

The Role of Parliaments in the Budget Process

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World Bank Institute

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Foreword

As part of its efforts to strengthen good governance and therefore promote government accountability and transparency, the World Bank Institute's Poverty Reduction and Economic Reform division (WBIPR) has organized in collaboration with the Research Committee of legislative specialists, a roundtable on "The role of Parliaments in the Budget Process" at the Southern Political Science Association Annual Meeting, New Orleans, LA, USA, January 5-9, 2005. The panel was chaired by David M. Olson (Professor Emeritus, University of North Carolina at Greensboro) and Rick Stapenhurst (Senior Public Sector Specialist at the WBIPR). The papers presented hereafter are the product of that roundtable.

In the first paper Joachim Wehner examines data from 43 countries to explain the different institutional arrangements to oversee the budget process. He argues that what determines the division of labor between the legislative and executive branch is not the presidential or parliamentarian mode of government, but the access to information, federalist structures and constitutional provisions affected by colonial rule.

Zdenka Mansfeldová and Petra Rakušanová analyse the bargaining process in the legislature of the Czech Republic. Indeed over recent years, the budget process has undergone some great changes. Although the distribution of party-power in the Parliament and the Budget Committee remains of crucial importance, joining the European Union has led Parliament to seek a greater profile and strengthen its auditing functions, and professionalisation of the deputies on the Budgets Committee, has greatly increased the Committee's influence and prestige.

Carolyn Forestiere's and Riccardo Pelizzo's paper studies the role of the Italian parliament to examine how institutional and political conditions influence the legislative power over the budget. Drawing on institutional and party system theories, they argue that procedures and ideology provide the greatest incentives for parliaments to deviate from unilaterally supporting their governments during the passage of the national budget.

Finally Barry Anderson's paper discusses the potential value of independent analytical budget units for the legislature in increasing the transparency, credibility and accountability of the budget process. After examining a couple of country specific cases, he comes to the conclusion that for them to successfully fulfil a set of core functions, such units need to be at least non-partisan, independent, and objective.

The views expressed herein are entirely those of the authors and do not necessarily reflect the views of the World Bank Institute.

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Legislative arrangements for financial scrutiny:

Explaining cross-national variation

Joachim Wehner*

This power over the purse may, in fact, be regarded as the most complete and effectual weapon with which any constitution can arm the immediate representatives of the people, for obtaining a redress of every grievance, and for carrying into effect every just and salutary measure.¹

The legislative ‘power of the purse’ is said to be fundamentally important for democratic government. Yet, even a cursory comparison of legislative arrangements for financial scrutiny has to conclude that legislatures differ widely in the way with which they exercise the ‘power over the purse’. The US Congress has broad constitutional powers in financial matters, makes budgetary decisions through a complex system of specialized committees in both houses, and has access to extensive analytical support in the Congressional Budget Office (CBO).² The UK Parliament, by contrast, has abdicated the right to financial initiative to the executive,³ does not have a specialized budget committee, and has no parliamentary budget office to provide analytical support. Given that the authorization of taxes and public expenditures is a primary function of the legislature in any democratic system, such an amount of variation among modern democracies is perplexing. Why do some legislatures have elaborate institutional arrangements for financial scrutiny while others essentially leave budget-making to the executive?

Recent decades have seen much progress in the comparative study of legislative structures, including for example parliamentary committees and bicameralism.⁴

* Thanks to Bernard Casey, Patrick Dunleavy, Achim Goerres and participants of the 2005 Southern Political Science Association Conference for useful comments on earlier drafts of this paper, as well as to Mario Arriagada for assistance with accessing material on the Mexican Congress. The usual caveat applies.

¹ Publius, *The Federalist Papers* (New York: New American Library, 1961), p. 359.

² Definitions of the budget differ across countries. It appears that the first traceable legal definition is contained in a French decree of 1862: ‘The budget is a document which forecasts and authorizes the annual receipts and expenditures of the State...’ Cited in R. Stourm, *The Budget* (New York: D. Appleton for the Institute for Government Research, 1917), p. 2. The use of the word in the UK now refers to the Spring Financial Statement, which focuses on taxation measures. In most countries, however, the term refers to the annual expenditure and revenue plans tabled in the legislature. I use the word in this broader sense.

³ In 1706 the Commons resolved ‘That this House will receive no Petition for any sum of Money relating to public Service, but what is recommended from the Crown.’ Quoted in G. Reid, *The Politics of Financial Control: The Role of the House of Commons* (London: Hutchinson University Library, 1966), p. 36.

⁴ Some examples are: H. Döring, ed., *Parliaments and Majority Rule in Western Europe* (Frankfurt: Campus, 1995). D.M. Olson, *Democratic Legislative Institutions: A Comparative View* (Armonk: M.E. Sharpe, 1994). P. Norton, ed., *Parliaments in Western Europe* (London: Frank Cass, 1990). Inter-Parliamentary Union, *Parliaments of the World: A Comparative Reference Compendium* (Aldershot:

Despite its fundamental importance, however, legislative budgeting remains a neglected area in comparative research. Much of the qualitative literature on the budgetary role of the legislature has focused on a relatively modest number of cases.⁵ One danger with this approach is that a few cases are used to generalize findings. For example, a comparison between the US Congress and the UK Parliament might be used to infer that legislative control of budgets is most developed in presidential systems of government. More quantitative and larger N studies of budget institutions, on the other hand, tend to focus on only a small number of institutional features that are relevant to understanding the legislature's budgetary role, such as powers of amendment.⁶

This paper adds to the growing body of comparative research on legislative structures and fiscal institutions. I use a new and comprehensive survey of institutional arrangements for legislative budgeting across 43 national legislatures, several of which have not been studied extensively to date, to explore why these arrangements differ substantially. The paper proceeds in four main steps. The legislative budgeting database is briefly introduced in section one. Section two discusses several possible explanatory variables. Based on the results of multiple OLS regression analysis presented in section three, the fourth section considers broader implications for comparative research.

Mapping the differences

The legislative budgeting database contains data for 43 countries on 15 institutional variables relating to legislative scrutiny of the budget. The dataset is based on the 2003 Survey of Budget Practices and Procedures carried out by the Organization for Economic Co-operation and Development in cooperation with the World Bank,⁷ and incorporates complementary data from constitutions and parliamentary websites. This database covers three aspects, i.e. the budgetary powers of the legislature, legislative organization, and the legislature's access to budgetary information. Each covers a number of variables that have been aggregated into indices. The three indices can be understood as capturing sets of necessary institutional conditions for effective legislative control of the budget. The following paragraphs briefly discuss these indices. A detailed overview of the legislative budgeting dataset and index

Gower, 1986). M.L. Mezey, *Comparative Legislatures* (Durham: Duke University Press, 1979). On committees: D.G. McGee, *The Overseers: Public Accounts Committees and Public Spending* (London: Commonwealth Parliamentary Association and Pluto Press, 2002). L.D. Longley and R.H. Davidson, eds., *The New Roles of Parliamentary Committees* (London: Frank Cass, 1998). On bicameralism: S.C. Patterson and A. Mughan, eds., *Senates: Bicameralism in the Contemporary World* (Columbus: Ohio State University Press, 1999). G. Tsebelis and J. Money, *Bicameralism* (Cambridge: Cambridge University Press, 1997).

⁵ D.L. Coombes, ed., *The Power of the Purse: The Role of European Parliaments in Budgetary Decisions* (London: George Allen and Unwin, 1976). D.M. Olson and M.L. Mezey, eds., *Legislatures in the Policy Process: The Dilemmas of Economic Policy* (Cambridge: Cambridge University Press, 1991). A. Schick, 'Can National Legislatures Regain an Effective Voice in Budget Policy?' *OECD Journal on Budgeting* 1:3 (2002), 15-42.

⁶ Examples are: J. von Hagen, *Budgeting Procedures and Fiscal Performance in the European Communities* (Brussels: Commission of the European Communities Directorate-General for Economic and Financial Affairs, 1992). M. Hallerberg and P. Marier, 'Executive Authority, the Personal Vote, and Budget Discipline in Latin American and Caribbean Countries,' *American Journal of Political Science* 48:3 (2004), pp. 571-87.

⁷ The survey results are available online at <http://ocde.dyndns.org/> [last accessed 13 December 2004].

construction is provided elsewhere (Wehner, 2005). Country scores can be found in the appendix, which also contains the data for the independent variables.

The budgetary powers index reflects the extent to which a legislature has formal budgetary decision-making authority. It captures budget amendment rules, the nature of the reversionary budget, executive veto powers, budgetary bicameralism, and executive discretion to impound and reallocate funds during budget execution. The highest possible score of 100 means that the legislature has unfettered powers to amend the budget, the legislature explicitly approves any interim spending measures in case of delayed approval of the main budget, the executive has no package or line item veto for financial legislation, the legislature consists of two chambers with co-equal powers in budgeting, and impoundment and virement without legislative approval are severely restricted. The US Congress would have a perfect score on this index were it not for the presidential package veto. Several other legislatures get high scores, in particular those of Sweden, Norway, Hungary, the Netherlands and Japan. At the bottom end of this index are the Irish, French and Jordanian parliaments, all of which have relatively constrained budgetary powers.

The legislative organization index is a measure of the complexity of the internal infrastructure for financial scrutiny. It considers the extent to which legislatures use budget, sectoral and audit committees for financial scrutiny, as well as the amount of time available for approval of the draft budget and whether the legislature has a two-step decision-making procedure that fixes aggregates before specific allocations are decided.⁸ A score of 100 means that the legislature has an extensive role for committees in budget approval as well as audit scrutiny, has more than six months to scrutinize the draft budget, and uses the two-stage decision-making process. The US Congress has the highest possible score on this index. There is a substantial gap between the US Congress and the next group of parliaments, which includes those of Sweden, Norway, Hungary, France and the Czech Republic. At the bottom end of the scale are the National Assembly of Jordan and the UK Parliament.

The information index captures the extent to which the legislature has access to budgetary information, with variables on the quality of budget documentation submitted by the executive, the timeliness and quality of audit information, and legislative access to budget research capacity. A score of 100 means that the budget documentation was rated as broadly in line with the OECD's Best Practices for Budget Transparency (OECD, 2002) in an expert survey, audited annual accounts are submitted to the legislature within six months after the end of the fiscal year, the supreme audit institution carries out performance audits in addition to financial audits, and the legislature has a substantial budget research office. The variation between different legislatures is most extreme on this index compared with the previous two indices. The US Congress has the highest possible score, followed by Sweden, the Netherlands and Canada. At the bottom end of the ranking, the Bolivian National Congress gets a score of zero for budgetary information access, and the legislatures of Cambodia, Suriname and Nigeria score extremely poorly as well.

⁸ An example of the two-step process is discussed in J.R. Blöndal, 'Budgeting in Sweden.' *OECD Journal on Budgeting* 1:1 (2001), pp. 27-57. The Swedish Parliament fixes the aggregate level of expenditures and revenues in a Spring Fiscal Policy Bill tabled in April. Following the introduction of the budget in September the debate focuses on the allocation of the approved spending total between and within 27 'expenditure areas', such as justice, defense, energy etc.

In addition, the composite index of legislative budgeting (also referred to in this paper as the total index) is calculated by averaging each legislature's scores on the three component indices. This assumes that each of the three components is equally important for legislative control of public finance. Only the US Congress gets a very high score to the composite index, followed by the Swedish and Norwegian parliaments. Eight national legislatures fall short of a total index score of 40. These data highlight the vast amount of overall variation in legislative arrangements for financial scrutiny. Moreover, the contribution of each component index score to the total index score varies substantially between cases. Only a few legislatures, in particular the US Congress as well as the Swedish *Riksdag* and the Norwegian *Storting* get consistently high scores on all of the component indices. Many legislatures differ substantially in their scores across the component indices. The Canadian Parliament, for instance, gets a high score for information access, but lower scores for legislative organization and budgetary powers. The General Assembly of Uruguay, on the other hand, gets a relatively high score for budgetary powers, but scores poorly on the other component indices. In short, there is substantial variation in total scores as well as in the composition of total scores.

The within-case variation across the component indices suggests that we cannot expect a single set of factors to account uniformly for these differences, but rather that the three aspects of legislative budgeting are influenced by distinct independent variables. Table 1 confirms that the three component indices capture distinct and independent dimensions of legislative financial scrutiny. The correlation coefficients between the component indices are positive but small in particular once the upper outlier of the US Congress is excluded from the sample.

Table 1: Pearson's coefficients among the component indices

	Total sample (N = 43)			Excluding US Congress (N = 42)		
	Powers	Organization	Information	Powers	Organization	Information
Powers	1			1		
Organization	.372	1		.243	1	
Information	.257	.273	1	.183	.156	1

Explanatory variables

The following paragraphs briefly review four sets of plausible explanatory variables and their measurement. These consider the possibility that the institutional differences described in section one are due to institutional replication, other features of the political system, in particular the separation of powers and what may be called the separation of purpose, as well as the broader development context of a country.

