

Unit 4: Parliamentary approval of the budget

Learning objectives

What Role does Parliament play in approving the budget?

After studying this unit you should be able to:

- Explain how the constitution impacts on parliament's role in budgeting
- Discuss the roles of committees in scrutinizing the draft budget
- Assess the provision of relevant budgetary information in your country against good practice standards

Introduction

The role of parliament in approving the budget differs sharply across different countries. Some are powerful players in the budget process, and significantly shape budgets. Others generally approve the budget as tabled by the executive without any changes. This unit deals with some of the factors that shape the role of parliament in the approval stage of the budget process. The following sections consider parliament's legal powers to initiate financial measures and to amend budgets tabled by the executive; the timing of the budget and what happens if the budget is not approved in time for the beginning of the fiscal year; the role of parliamentary committees in scrutinizing executive budget proposals; access to information and analysis capacity as a basis for parliamentary decision making; and party political dynamics.

The constitutional basis for legislative budgeting

The formal budgetary powers of a legislature are often spelled out in a country's written constitution, but they can also be based on convention, determined by ordinary legislation, or spelled out in legislative rules. These powers can vary in several aspects.

Some legislatures face constitutional restrictions on their right to introduce financial legislation. Where parliamentarians cannot introduce financial legislatures, only the executive can initiate spending and revenue measures. Another important factor affecting the potential scope for legislative influence is the legislature's legal powers to amend financial legislation. The more permissive these amendment powers are the greater is the potential scope for legislative activity. Moreover, some constitutions provide for executive veto authority of the kind that requires extraordinary majorities to be overridden by parliament. By exercising a veto, the president can challenge legislative choices.

Table 1: Legislative powers to amend the budget		
Budgetary powers	Number of countries	Percentage of total
Unlimited powers to amend the budget	32	40%
Reductions of existing items only	17	21%
Rights not specified	15	19%
Increases must be balanced with commensurate cuts elsewhere	13	16%
May reduce expenditure, increase only with permission of government	4	5%
Total	81	100%

Source: Inter-Parliamentary Union (1986: Table 38A).

There are various traditions of amendment powers. It appears that the largest category of legislatures has unfettered powers to amend the budget. The classical example is provided by the United States whose constitution establishes no legal limits on the budgetary powers of Congress, although the latter has self-imposed limits from time to time. Unfettered powers allow the legislature, in theory, to introduce its own budget and to rewrite the entire budget proposed by the executive

Other countries constrain the powers of the legislature so as to protect the balance between revenues and expenditures suggested by the executive. This requires that an increase of expenditures has to be counterbalanced with a corresponding cut elsewhere to maintain the aggregate total. A variant of amendment powers that safeguard the deficit allows the legislature to reduce expenditures, but to increase them only with permission of the executive. In effect, this gives the government a veto over legislative

amendments that increase the deficit. Versions of this configuration are popular in francophone and Latin American countries.

In the Westminster tradition parliament cannot initiate financial bills and it has strictly limited powers to amend the government's financial proposals. Parliament may only reduce existing items proposed by the government, but it may not include new items or increase existing ones, nor can cut funds cannot be shifted to increase spending on a different item elsewhere in the budget. This configuration evolved during the early days of the House of Commons, when it met to consider demands for subsidies made by the Crown. Its task was to decide whether and to what extent it would comply with the demand, rather than to initiate its own spending plans for the monarch. Many countries in the Commonwealth have adopted this configuration.

Legislative powers over the budget are sometimes counterbalanced with executive veto powers. Such veto powers are more commonly found in presidential systems of government, although there are also a few parliamentary systems that incorporate executive veto powers over financial legislation, for example New Zealand. Executive vetoes can take two forms. A package veto allows a president to veto a piece of legislation in its entirety. In the United States, for example, presidents have used their package veto power to block appropriations passed by Congress (Williams and Jubb 1996). A line item veto or partial veto on the other hand allows a president to delete individual items in a financial bill. This allows for greater selectivity. The Chilean President has such a line item veto, for example. In this way, legislative decisions can be significantly altered by striking down particular items in the budget that might be of high priority for legislators.

