Unit 1: The evolution of parliament's power of the purse

Learning Objectives
What is Parliaments role in budgeting?

After studying this unit, you should be able to:

- Explain why parliaments came to have a role in budgeting
- Understand the importance of legislative oversight
- Describe some of the methods and institutions parliaments devised in order to exercise control over public finances
- Discuss constraints on parliaments in scrutinizing public finances

Introduction

> The finance of the country is ultimately associated with the liberties of the country… If the House of Commons by any possibility lose the power of the control of the grants of public money, depend upon it, your very liberty will be worth very little in comparison. That powerful leverage has been what is commonly known as the power of the purse – the control of the House of Commons over public expenditure.
>
> William Ewart Gladstone, 1891

How did parliaments come to exercise the budgetary roles they have today? Why do they participate in the budget process in the first place? To answer these questions, and as a background to the subsequent units, this unit provides a brief overview of some key stages in the evolution of the role of parliament in budgeting. The following sections look at the struggle to ensure parliamentary consent to taxation, how the rise of modern budgeting helped parliament to control expenditures, and more recent developments relating to the role of legislatures in budgeting.

The struggle for parliamentary control of taxation

The struggle to ensure consent to taxation was a central battlefield in the evolution of parliament in medieval England. To guard against despotic royal rule, parliament sought to limit the kings' powers to impose taxes so as to curtail their ability to maintain a standing army beyond times of war and immediate external threat (Harriss 1975). The principle of parliamentary consent to taxation gained constitutional recognition when it was enshrined in the Magna Carta – a list of concessions to the barons that King John signed at Runnymede in 1215. But this agreement did not resolve the conflict over the power to impose taxes, which continued to simmer throughout the following centuries.

Bitter contests between kings and parliaments in the seventeenth century precipitated procedural innovations that advanced parliamentary control of state finance. In particular parliament's increasing use of a committee of the whole House brought several advantages, due to the fact that the procedures of committees applied for such deliberations, rather than the standard rules. This allowed the Commons to appoint their own chairperson, which reduced the influence of the Speaker, who at the time was generally regarded as aligned with the monarch. The committee procedure also allowed each member to speak more than once and thus facilitated much freer debate. It became easier for the Commons to delay passing the bill to grant subsidies to the crown until the end of a session, a tactic that afforded time to extract concessions from the monarch. But clever procedural devices were not enough to establish parliamentary supremacy over taxation.

A crucial shortcoming of parliamentary control was that it did not extend to royal borrowing on the monarch's personal credit. After Charles II claimed the throne in 1660 parliament started to demand estimations of cost before voting money to be granted to the king, who claimed to get short shrift. To evade expenditure control, a popular royal tactic was to resort to borrowing and hope that parliament would later consent to the raising of funds to repay such loans. But this practice was not sustainable when parliament refused to oblige. In 1672 the government in effect declared the only state bankruptcy in British history when payments on loans from City bankers were suspended initially for twelve months, which was later renewed repeatedly. Only after 1688 was executive borrowing tied to parliamentary consent, which restored trust with lenders and ensured large-scale access to finance over the following centuries.

The Glorious Revolution of 1688 brought a decisive victory for parliament, and it is a landmark in the evolution of its financial role. The 1689 Bill of Rights captures the outcome of the struggle. Most importantly, it firmly established the principle that only parliament could authorize taxation by proclaiming 'That levying money for or to the use of the Crown by pretence of prerogative, without grant of Parliament, for longer time, or in other manner than the same is or shall be granted, is illegal.' Still, at this stage there was still no such thing as an annual budget, and there was no comprehensive control of expenditures.

Before the revolution the royals freely mingled public and private income. Following the revolution parliament made a life-long grant to the king to cover expenditures on the civil list and the monarch in turn relinquished control over most of his hereditary revenues. Originally, the list was intended to cover the financial requirements of the king and his household as well as the expenditure of the central civil government excluding debt charges. Expenditure items for civil administration were gradually transferred from the list to the supply services and, later, the consolidated fund, in a process that lasted until 1830. The creation of this list was the first step towards the separation of public and royal expenditures.

Paradoxically, in these early days of growing financial control by the Commons one can also find the origin of limitations on parliament's budgetary powers. Given the political dynamics of the time, it made little sense for parliament to volunteer money to the crown. The Commons proceeded to resolve in 1706 'That this House will receive no Petition for any sum of Money relating to public Service, but what is recommended from the Crown.' The financial initiative of the crown has been enshrined in the standing orders since 1713 and this limitation on parliament's power of the purse is considered an essential constitutional principle to this day. Therefore, while the British Parliament was at the forefront of claiming budgetary rights, it was also the first parliament to voluntarily restrict its powers to introduce and amend financial legislation (Inter-Parliamentary Union 1986, p. 1093):

> Parliament still respects this long-standing custom and practice and, as a result, it may not vote sums in excess of the Government's estimates. Consequently, the only amendments that are in order are those which aim to reduce the sums requested and have as their purpose the chance for Members to raise explanations before the sums in question are approved.