Institutional replication. Cross-country differences may be due to institutional replication. One cause of such replication is the transfer of institutional features from a colonial power to its colonies. For instance, Lienert found significant differences between public expenditure management systems in anglophone and francophone African countries, in particular with regard to budget execution and government accounting (Lienert, 2003). Other comparative work has shown that the Westminster Parliament in particular is characterized by a high level of executive dominance (Siaroff 2003a). The sample contains several former UK colonies, so I construct a dummy variable for these countries, which is expected to have a negative effect on

legislative scrutiny. I only include former colonies with independence in the past 150 years because the institutional contours of legislative financial scrutiny in the UK were undergoing significant adjustments until at least the Gladstonian reforms in the 1860s (Einzig, 1959). The number of former French colonies in the sample is not sufficiently large to construct a similar variable, and Spain lost the bulk of her colonies before the 150-year cut-off point.

Separation of power. A second proposition is that the role of the legislature is shaped by the degree to which the political system is characterized by a separation of power. One of the core debates over the design of political institutions has been about the choice between presidential and parliamentary systems of government and its implications (Lijphart, 1992). A presidential system is broadly characterized by ‘a single individual, normally but not invariably called “president” . . . , popularly elected for a fixed term who plays the, or at least a, central role in the political system’ (Siaroff, 2003b). If legislative-executive relations are indeed more conflict-prone under presidentialism, as Linz has argued, one may expect the legislature to be more assertive in budgetary matters (Linz, 1990). For instance, Lienert suggests that in presidential systems ‘the legislature is a powerful agenda-setter and decision-maker’ and investigates whether this also applies to the realm of budgeting (Lienert 2005). To test this proposition, I construct a dummy variable for systems where a directly elected president is the head of government, excluding hybrid systems.⁹ I also include a federalism dummy to capture the vertical separation of powers (according to Griffiths, 2002). It is, however, not clear what effect to expect from the latter.¹⁰

Separation of purpose. A third proposition is that the legislative incentives for scrutiny grow as preferences over budget policy diverge, which can be a function of the party and electoral systems (Haggard and McCubbins, 2001). Under conditions of divided government, disagreements over policy between the legislative majority, or the median legislator, and the executive are likely to be stronger than under unified government. Divided government is defined as ‘the absence of simultaneous same-party majorities in the executive and legislative branches of government.’¹¹ According to this definition, divided government in parliamentary regimes takes the form of minority government. The prediction is that in systems that experience protracted spells of divided government, legislatures shape institutional variables to strengthen their scrutiny capacity. I construct a divided government index, which is the ratio of years in which the government did not command a legislative majority in the lower

⁹ Data from Central Intelligence Agency, *The World Factbook* (Washington, D.C.: Central Intelligence Agency, 2003).

¹⁰ It should be noted that the budgetary bicameralism variable that is part of the budgetary powers index is not directly linked to federalism. It is true that federalism correlates strongly with bicameralism, but the reverse does not hold for unitary states. See Patterson and Mughan, *Senates*. Moreover, the index captures *budgetary* bicameralism, where the second chamber has co-equal powers in financial matters, which is not a direct implication of federalism. Note that a number of unitary countries in the sample have second chambers with co-equal budgetary powers, for example Bolivia, Chile and Italy, while a number of federal countries have second chambers with a limited role in budgetary matters, such as Belgium, India and South Africa.

¹¹ R. Elgie, ed., *Divided Government in Comparative Perspective* (Oxford: Oxford University Press, 2001). Elgie distinguishes this arithmetical definition from a behavioral definition where divided government refers to ‘divisiveness’ or ‘the situation where there is conflict between the executive and legislative branches of government whatever the support for the executive in the legislature’ (p. 7). In this paper, I use the arithmetical definition.

house of the legislature.¹² This index covers the ten-year period immediately before the OECD data were collected (1993-2002).¹³ I also include the effective number of parties as an alternative measure of party political fragmentation.¹⁴ However, the predicted effect of this variable is not obvious. On the one hand, a high degree of party political fragmentation in the legislature may impede collective action and hence strengthen the position of the executive *vis-à-vis* the legislature, whereas extreme concentration in many instances implies executive dominance, at least in parliamentary systems of government.¹⁵

The separation of purpose can also be attributed to the effects of different electoral systems. Carey and Shugart have explored how aspects of electoral formulas induce legislators to cultivate a ‘personal vote’ and distinguish themselves from their party affiliation (Carey and Shugart, 1995). This may diminish the ability of government parties to enforce party discipline even when they have a numerical majority in the legislature. Unfortunately, comprehensive data are not available for the entire sample. Instead, I test whether there is an effect of open list proportional representation.¹⁶ This electoral system is often regarded as candidate-centered.¹⁷

Development context. Institutions may be shaped by the broader development context of a country. In the case of this analysis, the expectation is that the capacity of legislative bodies to act as independent institutions for ‘horizontal accountability’ is likely to be less developed in authoritarian regimes or where democracy is weakly entrenched (O’Donnell, 1998). I include two economic and political context variables. The first is the combined average rating produced by Freedom House, which was designed to monitor progress and decline of political rights and civil liberties (Karatnicky, Piano and Puddington 2003). The second is Gross Domestic Product

¹² Data up to 2000 from T. Beck, G. Clarke, A. Groff, P. Keefer and P. Walsh, ‘New Tools in Comparative Political Economy: The Database of Political Institutions,’ *World Bank Economic Review* 15:1 (2001), pp. 165-76. Data for 2001 and 2002 from Europa Publications, *Europa World Yearbook* (London: Europa Publications, various years).

¹³ I also compiled an alternative specification of the divided government variable, which measures the ratio of years in which the government did not command a legislative majority in *either* the lower or upper house of the legislature, *if the latter is co-equal in budgetary matters*. In other words, where the consent of the upper house is required to pass financial measures, for instance in Chile and Italy, unified budgetary government requires that the executive has a majority in *both* houses. Where the consent of the upper house is not required, as for example in India and France, I consider only the situation in the lower house. Data on budgetary bicameralism from Wehner, *Cross-national Variation in Legislative Budgeting*. Both versions of the divided government index yielded substantively similar results and in the following I present only the findings for the first version of this variable.

¹⁴ The measure was proposed by Laakso and Taagepera and has gained a high level of acceptance. M. Laakso and R. Taagepera, “‘Effective’ Number of Parties: A Measure with Application to West Europe,” *Comparative Political Studies* 12:1 (1979), pp. 3-27. An alternative measure proposed by Dunleavy and Boucek was also constructed and an analysis using the latter yielded substantively similar results as discussed in the next section. See P. Dunleavy and F. Boucek, ‘Constructing the Number of Parties,’ *Party Politics* 9:3 (2003), pp. 291-315.

¹⁵ I added a power term to test for any curvilinear effects, which proved not significant and is not reported in the following section.

¹⁶ I include the case of Ireland, which has used proportional representation by means of the Single Transferable Vote since independence in 1922. Data from P. Norris, *Electoral Engineering: Voting Rules and Political Behavior* (Cambridge: Cambridge University Press, 2004), as well as own research.

¹⁷ A. Reynolds and B. Reilly, *The International IDEA Handbook of Electoral System Design* (Stockholm: International Institute for Democracy and Electoral Assistance, 1997). The handbook is available online at <http://www.idea.int/esd/publications.cfm> [last accessed 21 January 2005].

(GDP) per capita.¹⁸ There is a strong correlation with a coefficient of -.8 between these two variables, so to some extent they represent alternative specifications.¹⁹

Results

Table 2 presents the results of multiple OLS regression analysis. Before proceeding, a word of caution is in order. The dataset is relatively small and contains data on ‘only’ 43 national legislatures. In statistical terms, this is not a large number, although it represents a sizeable proportion of the world’s parliaments.²⁰ One of the dangers of small samples is that outliers skew the results. In this case, the dataset contains one upper outlier on the overall index as well as the legislative organization index, i.e. the US Congress. To assess the reliability of the findings, all models were also entered with a reduced sample excluding the US Congress; none of the variables that are significant with the full sample lost significance below the .1 level.²¹ The following paragraphs summarize the main findings.

Table 2: Multiple OLS regression results

	(1) Powers	(2) Organization	(3) Information	(4) Total
UK colony	-16.046** (7.307)	-9.835 (6.236)	13.808* (6.815)	-4.024 (4.352)
Presidentialism	8.031 (6.726)	-4.216 (5.739)	9.750 (6.272)	4.522 (4.005)
Federalism	5.008 (6.168)	14.879*** (5.263)	5.015 (5.752)	8.301** (3.673)
Divided government	5.769 (8.600)	24.357*** (7.339)	8.272 (8.021)	12.799** (5.122)
Effective parties	.865 (1.323)	.678 (1.129)	.531 (1.234)	.691 (.788)
Open list PR	-9.300 (6.194)	-5.633 (5.286)	.217 (5.776)	-4.905 (3.689)
Log GDP per capita	3.771 (7.175)	-5.440 (6.123)	29.911*** (6.691)	9.414** (4.273)
Freedom House	-2.154 (3.317)	-3.970 (2.830)	-1.511 (3.093)	-2.545 (1.975)
Constant	40.246 (33.830)	64.271** (28.869)	-68.122** (31.550)	12.131 (20.147)
R-squared	.297	.430	.713	.641
F-test	1.798	3.213***	10.563***	7.575***
Number of observations	43	43	43	43

Notes: Standard errors in brackets. *** p < .01 ** p < .05 * p < .1 (two-tailed tests).

Column one summarizes the model for the budgetary powers index. Only a single variable proved statistically significant in this model, viz. the dummy for former UK colonies, and the overall amount of explained variation is modest (R-squared = .297). This supports the proposition that colonial rule is associated with institutional

¹⁸ Logged; data from World Bank, *World Development Indicators* (Washington, D.C.: World Bank, 2003).

¹⁹ The sign is negative because in the Freedom House ratings lower scores indicate more freedom.

²⁰ At the time of writing, the Inter-Parliamentary Union (IPU) reports a membership of 140 national parliaments: <http://www.ipu.org/english/membshp.htm> [last accessed 2 December 2004].

²¹ It is hoped that the findings will be replicated with data on more cases in the not too distant future. The OECD is currently in the process of planning a second round of its survey, which aims to increase the number of country responses.

replication. The sign of the coefficient is negative, i.e. the Westminster heritage reduces the budgetary powers of the legislature. Notably parliamentary amendment powers with regard to ‘money bills’ are limited in the UK and this configuration has been exported to its former colonies. On the other hand, the overall low explanatory power of this variable, and the fact that all other variables proved statistically insignificant, appears to suggest that the particular configuration of legislative budgetary powers is largely driven by country-specific factors, which is in line with the findings of Lienert (2005). One caveat is that different patterns on the variables that make up the budgetary powers index are not picked up and deserve more disaggregated analysis elsewhere.²²

The model for the legislative organization index is specified in column two. This model includes two significant explanatory variables with positive coefficients and accounts for over forty per cent of the variation on the dependent variable (R-squared = .430). Legislatures invest in more complex scrutiny structures, in particular parliamentary committees, if the political system is characterized by protracted spells of divided government. Apart from the US Congress, the parliaments of Sweden and Norway are examples where the association between a developed decision-making infrastructure and arguably institutionalized divided government is striking. Second, and somewhat surprisingly, legislatures in federal systems tend to have more complex legislative structures for financial scrutiny, possibly to provide a forum for intergovernmental bargaining and overseeing fiscal relations between different levels of government. Also, legislators with strong regional ties may have incentives to use the budget process to ensure benefits for their respective regions.

The model for information access is specified in the third column. Two variables are statistically significant and have positive coefficients, i.e. the log of GDP per capita and the dummy for former UK colonies. The model accounts for more than two thirds of the variation on this index (R-squared = .713). The GDP per capita variable is highly correlated with the Freedom House ratings, suggesting that it is in part the quality of democracy that impacts on budget transparency. Moreover, some prerequisites for budget transparency, such as the use of modern information technology, depend more directly on access to prerequisite resources. A third reason might be that industrialized countries have for the past three decades cooperated with each other and developed common standards for budget transparency within the OECD framework, culminating in the publication of the Best Practices for Budget Transparency.²³ Much of this work is setting the trend for the developing world. The GDP effect on budgetary information access can be interpreted to capture these underlying explanations.

The statistical significance of the UK colony dummy in the third model might perplex at first glance. Several former UK colonies received high expert scores for their quality of budget documentation, in particular Australia, Canada, New Zealand and South Africa. It is possible that there is a conception bias with regard to what aids

²² For example, the Icelandic *Althingi* and the Australian Parliament have identical scores on the budgetary powers index, but move in opposite directions on some of the component variables such as amendment powers and budgetary bicameralism.

²³ The OECD Network of Senior Budget Officials has been operational for 25 years.

budget transparency and which countries achieve high standards.²⁴ However, these countries also score highly on the two audit-related variables that are included in the index, i.e. the timeliness of financial audit and the capacity for performance or ‘value for money’ audits. One reason might be that there is active cross-fertilization in this area among anglophone OECD countries.

The fourth column specifies the model for the total index of legislative budgeting. The effects of three variables are strong enough to be carried over into the overall index, viz. GDP per capita, divided government, and the federalism dummy, and the model accounts for almost two thirds of the variation on the total index (R-squared = .641). The UK colony dummy has opposing signs in models one and three. Because these coefficients cancel each other out, this variable has no overall effect that would be captured by the model for the legislative budgeting index. These results show that the model for the total index reflects the impacts of the independent variables on specific component indices.

