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HOLDING THE EXECUTIVE ACCOUNTABLE: THE CHANGING ROLE OF PARLIAMENT IN THE BUDGET PROCESS

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# TABLE OF CONTENTS

| ACKNOWLEDGEMENTS | ................................................................................................................................. | 5 |
| FOREWORD | ................................................................................................................................. | 7 |
| I. INTRODUCTION | ....................................................................................................................................... | 9 |
| 1. Opening Remarks, by Mr. Alain Lambert, President, Finance Commission, French Senate | ....................................................................................................................................... | 9 |
| 2. Are Control and Support Incompatible? by Mr. Christian Poncelet, President, French Senate | ....................................................................................................................................... | 10 |
| 3. Legislatures are a Vital Part of the Budget Process, by Mr. Donald Johnston, Secretary-General of the Organisation for Economic Co-operation and Development (OECD) | ....................................................................................................................................... | 11 |
| II. PARLIAMENT, DEMOCRACY AND THE ROLE OF THE BUDGET PROCESS | ....................................................................................................................................... | 15 |
| 1. Keynote Address, by Mr. Luciano Violante, President, Italian Chamber of Deputies | ....................................................................................................................................... | 15 |
| 2. Can National Legislatures Regain an Effective Voice in Budget Policy? by Mr. Allen Schick, Maryland University, United States | ....................................................................................................................................... | 20 |
| III. WHAT DO PARLIAMENTS NEED FOR EFFECTIVE OVERSIGHT? | ....................................................................................................................................... | 45 |
| 1. The budget process in the Swedish Riksdag: Expectations and Experiences from the Reforms in the 1990s, by Mr. Mats Odell, Vice-Chair, Finance Committee, Swedish Parliament | ....................................................................................................................................... | 45 |
| 2. What Do Parliaments Need for Effective Oversight on the Budgetary Planning and Execution? by Mr. Che Shik Chang, Chair, Special Committee on Budget and Accounts, Korean National Assembly | ....................................................................................................................................... | 50 |
| 3. Making MPs Work for Our Money, by Mr. Edward Davey, Member, Treasury Select Committee, United Kingdom House of Commons | ....................................................................................................................................... | 53 |
| 4. Planning Framework, Purposes and Content of Legislative Decisions, by Mr. Augusto Fantozzi, President, Budget Committee, Italian Chamber of Deputies | ....................................................................................................................................... | 100 |
| IV. ACCOUNTABILITY, AUDITS AND NEW MANAGEMENT TECHNIQUES | ....................................................................................................................................... | 103 |
| 1. Budgets Should Take More Account of the Future, by Mr. Geert Van Manen, Secretary-General, Ministry of Finance, The Netherlands, and Chairman, OECD Working Party of Senior Budget Officials | ....................................................................................................................................... | 103 |
| 2. Audit Agencies and their Relations to Legislatures, by Ms. Maria Kaisa Aula, Chair, Committee on Finance, Finnish Parliament | ....................................................................................................................................... | 109 |
| 3. The Case of Hungary, by Mr. Imre Szekeres, Chair, Finance Committee, Hungarian Parliament | ....................................................................................................................................... | 114 |
| 4. The EU Constraints Impacts, by Mr. Giorgio Benvenuto, President, Finance Committee, Italian Chamber of Deputies | ....................................................................................................................................... | 118 |
| V. MULTILATERAL SURVEILLANCE OF PUBLIC FINANCE AND POLITICAL POWER | ....................................................................................................................................... | 121 |
| 1. International Multilateral Surveillance of Public Finance and Political Power, by Mr. Michel Bouvier, University of Paris I - Panthéon-Sorbonne | ....................................................................................................................................... | 121 |
| 2. The European Budget: the Role of the European Parliament, by Mr. Terence Wynn, Chair, Committee on Budgets, European Union Parliament | ....................................................................................................................................... | 129 |
VI. CAN PARLIAMENT IMPROVE THEIR BUDGETARY OVERSIGHT?