The timing of the budget

Legislatures require both sufficient time and a properly timed budget process to facilitate meaningful decision making. International experience suggests that a minimum of three to four months is required for the approval of the budget by the legislature on the basis of meaningful analysis and scrutiny. However, sufficient time by itself is not enough. The

budget should also be tabled sufficiently in advance of the fiscal year to which it relates in order to enable the legislature to make decisions that matter, when they matter. Reforms to the budget process strengthen the legislature when they address both issues.

On occasion, the timely passage of the budget may not be possible. There can be reasons for delays, such as an outbreak of war, and it is important for the state to be able to continue with the provision of essential services. But under normal circumstances, frequent use of interim spending provisions undermines effective ex ante scrutiny by the legislature and the cohesion of the budget as a comprehensive plan for annual spending. What happens if the budget has not yet been passed at the beginning of the fiscal year? Does the constitution stipulate a reversionary budget that becomes effective in such cases? One can divide constitutional practice into two broad categories. There are countries where interim spending without explicit legislative authorization is possible, and those where this is not the case.

Perhaps the most well known example of the latter category is the United States, where there are no constitutional provisions for such circumstances. Government shutdowns occur when the budget has not been approved at the beginning of the financial year or Congress has not authorized interim spending. In 1995-96, for instance, delays in congressional approval forced the temporary shutdown of some federal agencies.

Other constitutions stipulate a reversionary budget. In some countries, the executive's draft budget takes effect if it has not yet been passed at the beginning of the fiscal year. For instance, article 47(3) of the French Constitution allows for the draft budget to be implemented by ordinance in these cases: 'Should Parliament fail to reach a decision within seventy days, the provisions of the [finance] bill may be brought into force by ordinance.' Similar provisions can be found in the constitutions of many other francophone countries. Such rules establish a strong incentive for the legislature to expeditiously conclude its consideration of the budget, but they need to be coupled with a requirement for the timely tabling of the budget. Otherwise, they might serve to curtail legislative scrutiny and eliminate essential checks and balances. A typical

arrangement in many other constitutions is to provide for automatic interim spending along the lines of the previously approved budget and for a limited period only. For instance, article 82 of the Nigerian Constitution allows the president to authorize withdrawals from the consolidated revenue fund for up to six months and up to the proportional amount of the previous budget should the appropriation bill not have been approved in time.

In the distant past, the English Parliament devised the tactic of voting appropriations near the end of the session as a means of forcing the Crown to utilize its own resources before relying on tax revenue raised from the public. At the time, this was an effective mechanism to minimize the tax burden and to force economy in the royal management of funds. Nowadays, parliament regularly passes votes on account to provide an interim authorization pending final approval of the annual appropriations to avert government shutdowns. Many countries in the Commonwealth follow this practice. In general, however, it is a recognized good practice to table the budget sufficiently in advance of the beginning of the fiscal year in order to ensure timely approval. Most legislatures outside the Commonwealth do so under normal circumstances.

Table 2		
How far in advance of the beginning of the fiscal year does the executive present its budget to the legislature?		
	Number of countries	Percentage of total
Up to two months	10	26%
Two to four months	23	59%
Four to six months	5	13%
More than six months	1	3%
Total	39	100%

Source: OECD (2003), <http://ocde.dyndns.org/>

Legislative committees and the budget

The budget goes through several stages in the legislature in a process that usually involves a number of readings and debates on the floor of the house. These debates tend to be about the broad strokes of the budget and to have a publicity function for both government and opposition. The government can use the occasion to advertise its policies, and the opposition has an opportunity to point out perceived shortcomings and

to highlight its alternatives. Sometimes, large parts of these debates do not even focus on the budget. Detailed discussions of budget figures usually become possible in a smaller forum at committee level and, away from the political limelight. Legislatures need strong committees to be effective. Legislative committees are the 'engine room' of the legislature. It is here that in-depth and more technical debate can take place, away from the political grandstanding that often characterizes proceedings on the floor of the house. Where the committee stage is underdeveloped, and discussion takes place mainly on the floor of the house, the budgetary role of the legislature is weak. Many legislatures have recognized the importance of effective committees.