Discussion

The regression results raise several questions for the comparative study of budget systems, legislative structures and political institutions in general. Attention has to be paid to not only the variables that proved statistically significant, but also to those that did not. In the following paragraphs, I frame the discussion of implications in terms of a series of contrasts, viz. presidential versus other systems of government, institutional features that are variable in the short-run versus those that are not, and ex ante versus ex post financial scrutiny.

The non-impact of presidentialism:

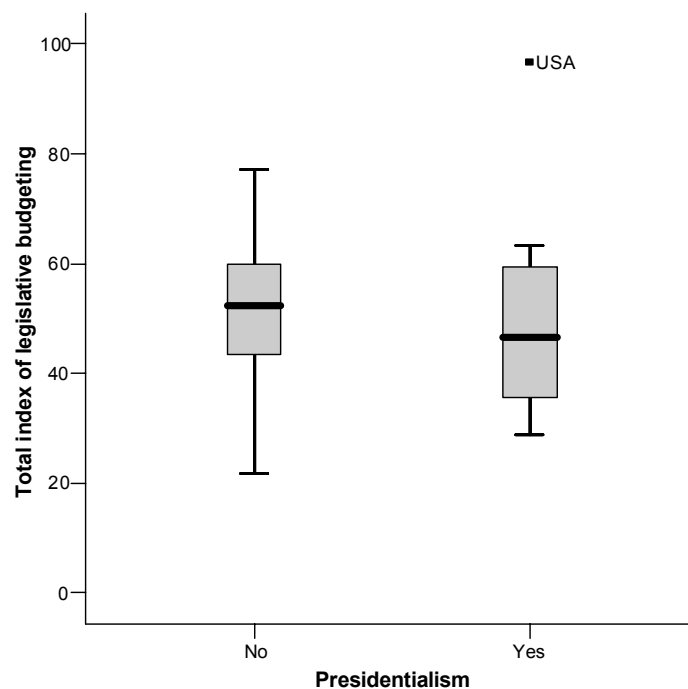
The presidentialism dummy is statistically insignificant for all indices. To elaborate on this finding, Figure 1 presents a box-and-whisker chart to compare the variation on the legislative budgeting index between the ten countries in the sample with presidential systems and those without (see appendix). The median score for presidential systems is slightly below the median score for other systems, as indicated by the thick bar in the middle of the shaded box. The shaded box contains the middle mass of data between the upper and lower quartiles. The ‘whiskers’ (the lines extending from the box) indicate the spread of the remaining cases that do not fall within the interquartile range. The whiskers include maximum and minimum values unless there are outliers, which are observations with a score of more than 1.5 times the midspread above the upper quartile or below the lower quartile. In this case, the US Congress is an upper outlier among pure presidential regimes. The chart serves as a reminder that one should not generalize the experience of the US Congress across presidential systems, and challenges the view that institutions in these two sets of

²⁴ Refer to the discussion of this variable in the appendix of Wehner, *Cross-national Variation in Legislative Budgeting*. One reason might be that documents in English speaking countries are more easily accessible to international experts, unlike budget documentation in other less widely-spoken languages. However, some observers have been highly critical of aspects of the reforms in financial reporting in several anglophone countries. For example, Barton highlights negative effects on fiscal transparency of the application of accrual accounting in the Australian public sector. A.D. Barton, ‘How to Profit from Defence: A Study in the Misapplication of Business Accounting to the Public Sector in Australia.’ *Financial Accountability and Management* 20:3 (2004), pp. 281-304.

systems are inherently different. Rather, the results of this analysis support the argument that it is more fruitful to focus attention on the specific differences in the design of institutional aspects as well as their cumulative effect. Cheibub and Limongi make this point succinctly (Cheibub and Limongi, 2002):

Parliamentary and presidential regimes are indeed founded on different constitutional principles, and this is a central choice in any democratic constitution. However, the operation of the political system cannot be entirely derived from the mode of government formation. Other provisions, constitutional and otherwise, also affect the way parliamentary and presidential democracies operate, and these provisions may counteract some of the tendencies that we would expect to observe if we derived the regime's entire performance from its basic constitutional principles.

Figure 1: How presidential systems compare against other systems



It is admittedly easy to misinterpret political dynamics as effects of presidentialism. For a long time, the study of divided government was largely confined to the US (Elgie, 2001). Here, shifting majorities among the branches of government and the different houses of Congress have given rise to instances of severe gridlock over policy and budgets (Williams and Jubb, 1996). However, divided government also occurs in parliamentary regimes, where it takes the form of minority government. While it is true that the constitutional roots of divided government differ between presidential and parliamentary systems, more recent research has argued strongly that divided government is a noteworthy feature not only of the US system but also various non-presidential systems (Laver and Shepsle, 1991). Several independent studies with different samples of parliamentary regimes have found minority administrations to account for about one third of governments (Strøm, 1990). In short, disentangling presidentialism from divided government suggests that the former has

no immediately obvious implications for the role of the legislature, at least as far as financial scrutiny is concerned.

Distinguishing fixed and variable institutional features

Although this analysis is of a cross-sectional nature, the findings raise issues for the study of institutional change over time. The reason is that some of the institutional features discussed in section one can typically be adjusted more easily than others. Constitutional features, several of which are captured in the budgetary powers index, usually cannot be amended without supermajority support in the legislature. Because this requires a high degree of consensus that is unusual in most contexts, constitutional constraints in particular can be considered fixed in the short-run. Other features may be variable in the short-run. For instance, matters of legislative organization are largely an internal question that is for the legislature to decide and standing orders can be amended with relative ease. This makes variable institutional features potentially more responsive to shifting political dynamics such as diverging party majorities across the legislative and executive branches of government.

Indeed, legislatures that have sought to strengthen their budgetary role have often done so by adjusting variable institutional features in their favor. The perhaps best-known example is the overhaul of the US budget process with the Congressional Budget and Impoundment Control Act of 1974. The reform created CBO to end the executive's monopoly on budgetary information, instituted the Budget Committees in both chambers to facilitate fiscal decision-making, required budget resolutions to enhance control over aggregates and allocations, severely curtailed executive impoundment authority by regulating rescissions and deferrals, and shifted the beginning of the fiscal year from July to October to give Congress an extra three months to decide the budget (Wildavsky and Caiden, 2001). The acrimonious nature of legislative-executive relations during the Nixon administration, a period of divided government, gave impetus to the reforms, which also sought to counter a longer term shift towards executive dominance since the introduction of the executive budget process with the Budget and Accounting Act of 1921 (Schick and LoStracco, 2000).

There are other instances of legislative reorganization that illustrate the point. In Mexico, commentators for many years regarded Congress as 'the epitome of weakness' (Morgenstern and Nacif, 2002) despite comparatively strong constitutional powers (Haggard and McCubbins, 2001). Since the reemergence of competitive party politics in the 1990s divided government has for the first time since 1917-1928 become a feature of the Mexican system and Congress has started to make amendments to the presidential budget proposal (*The Economist*, 2004). In the wake of these political changes the Mexican Congress has also made institutional adjustments. For instance, the 2000 Federal Audit Law²⁵ established a new congressional audit committee.²⁶ Congress also put in place the Centre for the Study of Public Finance,²⁷ modeled along the lines of CBO, to supply it with independent analyses of taxation and spending issues, and the 2000 budget was passed using a special rule that made it easier for deputies to move amendments (Weldon, 2002).

²⁵ Refer to article 67 of the *Ley de Fiscalización Superior de la Federación*.

²⁶ *Comisión de Vigilancia de la Auditoría Superior de la Federación*.

²⁷ *Centro de Estudios de las Finanzas Públicas*.

Not all such institutional adjustments are necessarily successful in that they unambiguously strengthen legislative control.²⁸ Yet, a distinction between fixed and variable institutional features provides a useful framework for understanding the scope for institutional adjustments in response to changes in the political environment, such as the emergence of divided government, and sheds light on the extent to which political actors have the scope to act as institution-shapers. Whether specific institutional features are fixed or variable in the short-run does of course differ between countries, but features relating to legislative organization are frequently variable.

The ex post scrutiny bias of the Westminster system

The impact of the UK colony dummy is different from other explanatory variables in that it features in two models and with coefficients that have opposing signs. On the one hand, the Westminster heritage tends to reduce the budgetary powers of the legislature, and on the other hand it appears to strengthen legislative access to financial information. Moreover, some of the more subtle patterns in the data require further attention, which are not immediately obvious by looking at the aggregated indices. On closer examination, the Westminster model reveals a very particular ex post approach to financial scrutiny where parliament focuses on audit findings rather than budget policy.

One indicator of this is the existence of committee expertise. Only five legislatures out of 43 in the sample do not involve a specialized budget committee during ex ante scrutiny of the government's draft budget. Four of these are Commonwealth parliaments, viz. those of Australia, Canada, India and the UK; the fifth is the Dutch Parliament (Wehner, 2005). The absence of such a committee for ex ante scrutiny means that a government-wide view of budget policy and fiscal aggregates cannot easily be formed. The involvement of sectoral committees is useful, but it can never substitute, only complement, the broader perspective of a specialized budget committee. On the other hand, all former UK colonies in the sample have a specialized Public Accounts Committee (PAC).²⁹ The modern PAC dates back to 1861 when the House of Commons, based on the initiative of the Chancellor of the Exchequer, William Gladstone, resolved to establish a committee to scrutinize government accounts.³⁰ These reforms established an audit model predicated on close interaction between parliament and the supreme auditor that has been widely adopted throughout the Commonwealth (McGee, 2002). National legislatures outside the Commonwealth that use audit committees include those of Argentina, Austria, Denmark, Hungary, Israel, Japan and Mexico.

²⁸ For comments on the US case, see Wildavsky and Caiden, *The New Politics of the Budgetary Process*, 81-2. It is still too early to assess the longer term impact of the Mexican reforms.

²⁹ One exception is New Zealand, where the functions of the former PAC were given to the Public Expenditure Committee in 1962 and to the Finance and Expenditure Committee in 1985. The functions of the new committee are wider than those of a traditional PAC, and include the 'audit of the Crown's and departmental financial statements, Government finance, revenue and taxation.' Written correspondence to the author from the Clerk of the New Zealand House of Representatives, Wellington, 14 October 2002.

³⁰ The first such committee was appointed in 1690 under the *Act for Appointing and Enabling Commissions to Examine, Take and State the Publick Accounts of the Kingdom*. However, the use of the committee for political purposes undermined its reputation and the practice of parliamentary audit lapsed under Walpole's administration. See Einzig, *The Control of the Purse*, 168.

What is unique to the Westminster system is the *combination* of low ex ante capacity with highly developed ex post capacity. In other words, the Westminster model backloads financial scrutiny, whereas legislatures outside the Commonwealth tend to apply committee expertise either in a more balanced way or in favor of ex ante scrutiny. One reason may be that, 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.³¹ As a result, party discipline is particularly high during debates on ‘money bills’ and the only possible space for critical in-depth engagement with public finance is the PAC, which upholds a cross-partisan convention of not questioning the merits of underlying policy (Wehner 2003). That the distinct structures and conventions of the UK Parliament continue to shape financial scrutiny in many former colonies is evidence of the long shadow of history.

Conclusions

Several variables account for cross-national differences in legislative arrangements for financial scrutiny. The analysis finds that legislative access to budgetary information is better in advanced industrialized democracies and, possibly, in anglophone countries. Legislative organization tends to be more extensive in federal systems and under conditions of divided government. Finally, the budgetary powers of legislatures are affected by institutional replication due to colonial rule. Perhaps surprisingly, the statistical analysis finds no evidence of an inherent difference between presidential and non-presidential systems.

These results raise several implications for comparative research. One is the possibility to explicitly distinguish fixed and variable institutional features in order to better understand patterns of institutional change. Most importantly, however, the findings highlight the danger of using a small number of cases to generalize across countries. More specifically, the US Congress and the UK Parliament are not typical legislatures, although they are arguably the most extensively studied representative bodies. In this analysis, the US Congress emerges clearly as exceptional among presidential systems, whereas the Westminster system is distinct with regard to its pattern of financial scrutiny and should not be taken as representative of parliamentary regimes in general. The implication is that comparative research should focus on differences in particular institutional features and their cumulative effect rather than to assume that the mode of government selection is inherently decisive.

³¹ The emergence of this convention is linked to an incident in 1919 when the Commons denied the Lord Chancellor funding for a second bathroom. In response, Lord Birkenhead refused to move into his official residence. The Treasury subsequently initiated a change in procedure that removed the drafting of money resolutions from the Commons to the Treasury. Successive governments drafted more restrictive money resolutions that increasingly curtailed the scope for amendments and debate. See Einzig, *The Control of the Purse*, 290-4. As consecutive governments became ‘hypersensitive’ to parliamentary challenges every step in the financial procedure became linked to the question of confidence. Reid, *The Politics of Financial Control*, 77.