After the Glorious Revolution, it was not long before parliamentary control over taxation spread beyond Britain. Parliament proved to have a short memory for the passions that could be incited by unilateral imposition of fiscal measures. As imperial finances were exceedingly stretched by the task of protecting vast colonial territories, parliament sought to force the inhabitants of the empire's North American possessions to contribute towards the defense of the territory. In 1765 it ordered the imposition of a tax on a stamp affixed to a range of documents including newspapers and playing cards. This gave rise to great discontent in the colonies, and led to a boycott of British goods by the colonialists. Despite a partial retreat by parliament, which abolished the 'stamp tax' and several other duties, the continued imposition of a duty on tea was sufficient to provoke unrest and ultimately led to the war of independence. At the First Continental Congress in 1774 delegates from the colonies rejected 'every idea of taxation, internal or external, for raising a revenue on the subjects in America, without their consent.'

The rise of modern budgeting

Parliamentary control remained incomplete as long as governments continued to enjoy wide discretion in expending public revenues. Without detailed knowledge of expenditure needs, requests for funds could not be properly evaluated. Following the Glorious Revolution, it took the Commons two further centuries to put in place a comprehensive system of expenditure control. There were some interim achievements, notably the creation of the consolidated fund in 1787. But the development of modern budgeting practices in the United Kingdom had to wait until the Gladstonian reforms in the second half of the nineteenth century.

By the beginning of the nineteenth century, the United States Congress already constrained executive discretion through detailed line item appropriations that prescribed the exact use of authorized expenditures, for instance by setting strict limits on specific expenses such as firewood and candles in particular offices. This tradition has its origins in colonial times, when legislatures were distrustful of British rule and invested much effort in scrutinizing administrative expenditures. The colonialists were suspicious of governors they did not appoint and who were regarded as agents of the king in distant Britain. They thus devised stringent and humiliating control mechanisms including the annual voting of salaries, detailed specification of the object of spending and the amount to be spent, and the reversion of unspent funds to the treasury at the end of the fiscal period. This advanced level of congressional scrutiny of expenditures was exceptional compared with other countries at the time.

In Europe, France was first in developing modern expenditure control mechanisms based on reforms of state audit during the first half of the nineteenth century. Napoleon put in place the institutional fundamentals of modern public audit when he created the *cour des comptes* in 1807. In the initial years following the creation of the court the benefits of the new audit system for the French National Assembly were marginal. To ensure effective reporting to the assembly, the publication and distribution of audit reports was made a legal requirement in 1832. The assembly also gradually broadened its control over the approval of expenditures until the specification of detailed items of expenditure for each ministry became a legal requirement in 1831. By the middle of the nineteenth century, France had put in place many of the elements that are associated with modern budgeting, notably a comprehensive budget encompassing all of the activities of government, a standard fiscal year, the principle of annual authorization, and a developed system of accounting and audit control.

Control of expenditures evolved differently in the United Kingdom. Parliament appropriated money many centuries before the use of budgets became common. A first known instance of parliamentary appropriation dates back to the fourteenth century, when a grant to the Edward III was explicitly earmarked for 'the Maintenance and Safeguard of our said Realm of England, and on Wars in Scotland, France and Gascoign, and in no places elsewhere during the said Wars' (Einzig 1959, p. 79). Particular sources of revenue were also frequently tied to specific expenses in order to exercise some control over royal spending. However, parliamentary oversight of expenditures remained patchy and incomplete. An important improvement was the creation of the consolidated fund in 1787 for the purposes of collecting revenues and disbursing all monies for the supply of public services, which 'broke the disorder caused by assigning particular taxes to special purposes and it provided the means of infinite expenditure control through comprehensive appropriation schedules' (Reid 1966, p. 57). But full expenditure control had to wait until the rise of modern budgeting.

The decisive steps towards modernization of public finances in the United Kingdom are inextricably linked to William Ewart Gladstone, who first became Chancellor of the Exchequer in 1852. Gladstone was determined to force greater economy in public finance and introduced reforms in the 1860s that made annual and comprehensive estimates central to legislative oversight. In 1861 the Commons, based on the initiative of Gladstone, resolved to establish a public accounts committee to examine the accounts showing the appropriation of the sums granted by parliament for public expenditure. The Exchequer and Audit Departments Act of 1866 required all government departments to produce appropriation accounts for audit purposes. The act also created the comptroller and auditor general by merging the *ex ante* function of authorizing the issue of money to departments with a new *ex post* function of examining every appropriation account and reporting the results to parliament. The committee developed a high standard of scrutiny and contributed significantly to rapid improvements in the disclosure of financial information in the following decades (Chubb 1952).