There are several ways to involve legislative committees in the approval process. Most national legislatures have a finance or budget committee to consider budget proposals. Sectoral or departmental committees may make recommendations, but under the centralized committee model, these are not binding. This structure can serve to protect the budget from demands for increased spending from departmental committees, such as those dealing with health, education or transport, that often want to boost spending on 'their' sectors. On the other hand, without input from sectoral committees, a chance might be missed to draw on members' expertise in particular policy areas during the scrutiny of relevant expenditures.

The participation of sectoral or departmental committees does not automatically have to threaten fiscal discipline; it only does so when they can operate in the absence of strict expenditure ceilings and without a coordinating mechanism to keep aggregate spending within target. In some countries, financial committees approve aggregate ceilings for various expenditure areas, whereas sectoral or departmental committees have the power to shape the budget of departments under their jurisdiction. Such a two-tier committee structure for the consideration of spending proposals is used for instance in Sweden. Experience suggests that such a system is useful both in ensuring prioritization by drawing in sector expertise, as well as the enforcement of a hard budget constraint by having a budget committee safeguard aggregate spending.

Box 1:
The new parliamentary budget process in Sweden

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

Source: Blöndal (2001).

Table 3:
What best describes the committee structure for dealing with the budget?

Committee structure	Number of countries	Percentage of total
A single budget committee deals with all budget related matters with no formal input from other committees. Sectoral committees may make recommendations, but budget committee does not have to follow them.	19	47,5%
A single budget committee deals with the budget, but members from other sectoral committees attend meetings of the budget committee when expenditures in their specific areas are being	6	15%

dealt with. For example, members of the education committee would attend meetings of the budget committee when expenditures for the ministry of education were being discussed.		
A single budget committee deals with budget aggregates (total level of revenue and spending and their allocation to each sector) and sectoral committees deal with spending at the level of each appropriation. For example, the budget committee would establish the total level of expenditure for education, but member of the education committee would allocate the total among each appropriation within the education sector.	7	17,5%
Sectoral committees deal with appropriations for each respective sector. No budget committee is in place or offers only technical assistance.	2	5%
Other	6	15%
Total	40	100%

Source: OECD (2003), <http://ocde.dyndns.org/>

Access to information

Legislative decision making needs to be based on comprehensive, accurate, appropriate and timely information supplied by the executive. The amount of supporting documentation that accompanies the budget figures is crucial. In a number of countries, the budget document itself contains little narrative that outlines the policies underlying tax and spending proposals. Often the only source of narrative information is the budget speech. This makes it difficult for parliamentarians and their staff to understand the policy basis of the budget, and to evaluate whether the budget adequately reflects stated government policy. Many budgets do not sufficiently relate expenditures to budget objectives. If this is the case governments should be encouraged to change the budget format so that it integrates relevant output and outcome information.

There are many other information requirements that have to be met to optimize legislative oversight. Following approval of the budget, in-year actual spending information is essential. This can help the legislature to control unauthorized expenditures and variance between approved and actual figures in a timely fashion. Budgetary decisions should be made in the knowledge of actual spending information, rather than on the basis of budgeted figures that might be little more than fiction. Apart from good in-year reporting, this also requires effective interaction between the legislature and the audit body, for instance through regular liaison mechanisms. Another reform challenge is often to narrow the gap between the end of the fiscal year and the

finalization of audit findings, to ensure that the usefulness of this information is maximized. In many developing countries, the comprehensiveness of information on donor funding needs to be strengthened. Donor funding should be included in the budget, and legislatures should receive detailed information on any funding agreements and attached conditions. The OECD Best Practices for Budget Transparency give a good overview of the types of budget documentation that ideally should be available.

Box 2:

What types of budget documentation should be available?

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

A comprehensive budget includes performance data and medium term projections.

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

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

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

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

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

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

Source: OECD (2001), <http://www.oecd.org/dataoecd/33/13/1905258.pdf>

Given the density and technical nature of budget documentation, though, the existence of sound and extensive budgetary information in itself is unlikely to be sufficient to ensure legislative oversight. Parliamentarians have to be empowered to independently analyze the budget if they are to play a meaningful role in the process. Even when the legislature has legal powers and the political space to shape budgets, analytical capacity is necessary to make sound budgetary choices. The ability to understand the budget and to make informed changes depends on sound analysis. It is important, therefore, for

parliamentarians to have access to independent information and analysis on the budget preferably through parliament's own research service.

