

The Changing Role of Parliament in the Budget Process

by
Barry Anderson*

Legislatures require reliable, unbiased information to be able to participate constructively in formulating the budget. This article explores the value of an independent budget capacity located in the legislature for expanding parliament's role in budgeting and for holding the executive accountable.

* Barry Anderson is Head of the Budgeting and Public Expenditures Division of the Public Governance and Territorial Development Directorate, OECD. This article is based on a keynote speech given at an international symposium on "The Changing Role of Parliament in the Budget Process" held at Afyonkarahisar, Turkey, on 8 October 2008. The views expressed are the author's and do not necessarily represent those of the OECD.

The art of budgeting has always been difficult, and in a world where many societies are ageing, where the effects – both potential and actual – of global warming seem to grow every day, where globalisation has exposed societies more to the actions of others, and where governments increasingly provide a variety of complex financial guarantees (such as public-private partnerships), budgeting will not get any easier.

Unfortunately, the increased difficulty of budgeting all too often promotes efforts by executives to diminish accountability. Rare is the executive who is willing to discuss the long-term fiscal sustainability of his/her government with reference to its promises to the aged, for example. Instead, executives frequently choose to evade discussions of problems associated with ageing, global warming, globalisation, guarantees, and other fiscal risks, and concentrate only on near-term issues. But as the potential consequences of these fiscal risks increase, the costs of this evasion become more severe.

The OECD has looked into the role that legislatures can play to encourage executives to discuss the risks their societies face in a more open and informative manner. It has observed that executives will rarely improve accountability on their own without some kind of external influence encouraging them to do so. The OECD has also observed the success that some countries have experienced in increasing the legislature's involvement in the budget process as the source of this external influence.

As Allen Schick, one of the very few academics able to describe trends in budgeting in an informative manner, has commented (Schick, 2002), two contemporary developments are buffeting legislative work on the budget. One is the drive to discipline public finance by constraining fiscal aggregates; the other is the effort to enlarge the legislature's role in revenue and spending policy. Whether these trends turn out to be complementary or contradictory will shape the budgetary role of national legislatures in the years ahead. One scenario is for the legislature to reinforce fiscal discipline by taking responsibility for the budget's totals. Another is for the legislature to undermine discipline by bombarding the budget submitted by the government with legislative amendments that trim revenues or boost expenditures.

The early signs point to the former course, but the history of budgeting and some contemporary research assume the latter. In a growing number of countries, the national legislature now votes the budget totals in addition to its traditional work on revenue and spending measures. Maastricht-type rules and other efforts to stabilise public finance may spur national governments and their legislatures to frame budgetary decisions within preset totals. Where this occurs, legislative work on the budget will parallel the government's and may result either in greater co-operation or greater rivalry between the two branches. In some countries, the legislature's new responsibility for the overall budget will buy it greater independence in fiscal policy. In others, the legislature will behave more as a partner than as an adversary. The probabilities are that adversarial relationships will predominate in presidential systems and co-operative relationships in parliamentary regimes. But other variables, such as the party system, may intervene to induce co-operation in

governments where power is formally divided and to generate friction in countries where power is formally shared.

As Schick points out, legislative activism may lead in an entirely different direction, however: not to greater fiscal discipline, but to budgets in which pressure to spend more and to tax less generate chronic deficits, as well as to a progressive rise in the share of national income spent by the government. As unlikely as this possibility may appear to contemporary promoters of legislative activism, it has been the predominant view of legislatures for hundreds of years. In some countries, the legislature voluntarily yielded budgetary power to the executive because it accepted the view that parliamentarians cannot constrain their political inclination to tax less and spend more. Legislatures entrusted budgetary authority to the government because they could not trust themselves to make responsible financial decisions. This attitude is endorsed by prominent scholars who correlate the legislature's capacity to amend the budget with fiscal outcomes. For example, in a paper published by the European Commission, Jorgen von Hagen found strong empirical support for the hypothesis that limits on the amendment power of parliament, and other rules, strengthen fiscal discipline and result in relatively small deficits and public debt (Hagen, 1992). There may be reason to challenge this finding, but its validity is less important than its acceptance.

Although there are some notable exceptions, national legislatures generally are now more active in budgetary matters than they were in the post World War II era. An OECD study reported that legislatures in more than half the countries surveyed had a larger budgetary role than they had a decade earlier (OECD, 2007a). The evidence of legislative activism is plentiful: new committees charged with legislative or oversight responsibilities; enlarged budget staffs; a vast increase in the flow of budget-related information from the government to legislators; and increased vigilance by independent or legislative auditors in reviewing the propriety and efficiency of expenditures. But adding institutional capacity does not itself ensure that legislators will stake out an independent position on the budget. To do so, they also need the political capacity to reject salient elements in the government's budget.

