

*Budget Module*

*Week 1: January 19, 2009*

**Learning Objectives**

At the end of this week, you should be able to meet the following learning objectives:

- Explain why parliaments came to have a role in budgeting;
- Understand the importance of legislative oversight;
- Describe some of the methods and institutions parliaments devised in order to control over public finances;
- Discuss constraints on parliaments in scrutinizing public finances;
- Define the budget and its components;
- Discuss possible effects of high deficits;
- Understand the principles of good budgeting;
- Explain the three objectives of public expenditure management.

**Instructions:**

**Step 1: Read**

Begin this week by reading the following:

<b>Intro:</b>	<b>Introduction and Overview</b>
<b>Unit 1:</b>	<b>The evolution of Parliament's Power of the Purse</b>
<b>Unit 2:</b>	<b>Introducing the Budget</b>

**Step 2: Respond**

Work through the end of unit questions listed at the end of each unit.

---

### **Step 3: Self-Test**

Test your work against the sample answers listed on the "self-test" posted on the website's Workbook page. Sample answers to Unit 1 & Unit 2 have already been posted.

### **Step 4: E-Discussion**

Although it is important to understand how parliaments came to exercise the budgetary roles they have today, the focus of the e-discussions this week are on Unit 2: Introducing the Budget. The unit discusses what a budget is and the purpose it serves and introduces some core concepts and terminology. It considers the definition and components of the budget, and the objectives of budgeting as proposed by current public expenditure management theory.

There are four discussion questions for Unit 2. The first two questions are below, and will also be listed on the discussion board. Two further questions will be posted later this week.

- 1. In your parliament, what is understood by the term "budget"? Is it seen as a singular event or process? Is it generally accepted that there should be (greater) legislative participation in budgeting?**

#### *Comment by Moderator*

The budget is often seen as the speech by the relevant Minister on the government's economic and fiscal measures. In the Netherlands the term 'budget' is used broadly to mean a budget memorandum and 23 associated budget bills (McGee 2007: 2). Although the term budget is generally understood to refer to revenue and expenditure, in the UK House of Commons the budget speech involves a resume of the economic situation and the Government's plans for taxation, fees and levies i.e. the formal budget concerns revenue as opposed to expenditure.

Or is the term seen as a process or a cycle from preparation through to evaluation (the phases of the budget process will be discussed next week)? In reality there may be

---

many cycles! The Scrutiny Unit of the House of Commons explains how government finances are managed and how the House engages with different aspects of finance over the parliamentary year by describing four cycles:

1. The Planning Cycle (a spending review process every 2-3 years, involving a detailed review of departments' expenditure than the usual spending reviews).
2. The Budget Cycle (see above, but also including the Pre-Budget report and a Finance Bill to give permanent legal effect to the Budget resolutions).
3. The Estimates or Supply Cycle (the process by which Parliament approves departments' resources and cash provision for the year).
4. The Reporting cycle (the process through which the performance of departments is reported to Parliament and other stakeholders).

A three-stage process is in operation at the Scottish Parliament (currently under review by the Finance Committee):

Stage 1: an examination of the Scottish Government's future spending plans and priorities

Stage 2: detailed scrutiny of the Scottish Government's firm spending plans for the coming financial year; and

Stage 3: the granting of formal Parliamentary authority for spending in the coming financial year

Both the UK Parliament and the (devolved) Scottish Parliament are examining ways to improve parliamentary scrutiny of the Government's finances. The House of Commons Liaison Select Committee - a committee comprising all the chairmen of the select committees in the House of Commons - points to several recent improvements as regards the House's financial scrutiny, but argues that whilst they "have improved the quality of that scrutiny, but, even taken together, they have not transformed it".

Two examples of recent improvements include the designation (in 2002) of core tasks for select committees, which included examination of spending plans, Estimates and accounts and the creation of the Committee Office Scrutiny Unit, which has a team of



financial analysts providing briefing to select committees on issues identified in documents published by the Government. These changes were introduced in 2002.

However, the view of the Liaison Select Committee and influential groups such as the Hansard Society is that the weakest area of the House's financial scrutiny is the planning of expenditure (forward-looking scrutiny). Is this true of other legislatures?

**2. Unit 2 explores some of the problems caused by consistently growing budget deficits. Evaluate how significant these problems are in light of the current global economic crisis.**

*Comment by Moderator*

Across the world, governments are spending large amounts on stimulus packages to limit the severity of the economic downturn. The German government has recently announced a 50 billion Euro stimulus. The Congressional Budget Office, a non-partisan body in the US, estimates that America's budget deficit will increase from \$455 billion in fiscal 2008 to \$1.2 trillion in the current year – the largest share of GDP (8.3%) since the second world war (Economist, Jan 19 2009: 39). India's budget deficit is about 8% of GDP (Economist, 13 December 08: 13), the same level forecast by the UK Treasury for 2009. The British Conservative Party has called for more focus on monetary policy (forcing banks to start lending again) rather than fiscal policy (cuts in taxes and higher public spending).

Some argue this spending is essential to curb a severe (some would say unprecedented) recession and point out that in most cases deficits occur during economic slowdowns. Others worry about the consequences on inflation, interest rates, private investment and warn about future tax rises and the lack of flexibility governments will have in dealing with future crises.