Many of the more active legislatures, in budgetary terms, have substantial budget research capacity. The Congressional Budget Office in the United States has about 230 highly trained staff. Some legislatures have smaller research units that specialize in budget analysis, and yet others have general research units that can deliver some budget analysis when needed. However, in many legislatures' budget research capacity is negligible or nonexistent. Building such capacity should be a component of efforts to strengthen the role of the legislature in budgeting. Parliamentary budget research capacity can be complemented with analyses by independent think tanks, private sector economists and academics. In some countries, individual parliamentarians or political parties represented in the legislature employ specialized budget researchers.

Table 4		
Is there a specialized budget research organization attached to the legislature that conducts analyses of the budget?		
	Number of countries	Percentage of total
Yes, with less than ten professional staff	7	18%
Yes, with ten to 25 professional staff	1	2%
Yes, with 26 or more professional staff.	3	8%
No	28	72%
Total	39	100%

Source: OECD (2003), <http://ocde.dyndns.org/>

Table 5		
What is the total number of special professional staff serving political parties and dealing largely with budget issues?		
	Number of countries	Percentage of total
None	8	25%
Less than 10	19	59%
Between 10 and 25	4	13%
Over 25	1	3%
Total	31	100%

Source: OECD (2003), <http://ocde.dyndns.org/>

Party political dynamics

Budgeting takes place in a broader political context; it is an expression of the power relations of political actors that participate in the process. How much de facto rather than theoretical influence the legislature actually has, is to a large extent determined by political party majorities. The existence of strong or dominant political majorities in the legislature enhances the predictability of voting outcomes. On the other hand, if the legislature features several parties without one of them having an outright majority of seats, the executive will have to assemble support of a number of parties to have its budget passed. It is likely to have to bargain and make concessions during this process. Presidential systems can generate divided government when the president's party does not have a majority of seats in the legislature. A similar effect can occur in parliamentary systems during times of minority government.

A second and related variable is party cohesion or discipline, which entails voting along party lines even if the outcome does not fully match the preferences of the individual parliamentarian. Party majorities only ensure predictability of legislative voting behavior when they are matched with tight party discipline. Low levels of party cohesion are usually associated with candidate centered electoral systems, where party affiliation is not the strongest factor in parliamentary elections. Party centered electoral systems on the other hand tend to ensure higher levels of party discipline because the electoral fortunes of individual parliamentarians are strongly correlated with party affiliation. For instance, in countries that use a party list system of proportional representation the electorate votes for political parties rather than individual parliamentarians. The headquarters of political parties typically have a strong voice in choosing candidates.

Conclusion

A number of factors combine to determine the role and impact of the legislature in the approval stage of the budget process. A legislature needs sufficient constitutional powers over budgets in order to influence decision making, notably powers to amend the budget proposal tabled by the executive. But formal constitutional powers alone are not enough. A thorough review of financial proposals requires time for scrutiny and a properly timed budget process, where the budget is tabled sufficiently in advance of the

beginning of the fiscal year. Furthermore, parliamentary expertise on the budget is most likely to develop in specialized committees, in particular a dedicated budget committee. Sectoral committees can contribute valuable subject expertise. Legislative decision making also should be based on full access to relevant and high quality information and parliament should have the ability to independently analyze budgetary information. Finally, constitutional and technical capacity to engage with budgets is not likely to be utilized unless the legislature has a degree of political independence from the executive.

Unit 4 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.

- What does the constitution in your country say about parliament's powers over budgets?
- How would you describe the budget approval process in your country's parliament? Is it effective?
- Assess the breadth of budgetary information that is provided in your country against the OECD Best Practices for Budget Transparency. To what extent would you say there is sufficient and high quality information available?

Relevant internet resources

Constitution Finder
<http://confinder.richmond.edu/>

International Constitutional Law Index
<http://www.oefre.unibe.ch/law/icl/index.html>

International Budget Project:
Legislatures and Budget Oversight
<http://www.internationalbudget.org/themes/LEG/index.htm>

Congressional Budget Office:
<http://www.cbo.gov>

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