To be able to credibly encourage more accountability from the executive, legislatures need help in understanding complex budget issues and processes. Currently, legislatures in different countries play a wide variety of roles in the budget formulation process (Santiso, 2005). Some legislatures 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, p. 33). These changing roles and the need to encourage executive accountability call into question the sources of information that are or may be made available to help the legislature participate in the budget process. Legislatures require reliable, unbiased information to be able to participate constructively in formulating the budget.

This article discusses the value that an independent budget capacity located in the legislature can have for expanding the legislature's role in budgeting and for holding the executive accountable. Section 1 discusses the potential value to the legislature of having an independent research capacity or unit. The next two sections list and discuss each of the core functions that such a unit can perform, describe other possible functions of the unit, and describe the fundamental characteristics required to make the unit nonpartisan and objective, including other characteristics that can enhance the effectiveness of the unit.

Section 4 discusses trends in establishing independent budget units that the OECD has discerned. These trends come from a number of different sources: from the results of two surveys that list the number of countries with specialised legislative research organisations; and from other information that the Budgeting and Public Expenditures Division of the OECD has gathered in its worldwide meetings of senior budget officials, including meetings with officials from Africa, Asia, Central Europe, Latin America, and the Middle East/North Africa as well as with budget officials from OECD countries. Section 5 concludes.

1. Potential value

In its most basic terms, an independent research unit can provide information to put the legislature on a more equal footing with the executive branch. This information is critical if a legislature is to play a real role in budget formulation, and is thus critical in promoting executive accountability. However, as important as this information is, such a unit can do much more than just eliminate the executive's monopoly in budget information and promote executive accountability. Additional benefits of an independent, analytic budget unit include:

- **Simplifying complexity.** Budget information is frequently not made available by the executive's budget office, but even when it is, the information 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.
- **Promoting transparency.** Because of the knowledge and expertise found in an independent budget unit, budgetary legerdemain can be discouraged and transparency promoted.
- **Enhancing credibility.** By encouraging simplification and transparency, an independent unit also has the effect of making all budget forecasts more credible – even those of the executive who is obviously partisan.
- **Improving the budget process.** The combination of a more simple, transparent, credible, and accountable budget can promote a budget process that is more straightforward and easier to understand and follow.
- **Serving both the majority and the 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.
- **Providing rapid responses.** As a part of the legislature, an independent budget unit can provide much more rapid responses to budget inquiries from the legislature than are usually provided by the executive's budget office.
- **But most of all, promoting accountability.** The accountability of the estimates that the executive uses in the budget process can be enhanced by an independent research unit because of the scrutiny such a unit provides regarding the executive's budget office.

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 to help check the executive's budget power. The unit also serves the society at large and can actually help improve the whole budget process. However, 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 a 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 to minority parties in the legislature in their relationship to the majority party.

It should be noted that the above list does not include any mention of promoting the use of performance and results information in the budget process – so-called performance budgeting. The OECD actively promotes the use of performance information in the budget process. In fact, a publication was released on the topic: *Performance Budgeting in OECD Countries* (OECD, 2007b). But the OECD recognises that countries need to establish solid budget procedures before they try to build more complex budget concepts into their budget systems. Put another way, countries are encouraged to learn to walk before they learn to run.

2. Core functions

An independent research unit can perform many possible functions, 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.** All budgetary analyses begin with an economic forecast. The first core function of the unit is to perform an independent economic forecast. Although the unit's forecasts need to be objective, the unit should take into account the forecasts of others – such as private forecasters, central bankers (if available), international organisations, and panels of experts specifically organised to assist the unit's forecasters. The forecasts should be based on laws currently in place at the time – that is, they should not try to anticipate future legislation. The forecasts also 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 should be based on the best information available. It is also better for a unit's forecast to be a little conservative, because it is much easier politically to reduce deficits and debt in an economy that is performing better than was forecast than it is to try to find last-minute spending cuts or to increase taxes 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. The forecasts should not try to judge the legislative intent of laws; but they should assume, for example, 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. This is particularly true where the difference between the two estimates is not great and, for the government's forecasts as a whole, where 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, which can then highlight 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

programmes, commitments to provide pensions, public-private partnership initiatives, and other programmes 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 as the impact of programmes that involve intergenerational transfers expands.