Appendix: Data sorted by total index score

Legislature	a. Total index	b. Powers	c. Organization	d. Information	1. UK colony	2. Presidentialism	3. Federalism	4. Divided government	5. Effective parties	6. Open list PR	7. Log GDP per capita	8. Freedom House
United States	97	90	100	100	0	1	1	0.6	2.0	0	4.50	1.0
Sweden	77	80	67	85	0	0	0	1.0	4.2	1	4.51	1.0
Norway	74	80	67	75	0	0	0	1.0	5.4	0	4.59	1.0
Hungary	70	80	67	63	0	0	0	0.0	2.2	0	3.76	1.5
Netherlands	66	80	33	85	0	0	0	0.0	4.7	1	4.49	1.0
Argentina	63	53	57	80	0	1	1	0.8	3.0	0	3.82	3.0
Denmark	62	60	53	73	0	0	0	0.9	4.8	1	4.59	1.0
Austria	62	70	47	70	0	0	1	0.0	2.9	1	4.52	1.0
Germany	61	60	63	60	0	0	1	0.0	3.4	0	4.52	1.0
Japan	61	80	47	57	0	0	0	0.5	3.6	0	4.64	1.5
Australia	60	60	40	80	1	0	1	0.0	2.5	0	4.39	1.0
Mexico	59	63	50	65	0	1	1	0.5	2.8	0	3.57	2.0
Italy	57	70	27	75	0	0	0	0.4	2.1	0	4.33	1.0
Canada	55	40	40	85	1	0	1	0.0	2.7	0	4.37	1.0
Finland	53	60	27	73	0	0	0	0.0	4.9	1	4.51	1.0
Iceland	53	60	27	73	0	0	0	0.0	3.7	0	4.50	1.0
New Zealand	53	40	40	80	1	0	0	0.2	3.8	0	4.28	1.0
Portugal	53	50	57	53	0	0	0	0.6	2.6	0	4.12	1.0
Czech Republic	52	50	67	40	0	0	0	0.6	3.7	0	3.76	1.5
Israel	52	50	47	60	0	0	0	0.5	8.7	0	4.23	2.0
Belgium	51	40	50	63	0	0	1	0.0	9.1	1	4.50	1.0
France	51	27	67	60	0	0	0	0.1	2.3	0	4.49	1.0
Slovenia	51	43	37	73	0	0	0	0.0	4.9	1	4.09	1.0
South Africa	50	30	40	80	1	0	1	0.0	2.2	0	3.62	1.5
Spain	49	53	57	37	0	0	1	0.3	2.5	0	4.25	1.0
United Kingdom	48	50	20	73	0	0	0	0.0	2.2	0	4.36	1.0
South Korea	47	37	27	78	0	1	0	0.6	2.4	0	4.15	2.0
Colombia	47	67	33	40	0	1	0	0.1	3.1	0	3.36	4.0
Uruguay	47	73	27	40	0	1	0	0.0	3.1	0	3.74	1.0
Indonesia	46	53	53	32	0	0	0	0.2	5.3	0	3.03	3.5
Morocco	43	57	47	27	0	0	0	0.0	10.7	0	3.17	5.0
Slovakia	43	33	37	60	0	0	0	0.2	6.1	1	3.66	1.5
Chile	43	37	27	65	0	1	0	0.0	2.0	1	3.74	1.5
India	42	40	40	47	1	0	1	0.3	5.9	0	2.69	2.5
Ireland	41	20	40	63	1	0	0	0.7	3.3	1	4.48	1.0
Turkey	38	53	27	33	0	0	0	0.4	1.8	0	3.47	3.5
Nigeria	36	60	40	7	1	1	1	0.0	2.3	0	2.39	4.5
Kenya	34	37	40	27	1	1	0	0.0	2.2	0	2.51	4.0
Greece	31	30	30	33	0	0	0	0.0	2.2	1	4.15	1.5
Suriname	31	40	47	7	0	0	0	0.0	2.2	1	3.02	1.5
Bolivia	29	60	27	0	0	1	0	0.0	5.0	0	2.98	2.5
Cambodia	25	40	30	5	0	0	0	0.0	2.4	0	2.51	5.5
Jordan	22	27	20	18	0	0	0	0.1	1.7	0	3.22	5.5

Note: The shaded rows indicate the upper quartile, median and lower quartile on the total index.

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Legislative Budgeting in the Czech Republic¹

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The design of budget process

The procedure of approving the state budget differs from the general legislative process. The negotiation of the State Budget is governed by rules defined in the Rules of Procedure of the Chamber of Deputies². The budget negotiation process³ proceeds in the following manner:

The cabinet submits a draft act on the state budget to the Speaker of the Chamber of Deputies no later than three months prior to the start of a new budget year (by 30 September of the previous year); amendments to the draft act may be submitted until 15 days prior to the session of the Chamber of Deputies at which the first reading is to take place. The Speaker assigns the draft act on the state budget to the Budget Committee for discussion. After the draft act is assigned to the Budget Committee, the first reading takes place at a session of the Chamber of Deputies. There, deputies engage in a general parliamentary debate on the basic aspects of the budget, such as the revenues and expenditures, the balance, settlement of the balance, the general relationship to the budgets of the higher territorial administrative units and municipalities, and the scope of powers assigned to executive bodies. If the draft act is not approved, the Chamber recommends that the cabinet redraft the bill, and sets a date for the new draft to be submitted. If the Chamber of Deputies approves the basic aspects of the budget it is not possible to change them later during the negotiation. The procedure of approving the state budget differs from the general legislative process. A draft of the state budget is debated independently and cannot be contingent upon a proposal for the adoption or amendment of another act [Kolář, Pecháček, Syllová 2002:188].

If the Chamber of Deputies approves the basic information in the draft act on the state budget, individual chapters are then assigned to committees. Committees are assigned a deadline (the minimum period is 30 days) and are obligated to discuss the individual chapters of the draft act on the state budget they have been given by that deadline. Committees may propose changes only to those chapters of the state budget they have been assigned to discuss.

The Budget Committee debates the committees' resolutions and opposing views on individual chapters of the draft bill in the presence of rapporteurs, and adopts a resolution. During the second reading, the draft act on the state budget is introduced

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²The Parliament of the Czech Republic has two chambers and consists of the Chamber of Deputies with 200 Deputies and the Senate with 81 Senators.

³ Rule of Procedures, Part thirteen.

by the Submitting Party. The Budget Committee's rapporteur speaks after the Submitting Party. During the detailed parliamentary debate, amendments and other proposals are submitted. From a political perspective, the comment phase is the most important because it is in this phase that individual deputies (who, for example, did not have a chance to directly participate in the preparation of the draft act) try to secure funds for their constituencies.

The third reading of the draft act on the state budget may start no earlier than 48 hours after the second reading has been completed. During the parliamentary debate, corrections of legislative mistakes or mistakes of technical nature, corrections of grammatical mistakes, and proposals for repeating the second reading are the only items that may be proposed. At the conclusion of the third reading the Chamber of Deputies votes on the submitted amendments, and at the end the Chamber decides whether it will express agreement with the draft act.

Until the adoption of the new Rules of Procedure in mid-1995, the draft act (the whole budget) was discussed by the Budget Committee and also by a number of other committees, after which a joint report was submitted. This procedure offered more opportunity for lobbying, and it was easier for a lay opinion to defeat a professional opinion as each committee had only one vote and the special Budget and Economy Committees formed a minority (of the usual 4-5 committees involved). An amendment to the Rules of Procedure resulted in the Budget Committee obtaining more competencies. Currently, it is very difficult for a deputy to secure any funds for his/her own constituency, because a deputy is expected to specify how the proposed expenditure will be paid for, i.e., what other expenditures should be cut in order to obtain money for the specific purpose.

The most important stage of the bargaining process is the first reading, which is meant to give a clear outline of the total amount of the mandatory expenditures (i.e., expenditures explicitly required by law), the total expenditures and revenues, the balance of the State Budget, and the budgets of municipalities. The Budget Committee must seek to preserve a balance between revenues and expenditures. After subtracting the mandatory expenditures, a mere 15 per cent of the total funds allocated for expenditures remain; it is necessary to come to an agreement on which sphere (e.g. education, science or healthcare) will be emphasised. This percentage is further reduced when we consider ongoing investment projects of the government that cannot be abandoned or unwritten EU and NATO obligations (percentages that are given for certain chapters of the budget, such as 1.2 per cent for science, 2 per cent for defence, etc.). This means that all the publicity given in the media actually concerns a small number of items debated in the Parliament. This may be the place to mention that the first round of putting together particular expenditures takes place at the ministries. This is why the ministries seem to be in a much better position to advance particular interests, as this environment is much less transparent compared to the Parliament, and the Chamber of Deputies is only the second step in lobbying.

The growing percentage of mandatory and quasi-mandatory expenditures and expenditure programmes that have already been launched limit the flexibility of the public budget expenditures in the short-term horizon.⁴ The disproportionate increase

⁴ Act on the 2004 Budget, www.psp.cz/cgi.bin/win/docs/tisky/tmp/T0460y0.doc

in mandatory expenditures, which significantly exceed the speed of growth of the tax income revenues, is today the elementary problem of the fiscal policy of the cabinet, and the subject of harsh criticism from the opposition.

As already mentioned, the Act on the State Budget is approved by the Chamber of Deputies. The negotiation is ideologically divided from the very beginning of the process, and therefore the debate and voting on the state budget is always a key issue for parliamentary party groups. Considerable party discipline is required in the vote, and voting at variance with the decision adopted by a Parliamentary Party Club may have very unpleasant consequences for individual deputies, especially if the cabinet has a very narrow margin in the Chamber. This has been a major problem since 1996 (see Appendix 1). The reason for the relatively low party unity (Rice's Index of Party Cohesion around 80 units) lies in the size of the voting coalitions that approve individual bills: the large majorities mean the parliamentary party groups do not have to act with absolute unity. This results in lowering the transaction costs political parties would otherwise have to expend to ensure that their bills are approved by narrow-margin majorities. As an example, we can take the vote on the State Budget at the beginning of 1997, when the cabinet had a narrow majority [Mansfeldová 1997, 2002]. Two ČSSD deputies who did not vote according to the approved party line were expelled from the party. One of them joined the rightwing ODS soon afterwards.

The approval of the budget is generally one of the key tasks of the Parliament, and, as can be gleaned from Table 1, it is one of the most important activities according to the deputies. In addition to the explicitly formulated control of the cabinet, the highest importance was still attached to the adoption of the state budget, which is one of the means by which the cabinet can be indirectly controlled [Reytt 2000, Soltéz 1995]

Tab. 1: The importance of individual activities of the Parliament between 1993 and 2003

Activities	1993	1996	1998	2000	2003
Legislative activities	4.78	4.50	4.67	4.97	4.72
Control of the government	4.61	4.22	3.94	4.64	4.27
Consideration and evaluation of proposals submitted by various social groups	3.22	2.83	3.00	3.74	3.17
Approval of the state budget	4.78	4.72	4.72	4.95	4.80
Processing of petitions and comments of citizens	3.39	1.56	3.22	3.86	3.37
Preparation of the EU accession	- *	- *	4.22	4.61	4.06

1 = least important, 5 = most important

Source: Institute of Sociology, Academy of Science of the Czech Republic (SOÚ AV ČR).

If we compare the scores of each activity in time as well as in individual functional terms, it can be said that the approval of the state budget is rated by the deputies among the highest. While the score for other activities tend to change over time, the trend for the approval of the state budget remains stable. This is also in accordance with the perception of the committees described further in the text.

An analysis of voting in the Chamber of Deputies also shows that voting on the State Budget is one of the key political issues that are usually decided strictly along party lines. At our disposal we had data on the voting on nine state budgets, starting with 1995; a more detailed analysis of voting is possible in five years. Older records were not available.

Tab. 2: Voting on the state budgets in the 1st electoral term (%)

	ČMSS (ČMUS)	ČSSD	KDS	KDU- ČSL	KSČM	LB	LSNS	LSU	ODA	ODS	SPR- RSC
1995	0	11	100	100	0	0	100	0	94	100	0
1996	31	0	100	100	0	0	100	-	100	98	0

Source: Archive of Chamber of Deputies, Parliament of the Czech Republic

Note: During the term the ruling coalition consisted of the following parties: ODS, KDS, KDU-ČSL, and ODA.

Tab. 3: Voting on the state budgets in the 2nd electoral term (%)

	ČSSD	KDU-ČSL	KSČM	ODA	ODS	SPR-RSC
1997	3	100	0	100	99	0
1998	0	100	0	100	100	0

Source: Archive of Chamber of Deputies, Parliament of the Czech Republic

Note: During the term the ruling coalition consisted of the following parties: ODS, KDU-ČSL and ODA. When the cabinet resigned at the end of 1997, the 1998 budget had already been approved.

Tab. 4: Voting on the state budgets in the 3rd electoral term (%)

	ČSSD	KDU-ČSL	KSČM	ODS	US
1999	97	90	100	0	0
2000	100	0	0	88	0
2001	93	5	0	90	0
2002	96	0	0	98	0

Source: Archive of Chamber of Deputies, Parliament of the Czech Republic

Note: During the term the Czech Republic had a minority social-democratic cabinet (ČSSD), which was able to stay in power thanks to the “Opposition Agreement” concluded with the strongest opposition party – ODS.

