, because of the country’s progressive Freedom of Information Act, budget requests from spending ministries are made publicly available. One positive result has been a reduction in the number of politically motivated leaks in the drafting process (Blöndal *et al* 2002:126-127). At the same time, there is a case to be made for government to have sufficient space to discuss and test different options behind closed doors to ensure executive consensus and buy-in before the budget is tabled.

¹⁰ For instance, the former German Federal Minister of Defense (1988-1989), Rupert Scholz, failed to produce sufficient plans for a military flight project and the Budget Committee froze 50 percent of the relevant funds. When the committee was alerted that the minister preferred to attend the nearby Press Club instead of the discussion of ‘his’ budget, he was called to attend at half past midnight (Wehner 2001).

¹¹ The Scottish Parliament formally engages with the drafting stage of the budget process (Midwinter & McGarvey 2001:50-51). The relevant parliamentary committees consider departmental reports with details of past expenditure and forward spending plans that are published in April/May each year. This process is coordinated by the Finance Committee, which reports the findings to Parliament. Any recommendations are passed on to the executive for consideration during the finalization of the draft budget in September. The first consultation exercise resulted in an increase in funding for roads and transport, and three modest proposals for budget changes by the Finance Committee. When the budget bill is tabled in the following January, deliberations in the Finance Committee are confined to executive amendments. Parliament can reject or accept the bill, but it may not initiate its own amendments.

¹² This paragraph draws substantially on comments by Mike Stevens (World Bank) and Rick Stapenhurst (WBI).

¹³ Relevant work has been produced notably by Strauch & Von Hagen (1999), Heller (1997), Crain & Muris (1995), and Von Hagen (1992).

¹⁴ The author is currently involved in a comparative research project that explores these issues.

¹⁵ Presidential systems vest executive authority in a directly elected head of government, usually called a president, for example in the United States, the Philippines and Nigeria. In parliamentary systems, the executive authority is elected indirectly by parliament, for instance in Britain, South Africa and India.

¹⁶ For the sake of brevity, the issue of bicameral parliaments in which second chambers have budgetary powers is excluded from this discussion (see Heller 1997). Legislatures in federal countries are bicameral to facilitate regional representation in the federal lawmaking process. Bicameralism is not limited to federal countries, but only about one third of unitary states have bicameral legislatures (Patterson & Mughan).

¹⁷ A more recent but less comprehensive survey, compared with the IPU data, shows that 59 percent (16 out of 27) of OECD legislatures are not subject to restrictions on their right to modify the budget proposed by the executive (OECD 2002b).

¹⁸ In South Africa, for example, the Auditor General has in recent years periodically invited comments from a range of stakeholders, including civil society organizations, on the usefulness of audit reports and how their presentation could be improved.

¹⁹ Committees are defined here as a subgroup of legislators, excluding Committees of the Whole House.

²⁰ This is not to deny some of the shortcomings and uncertainties involved in forecasting (Crippen 2003).

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