Other functions that the independent unit could perform include the following:

- **Analysis of policy 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 analytic unit to agree on rules – such as estimating the costs of only the proposals with the largest potential budgetary impact or only those proposals approved by a full committee or significant subcommittee – that limit 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 selected should be based on programme effectiveness and efficiency, not on political concerns. (Note that this is an area where performance information can be quite useful, but the use of performance information to construct options is much different from setting up a budget system directly tied to performance outputs.) 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 regulations.** Legislation can affect the economy in more ways than just spending and taxing decisions; through regulations, or mandates, legislation can require actions on the part of corporations, individuals, or subnational governments. An independent unit can review the regulations and provide valuable information to the legislature by estimating their economic impact. But again, this can be a time-consuming task, depending on how many regulations the unit reviews and how complex they are.
- **Economic analysis.** 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 can also assist the unit's staff in preparing the core estimates of budget proposals.
- **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 types of tax proposals. Again, these analyses can be time consuming, and they can require specialised staff whose skills are not easily transferred to analyses of spending proposals.
- **Policy briefs.** The time demands placed on policy makers in both the executive branch and the legislature, and the complexity of budgets, have created a demand for short, straightforward 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.

- **Long-term analysis.** As mentioned above, long-term analyses – that is, analysis of potential budgetary trends for as many as 75 years – become more valuable to legislatures because of the ageing of the population in many countries, because so many countries have programmes that transfer resources (and costs) from one generation to another, and because of other fiscal risks mentioned previously.

It should be noted that, for the last several years, the Budgeting and Public Expenditures Division of the OECD has been actively encouraging countries to undertake long-term budgetary analysis. Many countries are still struggling with developing reliable medium-term budgetary analysis and thus have difficulty understanding how the analysis of potential budgetary trends for 25, 50, or as many as 75 years can be done and can be useful to the political process. But when countries actually sit down and walk through the process of undertaking long-term budgetary analysis, they can quickly see how it can be done and how it can be useful to politicians, the press, and the public. Specifically, they learn that once they have mastered medium-term analysis, jumping to long-term analysis is not that difficult. Most importantly, they learn that long-term budgetary analysis produces projections, not predictions, and that sensitivity analysis of various potential but basically unknowable outcomes can help frame the near-term fiscal policy debates. It is very relevant to note that, in the last few years, the European Commission has been performing a study entitled “The Long-Term Sustainability of Public Finances in the European Union” which makes projections extending for 50 years.

As valuable as each of these other functions can be to the legislature, the size of the unit and the number of staff required to perform them will limit the functions that can be assigned at the unit’s inception. However, independent units can be created with initial responsibilities limited to only the core functions mentioned above, and then the unit’s responsibilities can be extended over the years to include many of these other functions.

3. Fundamental characteristics

Establishing and maintaining an independent research unit that provides objective budgetary information to the legislature is not easy. It is an important challenge that requires a carefully designed, step-by-step development process combined with a medium and long-term plan.

Certain fundamental characteristics must be present if the unit is to be successful. Foremost is the nonpartisan nature of the unit. Note that “nonpartisan” is much different from “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, whereas a unit that is nonpartisan would not present its analysis from a political perspective at all. Clearly a nonpartisan unit would be superior in presenting objective information. The director of such a nonpartisan unit may be a member of a political party, but this does not make the unit itself partisan as long as the director is more of a technician than a politician, he or she operates the agency in a nonpartisan manner, and the staff is composed entirely of technicians.

Operation in a nonpartisan manner would require, among other things, that the same information be provided to the majority and minority parties. Other fundamental characteristics of a nonpartisan 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. A corollary is to place all the unit's outputs and methods on the Internet so that everyone has access to them;
- defining the core functions of the unit in law so that they cannot be easily changed to suit political purposes;
- avoiding recommendations;
- principally serving committees or subcommittees rather than individual members of the legislature;
- being willing to meet with lobbyists or other proponents – as well as opponents – of policy proposals, keeping in mind that a fair and balanced process, and the appearance of a fair and balanced process, are always important;
- locating the unit's offices separately from the legislature, but always answering requests in a responsive and timely manner; and
- avoiding the limelight.

4. Trends in independent budget units

More and more countries are setting up independent budget units as their legislatures become more involved in the budget process. This phenomenon is occurring in both presidential and parliamentary systems, and both within and outside the OECD area.