Tab. 5: Voting on the state budgets in the 4th electoral term (%)

	ČSSD	KDU-ČSL	KSČM	ODS	US
2003	100	100	0	0	90
2004	100	0	0	100	100

Source: Archive of Chamber of Deputies, Parliament of the Czech Republic

Note: Today, a coalition cabinet with a narrow majority in the Parliament is in power in the Czech Republic, consisting of ČSSD, KDU-ČSL and US.

The data contained in Tables 2 to 5 illustrate what percentage of each PPG voted in favour of a submitted budget, and which abstained or did not participate (often allowing the budget to be adopted). The data proves the great party discipline in voting on the State Budget. Sometimes, the budget is not adopted on the first attempt, as was the case with the 2000 budget. The Parliament did not pass the government budget. Only the deputies of the minority government of the social democratic party voted for the budget. Right-wing deputies voted against it and the Communists abstained from voting. As a result, the government operated on a provisional budget. The budget had to be renegotiated again at the beginning of 2000, at which time the opposition parties reached an agreement and the budget was approved (this can be seen in Table 3).

The Budget Committee

Legislative and supervisory activities in each parliament carried out in parliamentary committees. In these committees, major decisions are made on a majority of drafts of acts. With the exception of legislation, the most important task of the committees is to review the functioning of the cabinet. This task is the natural consequence of a system of government in which the administration is directly and continuously responsible to the Parliament. Committees are the main practical working instrument through which these responsibilities are carried out.

The Budget Committee is crucial for the negotiation of the budget (called the Budget and Control Committee until the transformation of the Czech National Council into the Chamber of Deputies of the Parliament of the Czech Republic as at 1 January 1993), and it is also one of the most prestigious and busiest committees of the Chamber of Deputies, as is shown in Table 6.

Table 6: Committees according to their prestige in the Chamber of Deputies of the Czech Republic (%)

Committee	1 st term		2 nd term	3 rd term	4 th term
	1993	1996	1998	2000	2003
Constitutional Committee	91,9	88,7	63,9	60,9	40,2
Budget Committee	61,0	89,4	84,1	89,4	91,1
Economic Committee	60,3	41,5	42,7	49,7	49,7
Foreign Affairs Committee	26,5	21,3	27,4	20,7	25,4
Committee for Defense and Security	11,8	16,3	28,0	25,1	17,2
Committee for Social Policy and Health Care	8,1	12,0	22,3	15,1	10,1
Committee for Science, Education, Culture, Youth, and Sports	5,1	7,0	4,5	2,8	5,9
Petition Committee	3,7	2,8	0,6	1,7	3,6
Agricultural Committee	2,9	7,7	9,6	5,0	11,8
Committee for Public Administration, Regional Development, and Environment	2,2	1,4	7,6	18,4	16,6
Committee for European Integration	*	*	*	5,0	4,1
Mandate and Immunity Committee	1,5	4,2	2,5	3,4	2,4
Election Committee	*	*	*	*	1,2

* in these years the committee did not exist

Source: Parliamentary DICE, Institute of Sociology, Academy of Science of the Czech Republic (SOÚ AV ČR)

In rating of the committees by prestige, we can see similar trend as in rating of the individual activities of the parliament. With the exception of the first term, the Budget committee is perceived with the highest prestige. This is mirrored in the peopling of the committee as well; the deputies with high professional skills tend to be nominated to the committee. The members of the Budget committee also tend to have high probability of re-election. In the case of re-election, they usually again join the Budget Committee.

It is worth noting that this Committee is a purely “men’s issue”. During the monitored period there was not a single woman on the Committee. The responsibilities of the Budget Committee extend much beyond just debating the state budget and individual budget chapters. The Committee receives regular reports on the management of the Czech Republic (quarterly, and a summary report for the whole year), the withdrawal of funds from the state budget, reports on the monetary policy (SBČS/ČNB) and management of the Czech National Bank (SBČS/ČNB), reports on the results of activities and the utilisation of budget funds in individual years, and reports on the management from the Ministry of Finance of the Czech Republic.

The Budget Committee can establish sub-committees to perform its supervisory responsibilities, and these sub-committees can focus professionally on specific issues in a more concentrated way. It is up to the Budget Committee to decide on the number and types of sub-committees it will establish. During almost all terms there was an audit sub-committee.

The Budget Committee debates any and all changes during the course of the year that occur with respect to events funded by the state budget, transfers of funds in chapters of individual ministries etc. As the deficit of the state budget⁵ is currently growing, deputies strive to play a more active role as early as the phase of the budget preparation. An example of this was the deputy bill of a constitutional act on budget discipline; however, this bill was defeated in the first reading.

Supreme Audit Office

According to the Constitution, Article 97, an independent institution – the Supreme Audit Office (SAO) – audits national property management and implementation of the State Budget. The President and Vice-president of the SAO are appointed by the President of the Republic at the recommendation of the Chamber of Deputies. The Chamber of Deputies, and specifically the Budget Committee, initiates the tasks of the SAO; the co-operation has been very good so far, and there is mutual understanding and agreement. The SAO has a duty to submit a summary report of its activities, a report of its economic activities, and its budget to the Chamber of Deputies. The latter approves it at the suggestion of the Budget Committee and following consultations with the SAO. The Ministry of Finance is obligated to adopt the budgets of the Chamber of Deputies, Senate and SAO as suggested by the Parliament.

The Audit Sub-committee of the Budget Committee has selectively dealt with some findings of the SAO; it also has at its disposal detailed records of audits, has the right to call the respective Minister, etc. There are many SAO findings, and therefore the Audit Sub-committee can opt to choose only those cases that it deems to be particularly significant. Because it has access to the necessary documents, such as

⁵ On 3 December 2003 the Chamber of Deputies passed a draft of the 2004 state budget with 98 votes of the coalition deputies. The budget is expected to have a deficit of CZK 115 billion, revenues of CZK 754 billion and expenditures of CZK 869 billion. The state budget deficit continues to grow.

Development of the state budget deficit (billions CZK)

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004
Deficit	-5.4	-17.4	-25.6	-34.8	-51.8	-66.7	-45.9	-111,3	-115,1

Source: MF, quoted according to Právo, 4 December 2003, p. 1, article “The Cabinet can have a breather, the budget passed”.

records of audit etc., the Audit Sub-committee is able to study a particular case in depth. Then, on the basis of its own proceedings, the Audit Sub-committee informs the Budget Committee, which in turn considers how to deal with the findings.

The Chamber of Deputies of the Parliament approves the budget and report of activities of the National Property Fund. The activity of the Fund is then checked by the SAO and its reports are submitted to the Chamber of Deputies. The Export Bank, as well, submits reports of activities, reports of its economic activities, and its budget to the Chamber of Deputies. (The bank was established by the State and gets state subsidies but generates revenues to cover its costs.) The cabinet is obligated to submit a closing state account to the Chamber of Deputies.

If we examine the options available to the Parliament, especially the agenda discussed by the Economic Committee, the Budget Committee and the Audit Sub-Committee, we see that control consists primarily in the acquisition of information. Parliament can act mostly *ex post facto* by establishing inquiry committees to examine a suspicious case. After the 1996 elections, when a balance between the right-of-centre and left-of-centre forces was achieved, it was possible for the opposition parties to gain more efficient control, although it was a disjointed opposition.⁶ This can be seen as progress in developing democratic mechanisms, and we can even see a great effort by the Parliament to monitor the cabinet, for example, by setting up parliamentary Inquiry Committees.

Trends, indicators, explanatory factors

If we examine the activities of the Budget Committee since 1990 (see Table 7), we reach the conclusion that legislative activity related to the State Budget, especially in the legislative phase, is on the rise.

Tab. 7: Activity of Budget Committee in five terms 1990 – 2004

Term	1990 – 1992	1992 - 1996	1996 - 1998	1998 – 2002	2002 till election	From 17.7.2002	2003	2004
Number of members	17 - 18	17 - 20	20	21	21	21	21	21
Number of committee meetings	65	78	36	59	24	8	14	16
Number of adopted resolutions	398	627	318	560	324	116	196	176

Source: Archive of Chamber of Deputies, Parliament of the Czech Republic

The Budget Committee, as well as other committees, adopts a growing number of resolutions related to the State Budget that concern not only the drawing of the budget but also its control. As for the opportunity of individual deputies to influence the preparation of the State Budget, the situation has not changed much: deputies of the ruling parties have a greater chance to formally and informally influence the budget. Conversely, opposition deputies take greater advantage of parliamentary hearings.

⁶ In addition to Social Democrats, it consisted of Communists and Republicans, parties defined in Sartori's terminology as parties without a coalition potential, which weakened the influence of the opposition.

Furthermore, lobbyists tend to influence the process through the deputies of the ruling parties because it is more efficient.

The cabinet is responsible to the Chamber of Deputies for meeting the state budget obligations. After the elapse of six months, the cabinet submits a semi-annual report to the Chamber of Deputies in which it assesses the development of the economy and the fulfilment of the Act on the State Budget. The Budget Committee again plays a key role. The Chamber of Deputies approves the Closing State Account; the Budget Committee debates individual chapters of the Closing State Account.

Control functions of the Budget Committee

As stated above, the Budget Committee may establish various sub-committees to perform its supervisory functions. In the third term these were the *Sub-committee for Capital and Financial Markets* and the *Audit Sub-committee*; in the fourth term (2002 – present) the *Sub-committee for the Financial Management of Territorial Self-Administration and for the Utilisation of European Funds* was established in addition to the Audit Sub-committee.

During the process of decentralisation, which is part of the European integration (based on which a wide range of decision-making powers were transferred in 2001 from the central to the district level), the Parliament has strengthened its supervisory function. If we understand the *Audit Sub-committee* as the control mechanism of the Parliament against the cabinet, then the *Sub-committee for the Financial Management of Territorial Self-Administration and for the Utilisation of Funds of the European Union* is an attempt to partially control the financial flows between supranational (EU funds) and sub-national levels (districts) [Rakušanová 2003].

Table 8. Fulfilment of the state budget between 1991-2003

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Earnings total / bill. CZK														
Budget	241	249,9	342,2	385,3	446,2	497,6	519,6	547,2	581,3	592,2	636,2	693,4	686,1	754,1
Reality	225,3	251,4	258	390,5	440	482,8	509	537,4	567,3	586,2	626,2	705,04	699,7	559,3 till 30.9.04
Spending total / bill. CZK														
Budget	239,9	255,9	342,2	385,3	437	497,6	519,6	547,2	612,4	627,3	685,2	755,65	817,8	869,1
Reality	240,1	253,1	356,9	380,1	432,7	484,4	524,7	566,7	596,9	632,3	693,9	750,76	808,7	599,9 till 30.9.04
Surplus/deficit/ bill. CZK														
Budget	1,1	-6	x	x	9,3	x	x	x	-31	-35,2	-49	-62,25	-131,7	-115,1
Reality	-14,8	-1,7	1,1	10,5	7,2	-1,6	-15,7	-29,3	-29,6	-46,1	-67,7	45,72	-109,1	-113,1 till 30.9.04
Duration of parliamentary proceeding														
	1 day	2 days	2 days	3 month	1 month	3 month	3 month	3 month	4 month	6 month	3 month	3 month	3 month	2 month (29.9.-3.12)

Sources: Ministry of Finance of the Czech Republic, Parliamentary DICe, Institute of Sociology, Academy of Science of the Czech Republic (SOÚ AV ČR)

In the process of consolidating democracy in the Czech Republic, the Parliament has become functionally embedded in the constitutional system, deputies have become more professional and the professional back-up support has improved, and the functions of the Parliament have crystallised. If we look at Table 8 (Fulfilment of the state budget 1990-2003), we see more-or-less balanced budgets between 1992 and 1996, but starting in 1997 there has been an increase in the state budget deficit. In 2000 and 2001 the budget deficits were higher than planned, approximately 31 per cent and 36 per cent, respectively. This deficit is due primarily to the lower actual revenues compared to the planned ones.

Here we should note that over the last few years the cabinet has started an artificial reduction of the state budget deficit using “extra-budgetary” revenues, especially privatisation funds (by selling large state enterprises). In the Parliament, the opposition in particular has strongly criticised these non-systemic measures. The cabinet has promised to cover some of the budget expenditures from the National Fund (EU funds) to a much greater extent after the EU accession in 1 May 2004; the Czech Republic has thus far only been allowed to take advantage of the pre-accession funds (ISPA, Phare, Sapard, Twinning projects etc.).

Today, we are seeing a great structural reform of public finances. More than a mere modification, these reforms should result in a restructuring of the State Budget as such, especially changes in welfare, pension, tax and healthcare spending. The main objective of the reform is to transform the state budget from being a fiscal policy tool into a public management tool, i.e., a performance-driven model based on defining goal and benchmarks, on negotiation, and on a system of contracts and agreements.