In the United Kingdom a final step towards the democratization of the budget was taken when the hereditary chamber, the House of Lords, was stripped of its veto power over financial legislation. The elected House of Commons considered the Lords unable to amend tax and spending bills by the end of the seventeenth century. The formal removal of remaining veto power was triggered by the dramatic struggle over the 1909 budget of Chancellor Lloyd George, who sought increased tax revenues in order to pay for pensions and defense expenditures (Porritt 1910). When the Lords rejected the entire Finance Bill, this prompted the passing of the Parliament Act of 1911, the purpose of which was to debar the Lords from rejecting money bills – legislation strictly related to taxation, borrowing or appropriations. Since then, the supremacy of the elected chamber has been firmly established. Budgetary bicameralism of various forms continues in countries where second chambers of parliament have democratic credentials.

More recent developments in legislative budgeting

Parliamentary fiscal power in the United Kingdom was at its peak in the second half of the nineteenth century, when the Commons frequently amended spending and revenue proposals (Einzig 1959). The spread of parliamentary democracy since the nineteenth century ensured that the principle of parliamentary authorization of taxation and public expenditure became a constitutional fundamental across democratic countries. However, from a long term perspective the influence of national legislatures on budget policy making has declined in most industrialized countries (Coombes 1976). The budgetary decline of parliament is perhaps most evident in the United Kingdom, where the House of Commons ceased to amend estimates almost a century ago.

Several developments contributed to reducing the budgetary activism of parliaments (Schick 2002). The emergence of disciplined political parties has reigned in legislative independence. Devolution of spending, and to a lesser extent of revenues, has chipped away at the comprehensive control of public funds by national legislatures. In addition, the massive expansion of entitlement spend in the twentieth century has substantially rigidified budgets and commensurately decreased the remaining margin for active legislative engagement in annual budgets. With the growth of public spending and the increasing complexity of public finances, the executive budget proposal became the standard against which legislative action was measured.

But the decline of parliamentary power over budgets is not universal. There are signs that some parliaments are attempting a budgetary comeback. In France, for instance, the National Assembly recently initiated a wide-ranging set of budget reforms. The resulting changes include a reclassification of the budget in order to support parliamentary oversight and an expansion of powers to amend expenditures (Chabert 2001). In developing and transition countries, a substantial number of legislatures are moving towards budgetary activism. Perhaps the primary reason for this development is that democratization and constitutional change have opened up possibilities for legislature participation in many previously closed systems. A good example is the Brazilian Congress, which historically played no significant role in the budget process. Democratization in the 1980s led to constitutional changes that gave Congress powers to modify the budget and have resulted in substantial levels of activism (Blöndal et al 2003).

In addition, there has been a recent shift in international financial institutions and donor agencies towards participation in setting development goals and strategies. Developing countries are now asked to access international finance on the basis of comprehensive poverty reduction strategies that are meant to be compiled through an in-country participative process. This shift is linked to renewed interest by the international donor community in the quality of the budget process and the governance of the budget for a variety of reasons, in particular the realization of the failure of conditionality in development lending and evidence on the effectiveness of aid. This provides an opportunity for legislatures in poor countries to reengage with development policy and budgets (Stapenhurst and Pelizzo 2001).

Conclusion

The budgetary role of democratic legislatures is the outcome of a centuries-long struggle for supremacy in public finance. Historically, parliaments first gained the right to consent to taxation, and gradually they devised mechanisms to control the expenditure of public funds. Modern budgets came to aid comprehensive legislative oversight. Legislatures today exercise varying levels of budgetary influence. While some parliaments have become less active in budgetary matters, others have maintained a strong role in the budgeting process. Democratization and constitutional reform provide opportunities for new parliaments to actively define an appropriate budgetary role.

Unit 1 Questions

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

- Why did Gladstone say that 'the finance of the country is ultimately associated with the liberties of the country'?
- Taking your country as an example, how would you describe the development of legislative financial scrutiny over time? What factors have influenced this evolution?

Relevant internet resources

Bill of Rights (1689)
http://www.yale.edu/lawweb/avalon/england.htm

British Broadcasting Corporation:
A to Z of Parliament
http://news.bbc.co.uk/1/hi/uk_politics/a-z_of_parliament/default.stm

California Department of Finance:
Development of Modern Budgeting
http://www.dof.ca.gov/fisa/bag/history.htm

Magna Carta (1215)
http://www.bl.uk/collections/treasures/magna.html

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