There have been two recent surveys of independent budget units:

- In 2006, the European Commission conducted a survey on fiscal rules and institutions (European Commission, 2006). The results of the survey revealed 22 independent fiscal institutions in 14 EU member states. Of these 22 institutions, 16 issue normative statements or recommendations mainly through regular parliamentary hearings.
- In 2007, the Budgeting and Public Expenditures Division of the OECD conducted a survey of 30 OECD countries and 8 non-OECD countries on budget practices and procedures (OECD, 2007a). One of the survey questions was: "Is there a specialised budget research office/unit attached to the legislature to conduct analyses of the budget?" Of the 38 countries, 16 responded that they have either a specialised unit or some other kind of capacity to conduct such analyses. These 16 include the following countries in the European Union: Belgium, Finland, Italy, Netherlands, Poland, Portugal, and the United Kingdom. The OECD is in the process of expanding this survey to include 60 more countries from Africa and Asia.

In addition to the European countries mentioned above, it is worth noting that Korea and Mexico have set up independent budget offices in the last few years and are continuing to add functions and staff to these units. Canada created an Office of the Parliamentary Budget Officer in 2008 and, although it has only a few staff now, it too is expanding. There are also independent budget units in non-OECD countries, such as Brazil.

The oldest independent budget unit is the Dutch Central Planning Bureau (CPB), which currently has about 145 staff. Although its name is very misleading – it certainly does not do any central planning – the CPB does have two attributes that may be unique. First, it is located

under the executive, not in the legislative branch; nevertheless, it is truly independent, and that is what really matters. Second, in addition to doing most of the functions listed above, the CPB also provides estimates of the campaign promises of politicians. These estimates have been so well received that the public basically demands that any campaign promise made by a political candidate in Holland must be accompanied by a CPB estimate of the budgetary cost of the promise.

The biggest independent budget unit is the United States Congressional Budget Office (CBO).¹ The CBO evolved from a small budgetary research unit in the Congress. The law that created the CBO (the Congressional Budget and Impoundment Control Act, 1975) provided only general guidance as to what its functions should be. Although the 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 would be done by the staff of the newly created budget committees. In fact, a former CBO director, who was the first deputy director when the CBO was created, said that one view was to severely limit the CBO 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 mechanisms down below the ground level doing this ... non controversial [work], the way the sewer system [does] (Bob Reischauer, in Kates, 1989).

The CBO was able to expand its functions far beyond what was stated in this quotation in large part because of the efforts it made from its inception to explicitly structure itself as a nonpartisan, independent, objective analytic agency. The CBO has about 235 staff to do all these functions. I was the Deputy Director and the Acting Director of CBO from 1999 to mid 2003. During this time, I spoke to many visitors from other countries who were interested in providing better budget information for the legislatures in their countries and who wanted to learn what the CBO did and how.

Virtually all of these visitors were somewhat put off by the size of the CBO, saying they could never have a new agency that large in their countries. But before automatically rejecting the CBO as a potential model, I encouraged them to think of the staffing of the CBO in terms of the distribution of staff by core and other functions (see Table 1), as discussed above. This breakdown can usefully be compared with the staffing for core functions of two subnational agencies in the United States (see Table 2): the Legislative

Table 1. Distribution of Congressional Budget Office 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	
Programme divisions		75	75
Technical and administrative	10	20	30
Total	45	190	235

Source: Author's estimates.

Table 2. **Staffing by core function**

Core function	CBO (federal government)	Legislative Analyst's Office (California)	Independent Budget Office (New York City)
Executive direction	5	3	6
Macroeconomic and tax analysis	10	5	4
Budget analysis	20	36	12
Technical and administrative	10	9	5
Total	45	53	27

Source: Author's estimates.

Analyst's Office (LAO) of the State of California and the Independent Budget Office (IBO) of the City of New York.²

Core functions – executive direction, macroeconomic and tax analysis, budget analysis, and technical and administrative functions – at the CBO and the LAO require about 50 staff each. This figure may be more relevant as a model for a number of countries that have larger economies and more complex budgets, such as Korea and Mexico. However, the size and complexity of the budgets of the United States federal government and of the State of California are much greater than the budgets of many other countries, so that the approximately 27 staff performing core functions in New York City's IBO may offer a more appropriate comparison for many countries.

The point to be stressed here is that an independent budget unit can be created with a relatively modest investment. However, to emphasise what was said previously, establishing and maintaining an independent research unit is a difficult challenge that requires a carefully designed development process combined with a medium and long-term plan.

5. Concluding remarks

As stated at the beginning of this article, to be able to play a substantive role in the budget formulation process, legislatures need help in understanding complex budget issues and processes. This need can be well served by an independent source of budget information. Examples of offices that provide this information can be seen in a number of countries, particularly in the Netherlands and in the United States. However, such independent research units have also been created within the legislature itself and not as separate legislative offices or bureaus. Once created, such a unit must operate in a credible and impartial manner if its value is to be sustained.

Notes

1. Much of the history of the CBO is drawn from Day (2003).
2. 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.

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