Conclusion

An analysis of Parliamentary activities in terms of budget shows that during the process of transformation and democracy consolidation in the Czech Republic, the functions of the Parliament with respect to the state budget have undergone a great transformation. In this process, the professionalisation of deputies in general, and particularly in the Budget Committee, is a crucial factor. At the beginning of the 1990s, the Budget Committee, like Parliament as a whole, was composed of people without any previous experience of top politics. Only rarely did a deputy have an economic background. In the first meeting of the Committee it was proposed that appointments to the Committee take into account professional background. This proposal was rejected, and it was agreed to distribute posts in the Committee to all political parties equally. Gradually, deputies have become more professional and have learned how to work with information, how to obtain it, and how to evaluate it critically. Today, the Budget Committee is considered the most prestigious and most influential parliamentary body.

The problem with the role of the Parliament in the budgeting process lies primarily in the need for large coalitions in voting, and in the large transaction costs associated with party cohesion, i.e., in party-political landscape rather than in the institutional capacity. Generally, we have seen an increase in party discipline in voting on the

budget. On the other hand, we are also witnessing growing number of changes proposed by individual deputies.

The Parliament is aware that its legitimacy may be eroded in the context of European integration, and therefore to counter that threat is strengthening its auditing functions. This also pertains to the Budget Committee, which has focused on the sub-national and supranational levels, the management of territorial self-administrations, and the utilisation of European Union funds. We can expect that after the accession of the Czech Republic to the EU this type of activity will be given priority.

Appendix 1.

The composition of the government and its support in the Parliament

Cabinet created	Governing party/parties	% of Parliamentary seats
June 1990 – Federal government	9 OF, 4 VPN, 2 KDH, 1 independent	65%
June 1990 – Czech government	10 OF, 2 KDU-ČSL, 1 HSD-SMS, 8 independent	84%
June 1992 Czech government	11 ODS, 4 KDU-ČSL, 2 ODA, 2 KDS	56 %
July 1992 “temporary” Federal government	4 ODS, 4 HZDS, 1 KDU-ČSL, 1 without party affiliation	52,7%
June 1996	8 ODS, 4 KDU-ČSL, 4 ODA	49,5%
January 1998 (semi-caretaker gov.)	3 KDU-ČSL, 4 US-former ODS, 3 ODA, 7 without party affiliation	31%
August 1998	18 ČSSD, 1 without party affiliation	37%
July 2002	11 ČSSD, 3 KDU-ČSL, 3 DEU	50,5%

Appendix 2.

Names of Political Parties in English and Czech and their Czech Abbreviations

<i>Abbreviation</i>	<i>Name of the party in English</i>	<i>Name of the party in Czech</i>
ČMSS/ ČMUS	Czech-Moravian Centre Party /Bohemian and Moravian Union of the Centre	Českomoravská strana středu/ Českomoravská unie středu
ČSSD	Czech Social Democratic Party	Česká strana sociálně demokratická
DEU	Democratic Union	Demokratická unie
KDU – ČSL	Christian Democratic Union/ Czechoslovak People’s Party	Křesťansko demokratická unie/ Československá strana lidová
KDS	Christian Democratic Party	Křesťansko demokratická strana
KSČM	Communist Party of Bohemia and Moravia	Komunistická strana Čech a Moravy
LB	Left Block	Levý blok
LSNS	National Socialist Liberal Party	Liberální strana národně sociální
LSU	Liberal-Social Union	Liberal-Social Union
ODA	Civic Democratic Alliance	Občanská demokratická aliance
ODS	Civic Democratic Party	Občanská demokratická strana
SPR – RSC	Association for the Republic – Republican Party of Czechoslovakia	Sdružení pro republiku – Republikánská strana Československa
US	Freedom Union	Unie svobody

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Does the Parliament Make a Difference?

The Role of the Italian Parliament in Financial Policy

Carolyn Forestiere

Riccardo Pelizzo

A recent survey conducted in a sample of 83 countries by the Inter-Parliamentary Union in collaboration with the World Bank Institute on the “Relations between the Legislature and the Executive in the Context of Parliamentary Oversight” allows cross-national comparison for the role of legislatures in the budgetary process. One of the survey’s most significant indications is that legislatures in presidential systems are generally more involved in the *preparation* of the budget than legislatures in either parliamentary or semi-presidential systems. The picture, however, is very different when we look at legislatures’ *oversight* of the budget. Parliaments are generally more involved in the examination and final approval of the budget than are legislatures in presidential and semi-presidential systems¹. In the light of these considerations, it should not be terribly surprising to find that the executive is more likely to be accountable to the legislature for its spending in parliamentary systems than in presidential systems.

All this seems to imply that legislatures in parliamentary have considerable power to influence and shape the budget. In reality, however, this power is remarkably inferior to what the list of formal powers suggests. Each parliament’s ability to examine, amend, modify, confirm, and approve the budget is constrained by both institutional and political factors. On the institutional side, in many countries Parliament’s ability to alter the government’s budget is subject to extensive procedural limits.² For example, in the UK, Parliament can amend tax proposals, but cannot increase spending.³ In Germany, parliamentarians’ ability to modify the budget is constrained by budget regulations as well as by the expenses generated by current legislation.⁴ On

¹ On these and related issues, see Riccardo Pelizzo and Rick Stapenhurst, “Legislatures and Oversight: A Note”, *Quaderni di Scienza Politica*, “Legislatures and Oversight: A Note”, *Quaderni di Scienza Politica*, vol. XI, n. 1 (aprile) 2004, pp. 175-188; an abridged version of the paper can also be found in Riccardo Pelizzo, David M. Olson, Rick Stapenhurst (eds.), *Trend in legislative Oversight*, World Bank Institute Working Paper- Series on Contemporary Issues in Parliamentary Development (forthcoming); see also Riccardo Pelizzo and Rick Stapenhurst, “Tools for Legislative Oversight: An Empirical Investigation”, World Bank Policy Research Working Paper 3388, September 2004.

² For comparative data concerning the passage of the budget in parliament see Valentine Herman (in collaboration with Françoise Mendel), *Parliaments of the World. A reference compendium*, New York, De Gruyter, 1976, pp. 762-791; International Centre for Parliamentary Documentation of the Inter-parliamentary Union, 2nd edition, Aldershot, Hants (UK), Gower, 1986, pp. 1091-1122. Updated information can be found in Organisation for Economic Co-Operation and Development, *Role of Legislature. 19th Meeting of Senior Budget Officials, Paris 25-26 May 1998*. PUMA/SBO (98)4, unclassified, pp. 1-80.

³ Organisation for Economic Co-Operation and Development, *Role of Legislature. 19th Meeting of Senior Budget Officials, Paris 25-26 May 1998*, op. cit., p. 76.

⁴ Organisation for Economic Co-Operation and Development, *Role of Legislature. 19th Meeting of Senior Budget Officials, Paris 25-26 May 1998*, op. cit., p. 37. See also Joachim Wehner, “Reconciling Accountability and Fiscal Prudence? A Case Study of the Budgetary Role and Impact of the German Parliament”, *The Journal of Legislative Studies*, vol. 7, n. 2, (Summer) 2001, pp. 57-78.

the other hand, there are countries, such as Belgium and Canada, where there are no institutional limits on Parliament's ability to amend the budget. While such conditions might imply extensive legislative participation, there are, however, fairly obvious political limits to such potential interference. Significant modification of the executive's budget would imply a loss of confidence of the parliamentary majority and would, in all likelihood, initiate or exacerbate a government crisis.

This means that the preparation, choice and implementation of the budget are influenced by both institutional and political conditions. But which are more important? What predictions of legislative activity can be made? We attempt to answer these questions first by outlining the institutional and party system theories that explain Parliaments' ability to shape budget and by testing these theories on changes to the national budget in the Italian Parliament. The Italian Parliament is an excellent preliminary case study for the theory that institutional and political conditions influence Parliament's ability to modify the national budget for two reasons. On the institutional side, the Italian has a complex array of procedural opportunities within the legislature, which may encourage extensive parliamentary activity during the amendment and the passage of the budget. On the political side, Italy has experienced undisciplined parties (and coalitions) and government instability (Pelizzo and Cooper 2002), both of which have led to general legislative ineffectiveness (Pelizzo and Babones 2001). Furthermore, and most importantly, there have been extensive changes to both the institutional design and the political climate of the Italian Parliament over the past 20 years. As a result, with a quasi-experimental design, we can gauge if there was any change in legislative activity after the institutional and/or political changes occurred. This can be done using original data that measures the difference between the government's proposed budget and the parliament's final law each year. Positive findings would compel us to conclude preliminarily that institutions and political conditions matter significantly for parliament's real ability to modify a national budget.

Institutional Theories

In virtually all parliamentary systems, the executive in parliamentary systems fully controls budgetary politics. Parliament's role is purposively restricted. Because the executive is paramount for setting the national budget, the comparative literature on budgeting reflects the importance of executive institutions (Roubini and Sachs 1989; Borrelli and Royed 1995; Kontopoulos and Perotti 1999). This literature emphasizes the collective action problems within the executive for reaching decisions.

Literature to investigate the role of the legislature in budgetary politics has also emerged. These studies argue that a Parliament's ability to shape the budget is deeply affected by institutional factors. Institutions in this context refer to the "rules of the game," that is, the procedural and structural mechanisms that actors use to influence policy outcomes (North 1990).

For example, Krafchik and Wehner argue that the impact a legislature can have on the budget depends on the formal design of amendment powers, on the scope of conferred powers and on the role of committees (Krafchik and Wehner 1998).⁵ Poterba and Hagen also consider the effect of a broad array of legislative institutions on fiscal

⁵ There are three main types of conferred powers: unrestricted, restricted, and balanced budget.

policy (Poterba and Hagen 1999). The more institutions allow a greater number of actors to influence budgetary politics, the more difficult it is to bring budget deficits under control. For example, budgetary institutions include procedures such as the timing of voting or amendments procedures (Alesina and Perotti 1999). These procedures create iterative collective action problems in which individual legislators from the government and opposition continually find incentives to defect from austerity agreements and secure particular benefits for narrow constituencies. This occurs at the expense of collective fiscal austerity.

When procedurally permitted, legislatures may serve to alter an executive's original budget proposal. Each country's institutional opportunities thus affect the incentive structures that individual legislators can manipulate.⁶ The availability of these types of procedures empowers the legislature. Though minor, this influence should be understood. Parliaments are not universally impotent, especially in the presence of particular types of party systems that are conducive to shifting majorities.

Party system theories

A Parliament's ability to shape, alter and modify the national budget is also affected by political factors. Most theories concerning the party system generally argue that legislatures naturally defer to executive proposals simply because parliaments are governments are 'fused.' Because the government must maintain majority support in the legislature in order to survive, it follows that legislatures should support government proposals, especially important ones.⁷ According to Laver and Shepsle:

In terms of practical politics, however, a cabinet in which the government parties control a majority of seats in parliament can summon up a legislative majority whenever it cares to do so, provided party discipline holds firm. Thus a majority government with disciplined parties can comprehensively dominate any legislature once it has been installed in office. This in turn means that the legislature cannot in practice pass laws constraining the government.⁸ (Laver and Shepsle 1996: 57).

Despite the power of this parsimonious argument, there are still significant exceptions to this rule. Laver and Shepsle themselves define the conditions under which parliaments would engage in activities to challenge their governments: "when party discipline breaks down and dissident members of a government party join forces with the opposition to pass legislation on some particular issue," it is possible for the parliament to impose "its will on a majority executive" (Laver and Shepsle 1996: 40).

A corollary of such political theories thus suggests that it is particularly difficult for governments to always control their legislative majorities and keep them together when the parliamentary party system is highly fragmented and when there are profound ideological divisions in the legislature. Therefore we expect that

⁶ This point should not be overstated, however. In virtually all legislatures, changes to the executive's budget are often minor. But the point remains that in some countries, the government's budget may not always be passed as presented.

⁷ According to Laver and Shepsle "the role of the legislature is much more that of controlling the fate of government than it is of implementing policy directly" (Laver and Shepsle 1996: 57).

parliamentary influence is not only affected by the institutional opportunities in parliament, but by the party system as well.

The Italian Parliament

The Italian Parliament provides a perfect setting to test the institutional and party system theories because there have been major revisions to the institutional design and to the party system over the past 20 years. These changes may have had an effect on parliamentarians' abilities to influence financial legislation. The institutional revisions include the removal of the secret vote (1988), a revision of the parliament's decentralized agenda setting process (1990), and the reduction of preference votes in the electoral system (1991). In addition, the electoral system has changed (1993), which may have led to a different configuration of political parties in the party system.

Institutional Factors

The Secret Vote

Until 1988, the standing orders of the Parliament allowed secret voting. No official record was kept on how each MP voted; only the number and names of those present and voting were recorded and counted. Though the government should have had enough support to pass its bills, the government was often defeated (and embarrassingly so) on many bills, including important proposals, during the first 40 years of the Republic.

However, because no official record was recorded, party whips could not know who was responsible for the government's defeat – the so-called *franchi tiratori* – and thus no sanctions could be imposed on defectors. This problem often stalemated the executive and caused numerous governments to collapse. Ironically, these stalemates occurred even during times of oversized government, when the government should have been able to garner enough support from its parliamentary majority to pass its bills.

Because this problem threatened Italian political stability, reform legislation passed in 1988 abolished the provision of secret voting, except for very special circumstances, such as votes of no confidence. The open vote (*il voto palese*) is now required for the great majority of all bills. The use of the secret vote is important for the empowerment of the parliament before 1988 because party members were able to defect without sanction from party leaders. Government party leaders especially could use parliament during financial debates for their own benefit, rather than unilaterally supporting the government on financial legislation.

Parliamentary agenda setting

In 1971, the Italian Parliament passed reforms to implement a unique agenda setting formula that extended veto power to a leader from each parliamentary group during the determination of the legislative agenda and calendar (Leonardi et al 1978; della Sala 1988, 1998; Cotta 1994). Setting the parliamentary agenda is an important tool to manipulate public policy (Doering 2001; Tsebelis, 2002). For example, in 1986 the

government suffered a significant setback when the order of voting for the Financial Bill was discussed. The Minister of the Treasury (DC) wanted to vote on the total spending amount in Article 1 *first* in order to set an upper cap for spending, but the opposition argued that it preferred to vote on other articles first and on Article 1 *last*. The opposition clearly did not want to limit the amount of money Parliament could commit to spending, and knew that it could, through subsequent amendments, raise the overall amount as long as the ceiling was not already set. The crucial point is that the agenda setting process in the Italian Parliament prohibited the government from imposing a timetable unattractive to the opposition. As a result the government was defeated and the Finance Law was passed over two months late. Della Sala argues:

The important point about this discussion on what seems to be a technical point is that it highlights the fact that the government has few guarantees over the fate of its program once it reaches Parliament...The government was defeated over an issue it saw as crucial for achieving its objectives primarily because it had few levers which it could pull once the bill reached Parliament. (della Sala, 1988:121)

Because of persistent problems with the agenda, additional reforms were passed in 1990 to strengthen the President of the Chamber, who currently has the ability to impose an agenda when a unanimous vote does not pass.

Preference Votes

Another significant institutional factor empowering Parliament was Italy's electoral system. Until 1993, when it was reformed by the laws 276/93 and 277/93, the Italian electoral system used proportional representation. This system was coupled with preference voting, which allowed voters to express their preference for a specific candidate. Voters could express up to three or four such preferences until 1991, when, in the wake of a national referendum, the number of preferences that voters could express on the ballot was reduced to only one. The PR system with single preference (*preferenza unica*) was used only in the 1992 elections, until the system was further revised from PR to a mixed electoral system in 1993. But before 1991, preference voting affected the political behavior of voters as well as of the elected officials. Though in most PR systems, voters express a single choice for a party, candidates in Italy were concerned not only inter-party competition but also with intra-party competition because a higher number of preference votes could make a difference for a legislative seat. As a result, MPs often competed against members of their own party to secure the highest number of preference votes. This gave individual MPs strong incentives to secure constituency benefits and to gain popularity and name recognition. The more benefits an MP managed to secure for her potential voters the more preference votes the MP could expect to receive in the next election. Because of the preference vote, opposition members knew that engaging in collaborative activities with members of other parties could result in increased constituency benefits for all MPs.

Party System Factors

In addition to producing strong incentives for individual MPs to secure constituency benefits, the pre-1993 PR electoral system also produced a highly fragmented and

ideologically polarized party system. In 1990, the number of effective parties in the Italian Parliament was 7.45, the second highest among the Western European democracies. For this time period, only Belgium had a slightly higher number of parties.⁹ In addition, the extent of ideological polarization among Italian parties was also the second highest in Western Europe as well.¹⁰ Only France had more extensive polarization. France and Italy are similar with regard to polarization; traditionally in the postwar period, there was significant support for extreme left-wing and extreme right-wing parties in both countries. Extensive fragmentation and polarization produced undisciplined parliaments. Because of fragmentation, bargaining costs within parliament were quite high. Individual defection from party mandates and shifting coalitions among individuals and parties were not uncommon. In addition, the presence of extreme ideological polarization led to two phenomena. First, MPs learned to logroll particularistic policies that often spent government funds unchecked. Notoriously referred to as the *leggine*, these are minute forms of legislation passed in parliament (di Palma 1977). One clear indication of this trend is the number of individual spending proposals introduced in parliament each year. At least before 1979, the number of items voted by Parliament each year was “about 300 for revenues and approximately 3,000 for expenditures” (Onofri 1979:298). Because encompassing collective decisions were difficult to reach, Italian MPs learned to use decision rules in the parliament for policy benefits in their own constituencies. Second, fragmentation meant that parliamentary majorities are often formed among ideologically dissimilar parties. Bills had to reflect a variety of interests before receiving majority support. Otherwise they faced intense scrutiny in parliament.

How have these processes changed in the wake of the institutional reform and changes to the political landscape? First, with the removal of the secret vote in 1988, the passage of reforms in 1990 to allow the President of the Chamber to impose a parliamentary agenda, and the introduction of the single preference 1991, the system of incentives was dramatically transformed. In addition, it is possible that the restructuring of the electoral system in 1993 altered the party system as well. If it is true that the institutional mechanisms that permit extensive policy influence have been removed, and if the party system is no longer as fragmented or polarized as before, then the benefits of defecting from government-party unity should decline. Therefore, if the logic between parliamentary strength and the intersection of procedural mechanisms and legislative fragmentation and polarization is correct, there should be a steady decline of parliamentary influence starting in 1988.

Data Analysis

OLS regressions are used to test whether the institutional and/or party system changes have influenced parliament’s ability to amend the government’s budget. The dependent variable is the percentage difference between the government’s proposed bill and the parliament’s approved law for the spending side of both the Budget. Superficially, these data implicate quite clearly that the Italian parliament has not always been a ‘rubber stamp’ on financial policy. Instead, at times the Italian

⁹ The higher number of effective parties in Belgium must be qualified by the fact that many Belgium parties operate in pairs to reflect differences in region and language.

¹⁰ Polarization is measured as the percentage of support for the extreme left and extreme right wing parties. In Italy these are the Italian Communist Party (PCI) and the neo-fascist Italian Social Movement (MSI).

Parliament has been an important actor in the determination of spending priorities. See Table 1.

Table 1. Italian Budget Laws for 1982 to 2001. Figure indicated is the total amount of spending for each year. All amounts are in billions of lire.¹¹

For Year	PROPOSED by Government	PASSED by Parliament	Percent Difference
1982	135460	164087	17%
1983	172772	203510	15%
1984	227077	242321	6%
1985	274163	297597	8%
1986	280900	334543	16%
1987	311432	358997	13%
1988	368360	414814	11%
1989	388562	406271	4%
1990	456202	445655	-2%
1991	498505	509594	2%
1992	541967	559556	3%
1993	612696	588981	-4%
1994	563208	549658	-2%
1995	611073	611390	0%
1996	647486	637007	-2%
1997	633348	642245	1%
1998	634393	653414	3%
1999	658278	672500	2%
2000	673282	679779	1%
2001	700646	725944	3%

We use several independent variables, based on the theories elaborated above, to explain differing levels of parliamentary interference in spending priorities in Italy. First, our measure of legislative institutions tracks the changes to the institutional design of the Italian Parliament over the past 20 years.¹² Second, to measure party system attributes, both legislative polarization and legislative fragmentation are included. Legislative polarization is measured as the sum of the seats held by the most left-wing and the most right-wing parties. For most years, the two most extreme parties were the Italian Communist Party and the neo-fascist Italian Social Movement, often comprising at least 30% of the total seat share. The larger the seat share of extremist parties, the more polarized the parliament. The percentage of seat share for extreme parties changed, however, after international events dampened the appeal of the Communist Party, domestic scandals shook the major parties, and the electoral

¹¹ There is a fairly high correlation between the amount of influence in the Financial and Budget Laws: $r = .62$. This suggests that the same underlying processes are at work for both laws. In addition, since the Finance Bill is passed first, the Budget Bill is modified to reflect each Finance Law's new ceiling for spending (when applicable). This is partially the reason the correlation between the two is high.

¹² The institutions variable is measured as follows: Value of 3 for 1982-1988 to measure the presence of secret voting, the inclusive agenda setting process, and the use of three or four preference votes (depending on the district) in the electoral system. Value of 2 for 1988-1990 to measure the presence of the inclusive agenda setting process and the use of three or four preference votes in the electoral system. Value of 1 for 1991-1992 to measure the use of only one preference vote in the electoral system. Value of 0 after 1993; the electoral system changed from pure proportional representation with preference votes to a mixed system with no preference votes.

system changed from PR to a mixed majoritarian formula. These changes may have also influenced the number of effective parties (Taagerpera and Shugart 1989).

The results of our regression analyses are presented in Table 2. When we regress the percentage change between the budgets proposed by the government and the budget approved by the parliament against polarization we find, as expected, that the parliament's ability to modify the budget increases as polarization increases. Polarization by itself explains more than 45% in the variance of the parliament's ability to alter the budget. This is because more disperse points of view need accommodation in order to reach consensus in parliament. But when we regress the percentage change between the proposed budget and the approved budget against fragmentation we find, in contrast to what party system theory claims, that the parliament's ability to change the government budget *declines* as fragmentation increases. This anomaly could very well be explained by the fact that when a parliament is too fragmented it becomes increasingly difficult to form any alternate majority and that can change the status quo. Next, when we regress the percentage change between the government budget and the budget approved by the parliament we find that institutional change largely explains the Italian parliament's ability to modify the budget. In fact, institutional change accounts for 64% of the variance in the parliament's power to alter the government budget. And finally, when all the independent variables are entered in our model we find that while institutional change remains a fairly strong and significant determinant of the parliament's ability to change the government budget, the influence of both polarization and fragmentation becomes insignificant. This suggests that the institutional variable trumps the power of the party system. Based on this finding, we preliminarily conclude that parliamentary institutions, at least in the Italian context, are more important than the party system in explaining the extensive amount of parliamentary influence in the determination of spending priorities.

Table 2. Regression Analyses

Dependent variable	Intercept	Independent Variables (sig.)			R-squared
		Polarization	Fragmentation	Institutional Change	
Percent change between proposed budget and passed budget					
	-8.593 (.027)	.494 (.001)			.464
	24.259 (.000)		-3.777 (.001)		.497
	-.187 (.884)			3.886 (.000)	.640
	-7.400 (.623)	.027 (.902)	1.075 (.615)	4.629 (.033)	.645

Conclusions

Clearly, more testing is required, both within the Italian context and comparatively, to determine the power of institutions and the party system in explaining how and when

parliaments would be expected to influence national budgets. Based on the results of this analysis, using novel data to gauge the difference between the first and last drafts of budget legislation, institutions explain more of the variation in parliamentary influence. This tentative finding could be, however, spurious. Institutional reform took place *before* the party system changed and thus the effect we note may not be absolute. It is entirely possible that had the reforms proceeded in the reverse (changing the electoral system before changing the procedural mechanisms), the party system variables would have explained more than the institutional ones. More testing in other contexts would confirm the power of the independent variables. At the very least, this analysis has served to demonstrate that these variables do explain part of parliamentary influence in the budget. Comparatively, we would not expect parliaments to be 'rubber stamps' at all. The specific rules in parliament and the number and ideological bent of parties combine to provide incentives for parliaments to deviate from what is considered standard parliamentary behavior, in which parliaments unilaterally support their governments during the passage of the national budget.

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The Value of a Nonpartisan, Independent, Objective Analytic Unit to the Legislative Role in Budget Preparation

Barry Anderson

Introduction

Legislatures in different countries play a wide variety of different roles in the budget formulation process (Santiso, 2005). Some are very actively involved, and some are not involved at all. Moreover, the role that the legislature plays in many countries has changed over time and should continue to change in the future (Schick, 2002). These changing roles call into question the sources of information that are or may be made available to assist the legislature participate in the budget process. Legislatures require reliable, unbiased information to be able to participate in a constructive manner in formulating the budget. This paper discusses the value of a non-partisan, independent, objective analytic unit to the legislative role in the budget preparation process.

The paper does not address whether there should be a role for the legislature in budget preparation. Some have argued that legislative activism may weaken fiscal discipline (von Hagen, 1992) or increase the level of pork barrel spending, although certainly legislatures are not the only source of overspending (Wehner, forthcoming). As fundamental as these issues are, this paper only addresses the potential value of a non-partisan objective unit, not the larger issue of what should be the balance of power between the executive and legislative in budget preparation

The paper begins by discussing the potential value of a non-partisan, independent, objective analytic unit to the legislature. The next section lists and discusses each of the core functions that such a unit can perform. Other possible functions of the unit are also discussed. Next, the characteristics required to make the unit non-partisan, objective, and independent are described. Other characteristics that can enhance the effectiveness of the unit are also listed. The next section lists countries with specialized legislative research organizations, and discusses in some detail—including specific staffing functions—three legislative research organizations within the United States. The last section contains some concluding remarks.

Potential Value

In its most basic terms, an independent analytic budget unit can provide information to put the legislature on a more equal footing with the executive. This information is critical if a legislature is to play a real role in budget formulation. But as important as this information is, such a unit can do much more than just eliminate the executive's monopoly on budget information.

- **Simplifies complexity.** Budget information is frequently not made available by the executive's budget office, but even when it is, it may be so complex that the legislature has difficulty understanding it. An independent unit must

have the expertise to be able to make complex budget information understandable to the legislature, as well as to the media, academia, and the public.

- **Promotes transparency.** Because of the knowledge and expertise found in an independent budget unit, budgetary legerdemain can be discouraged and transparency promoted.
- **Enhances credibility.** By encouraging simplification and transparency, an independent unit also has the effect of making all budget forecasts—even those of the partisan executive—more credible.
- **Promotes accountability.** The accountability of the estimates used in the budget process can be enhanced by an independent budget unit because of the scrutiny such a unit provides to the executive's budget office.
- **Improves the budget process.** The combination of a more simple, transparent, credible, and accountable budget can promote a budget process that is more straight forward and easier to understand and follow.
- **Serves both the majority and minority.** A legislative budget unit—if it is truly nonpartisan and independent—should provide information to both the majority and all minority parties of the legislature.
- **Provides rapid responses.** As a unit that is part of the legislature, an independent budget unit can provide much more rapid responses to budget inquiries from the legislature than an executive budget unit.

The additional values of an independent legislative budget unit mean that it is much more than just an instrument to assist the legislature in the budget process, or one to help check the executive's budget power, but also serves the society at large and actually can help improve the whole budget process. Note also that the value of an independent unit can change over time. At first, the information produced by the unit may be more valuable to the legislature as whole as a means to balance the executive's budget power. But as the unit ages and as the executive adjusts to the presence of the independent unit, the information it produces may be of more value for minority parties in the legislature vis-à-vis the majority party.

Core Functions

There are many possible functions that an independent analytic budget unit can perform, but to best assist the legislature in the budget preparation process, it should perform at the very least the following four core functions.

- **Economic Forecasts.** The first core function of the unit is to perform an independent economic forecast. All budgetary analyses must begin with an economic forecast. Although the unit's forecasts need to be objective, they should take into account the forecasts of others and be based on current laws. They should not try to take into account the economic consequences, if any, of policy proposals. The assumptions used for interest rates and commodity

prices should not be targets, but objective forecasts based on the best information available. To prevent outlandish forecasts, the forecasts of private forecasters, central bankers (if available), and panels of experts specifically organized to assist the unit's forecasters should be considered. It is also better for the unit's forecast to be a little conservative because it is much easier politically to use the results of a better-than-forecasted economy to reduce deficits and debt than it is to try to find last minute spending cuts or tax increases to meet a revised deficit target that results from a worse-than-anticipated forecast.

- **Baseline Estimates.** The forecasts of spending and revenues should be *projections*, not *predictions*. That is, they should be based on laws that are currently in place, not on policy proposals. They should not try to judge the legislative intent of laws, but, for example, they should assume that the expiration dates built into legislation will actually occur, and that the spend out rates of slow-spending capital projects are based on the best technical information available, not on biased political opinions.
- **Analysis of the Executive's Budget Proposals.** The third core function of an independent unit is to perform a budgetary assessment of the executive's proposed budget. Such an assessment should not be a programmatic evaluation, which is basically a time consuming political exercise, but rather a technical review of the budgetary estimates contained in the executive's budget. Such a review can actually enhance the credibility of the executive's budget, if the difference between the two estimates is not great and of the government's forecasts as a whole, if the difference between the assessment and the actual outcome is not great.
- **Medium Term Analysis.** All of the core functions mentioned above should be performed over at least the medium term. This alerts the executive and the public to the out year consequences of current and proposed policy actions. It is particularly important to do a medium term analysis to take into account various fiscal risks, such as those inherent in loan guarantee programs, commitments to provide pensions, public-private partnership initiatives, and other programs that contain contingent liabilities. A medium term analysis also provides the basis for a long term analysis, the importance of which grows as societies age and the impact of programs that involve intergenerational transfers expands.

Other functions that the independent unit could perform include:

- **Analysis of proposals.** Hundreds, perhaps even thousands, of policy proposals can be made each year by members of the legislature, and the executive often makes many policy proposals in addition to those contained in the budget. An independent unit can provide valuable assistance to the legislature by estimating the costs of these proposals. But because it can be very time consuming to estimate the budgetary impact of every proposal, it may be appropriate for the legislature and the unit to agree on a rule—such as estimating the costs of only the proposals with the largest budgetary impact or

only those proposals approved by a full committee or significant subcommittee—that limits the number of proposals costed by the unit.

- **Options for spending cuts.** Legislatures can often benefit from having available a list of options for spending cuts prepared by an independent unit. The options should be based on program effectiveness and efficiency, not on political concerns. The unit should only list the options; it should not make recommendations for any option because to do so could raise questions about its independence. As valuable as such a list of options can be to empower the legislature, this function can also be time consuming, although its staffing impact can be mitigated if the listing of options is produced only at the beginning of a new legislative session.
- **Analysis of mandates.** Legislation can impact the economy through ways in addition to spending and taxing decisions; it can require actions on the part of corporations, individuals, or sub national governments through use of regulations, or mandates, written into legislation. An independent unit can provide valuable information to the legislature by estimating the economic impact of mandates, but again this can be a time consuming task depending on how many mandates are reviewed and how complex they are.
- **Economic analyses.** The expertise found in an independent budget unit can also be used to perform more extensive economic analyses. These analyses can contribute to the legislature's understanding of the near term and long term budgetary consequences of related policy proposals and also assist the unit's staff in preparing the "core" estimates of budget proposals. The staff consequences of these economic analyses can be restrained if they are performed very selectively.
- **Tax analyses.** In addition to the types of budgetary and economic analyses mentioned above, a unit can also serve the legislature by performing various types of analyses of tax policies, such as estimating the impacts of proposed or enacted tax changes on economic growth, or measuring the distributional impacts of various different types of tax proposals. Again these analyses can be time consuming, and they can require specialized staff whose skills are not easily transferred to analyses of spending proposals.
- **Long term analysis.** As mentioned above, the value of long term analyses—that is, analysis of potential budgetary trends for as many as 75 years—becomes more valuable to legislatures because of the aging of the populations in many countries, and because so many countries have programs that transfer resources (and costs) from one generation to another.
- **Policy briefs.** The time demands placed on policy makers in both the executive and the legislature and the complexity of budgets have created a demand for short, straight forward descriptions of complicated budget proposals and concepts. Such descriptions, or policy briefs, can be of real value not only to busy members of the legislature, but also to the media and the public.

As valuable as each of these other functions can be to the legislature, the size of the staff required to perform them usually limits the number that can be performed. Examples of the staff required to perform various functions in three independent legislative budget agencies in the US are presented in Tables 1 and 2 below.

Table 1: Distribution of CBO Staff

Function	Core	Other	Total
Executive Direction	5	5	10
Macroeconomic Analysis	5	15	20
Tax Analysis	5	15	20
Budget Analysis			80
Baseline	20		
Analysis of Proposals		45	
Mandates		15	
Program Divisions		75	75
Technical & Administrative	10	20	30
Total	45	190	235

Table 2: Staffing by core function

Core Function	CBO	IBO (NYC)	LAO (Calif)
Executive Direction	5	6	3
Macroeconomic & Tax Analysis	10	4	5
Budget Analysis	20	12	36
Technical & Administrative	10	5	9
Total	45	27	53

Fundamental Characteristics

Establishing and maintaining a non-partisan analytic unit that provides independent, objective budgetary information to the legislature is not easy. There are certain fundamental characteristics of the unit that must be present if the unit is to be successful. Foremost of these is the non-partisan nature of the unit. Note that *non-partisan* is much different than *bipartisan*: the former connotes lack of a political affiliation; the latter connotes affiliation with both (or all) political parties. A unit that is bipartisan would attempt to present its analysis from the perspective of both (or all) political parties, where a unit that is non-partisan would not present its analysis from a political perspective at all. Clearly a non-partisan unit would be superior in presenting objective information. The director of such a non-partisan unit may be a member of a political party himself, but this does not make the unit itself partisan as long as: he is more of a technician than a politician; he operates the agency in a non-partisan manner; and the staff is composed entirely of technicians. Operation in a non-partisan manner would require, among other things, that the same information is provided to the majority and minority parties. Other fundamental characteristics of a non-partisan analytic unit include making the outputs of the unit and the methods by which those outputs are prepared transparent (especially reports that are critical of proposed policies) and understandable.

Additional characteristics that are important for the successful operation of the unit include:

- Placing the core functions of the unit in law so that they can't be easily changed to suit political purposes;
- Avoiding recommendations;
- Briefing relevant members of the legislature immediately before a report is issued, especially if the report contains information that is negative to a proposal;
- Principally serving committees or subcommittees rather than individual members;
- Being willing to meet with lobbyists or other proponents—as well as opponents—of policy proposals, keeping in mind that a fair, balanced process—and the *appearance* of a fair, balanced process—is always important;
- Locating the unit's offices separate from the legislature, but always answering requests in a responsive and timely manner; and,
- Avoiding the limelight.

Examples of Independent Budget Units

In 2003, the Organization for Economic Cooperation and Development (OECD) and the World Bank conducted a joint survey of 40 OECD and non-OECD countries on budget practices and procedures.¹ Question 2.10.e of the survey asked: “Is there a specialized budget research organization attached to the legislature that conducts analyses of the budget? (Note this organization may be part of the audit office.)” Thirty-nine countries responded: three (Korea, Mexico, and the US) had organizations with 26 or more professional staff; one (Japan) had an organization with ten to 25 staff; seven (Cambodia, Canada, Chile, Indonesia, Jordan, Netherlands, and Sweden) had organizations with less than ten staff; and 28 did not have such organizations.

The oldest and biggest of these organizations is the US Congressional Budget Office (CBO). The CBO was created primarily as a tool to check the growing power of the president.² In the views of many in the US Congress in the early 1970's, President Nixon had abused the powers of impoundment (the withholding from obligation funds that had been appropriated by the Congress) that all presidents before him had used. In addition, he had replaced the more technical Bureau of the Budget with a more powerful and less open Office of Management and Budget (OMB). Budgets were growing ever more complex, with off-budget financing schemes, and every year budgets contained more programs that effected the long term as much if not more than

¹ OECD/World Bank, “Survey on Budget Practices and Procedures”, 2003. See <http://oecd.dyndns.org>.

² Much of the history of CBO is drawn from “Gourmet Chefs and Short Order Cooks: A Policy History of the Congressional Budget Office, 1975-2001”, unpublished manuscript by Dwayne Day, 2003.

the short term. Moreover, for the first time in its history, the US had consistent peacetime deficits in a period of economic expansion. So Congress, which did not have a budget process that considered the fiscal situation in aggregate, passed an extensive budget law in 1974. President Nixon signed the new budget law just before he resigned. This law took the powers of impoundment away from the president, created budget committees in the Senate and the House with powers to consider and control aggregate tax and spending levels, and authorized a new Congressional Budget Office to provide the new budget committees with roughly the same information that OMB provides to the president. Although the director of CBO is a political appointee selected by the Speaker of the House and the President pro tempore of the Senate for a four-year term (which may be repeated), the law authorizing CBO explicitly states that all of the employees of CBO are to be selected without respect to political affiliation.

The law that created CBO provided only general guidance as to what its functions should be. Although CBO now performs all of the functions listed above, it was not clear at its inception exactly what work it would do and what work the staff of the newly created budget committees would do. In fact, a former CBO director who was present at CBO's creation said that one view was to severely limit CBO's role.

“What the House wanted [when CBO was created] was basically a manhole in which Congress would have a bill or something and it would lift up the manhole cover and put the bill down it, and 20 minutes later a piece of paper would be handed up, with the cost estimate, the answer, on it. No visibility, [just] some kind of mechanism down below the ground level doing this ... non controversial [work], the way the sewer system [does].”³

CBO was able to expand its functions far beyond what was stated in this quote in large part because of the efforts it made from its inception to explicitly structure itself as a non-partisan, independent, objective analytic agency. CBO currently has about 235 staff to do all these functions, but it is relevant to review the distribution of CBO staff by “core” and “other” functions (see Table 1), as discussed above, and then compare this staffing with the staffing of core functions of two agencies (see Table 2) that provide information for “core” functions for the State of California (the Legislative Analyst's Office {LAO}) and the City of New York (the Independent Budget Office {IPO}).⁴ Core functions at CBO and LAO require about 50 staff in each. However, the size and complexity of the US and California budgets are so much greater than that of most other countries budgets that the 27 staff found in New York City's IBO may provide a more appropriate comparison.

Conclusions

If legislatures are to play a substantive role in the budget formulation process, they will be well served by an independent source of budget information. Examples in the United States and in a number of other countries establish that a non-partisan,

³ Robert Reischauer, as quoted in Nancy D. Kates, “Starting From Scratch: Alice Rivlin and the Congressional Budget Office (A),” Case Program, Kennedy School of Government, C16-88-872.0, 1989, p. 3.

⁴ See www.lao.ca.gov for information on California's Legislative Analyst's Office, and www.ibo.nyc.ny.us for information on New York City's Independent Budget Office.

independent, objective analytic unit can provide budget information without polarizing the relations between the executive and the legislature. However, a requirement for the successful establishment of such a unit is the existence of, or the desire for, some kind of balance in the political environment—a balance between political factions and/or a balance between the executive and the legislature. Once created, such a unit must operate in a credible and impartial manner if its value is to be sustained.

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