RECENT CHANGES

1. Holding the Executive Accountable. by Mr. Alain Lambert, President, Finance Commission, French Senate

2. Parliamentary Process for Budget Approval and Control in Spain by Mr. Joaquin Almunia, President, Committee on Budget, Spanish Chamber of Deputies

CONCLUSIONS

A. CONFERENCE STATEMENT

B. CLOSING REMARKS by Mr. Alain Lambert, President, Finance Commission, French Senate

MINUTES OF THE CONFERENCE

ANNEXES

I. Annotated Agenda
ACKNOWLEDGEMENTS

This book is based on the first meeting of the Presidents of OECD Member Country parliamentary budget committees, 24-25 January 2001. It is the sum of the collective efforts of the delegates to the conference. The OECD would like to thank M. Alain Lambert, President of the Commissions des finances, Sénat de la République française, for his vision in conceiving the need for this work and his generosity in hosting the meeting. The OECD would also like to thank the staff and services of the Sénat, especially Fabrice Robert, Céline Finon and Alain Hortal for their hard work and support. Many thanks also to Elsa Pilichowski, Mike Ruffner, Hélène Leconte and Jennifer Gardner of the OECD for their diligence in co-ordinating and organising the meeting. Finally, a special thank you to Allen Schick for his keen insights and unique contribution.

The OECD has translated the original texts as follows:
- in french : speeches by Ms. Aula, Mrs. Violante, Odell, Chang, Davey, Fantozzi, Van Maanen, Szekeres, Benvenuto and Wynn;
- in english : speeches by Mrs Poncelet, Lambert and Bouvier;
- the spanish text by Mr. Almunia has been translated in both languages.
FOREWORD

The first Symposium of the Chairpersons of Parliamentary Budget Committees of OECD countries, at the dawn of the 21st century, constituted a step towards the regaining of budget powers by the legislatures of the major industrial democracies.

The manner in which the symposium came about is enlightening. On the one hand, the Public Management Service of the OECD had promoted the idea of such a meeting, which it considered necessary, given that Senior Budget Officials have been convening in that forum for many years. On the other hand, Alain Lambert, Chairman of the Senate Finance Committee, had been working towards a reform of the budget process in France, as had Laurent Fabius and Didier Migaud in the National Assembly.

Thus the OECD recognised the beginnings of a comeback of parliaments to the budgetary stage, whilst the Senate of the French Republic took a hand in the process. Fittingly, this symposium took place in the Palais du Luxembourg. The record of its proceedings and work follows.

The role of parliaments in the budget process is a difficult one. It is fundamental, since the original purpose of parliaments has often been to sanction the levy of taxes in the name of the peoples they represent. Parliaments must be sufficiently informed in order to authorise government expenditures and revenues knowledgeably. But they must play no part in the management of government finance. Parliaments must oversee the action of governments but let responsibility rest with them.

A clear definition of the budget role of parliament was the goal of the legislators and budget executives taking part in the symposium.
I am very pleased and honoured to introduce the work of the first Symposium of the Chairpersons of Parliamentary Budget Committees of OECD Member countries.

I am pleased first of all because the OECD is an organisation that habitually hosts meetings involving the executives of the major industrial democracies, but rarely Parliaments. That is why, Mr. Secretary-General, when you proposed to me that we host this first symposium, on the initiative of your Public Management Service, I accepted enthusiastically. I would therefore like to express my warm thanks to Donald Johnston, who will shortly be describing to us the subject of our work.

I am also pleased because I take a special interest in the subject on which our work will be focusing during these two days, as it lies at the very heart of the role that Parliaments play in the budget process. In the course of our work, you will see that this subject is now attracting considerable public attention after having long remained in the background. I am also very pleased that Christian Poncelet, President of the French Senate and my predecessor for 12 years, and with whom I worked for three and a half years as Rapporteur General, agreed to host this Conference at the French Senate. He has clearly shown, and continues to show his determination to affirm Parliament's mission of overseeing the government.

Lastly, I hope that, despite the austere nature of the subject that we are discussing, we will be able to work in an open and convivial atmosphere, for one of the objectives of this conference is also to give us an opportunity to get to know each other better.

This afternoon's session will be chaired by my colleague Philippe Marini, Rapporteur General of the Senate Finance Committee, who is our Committee's real second-in-command.

I wish you all a successful meeting.

I shall now give the floor to Christian Poncelet.
2. ARE CONTROL AND SUPPORT INCOMPATIBLE?

by Mr. Christian Poncelet,
President, French Senate

I would first like to extend a warm welcome to the Senate of the Republic of France, of which I have the honour of being President. I know that some of you have made a long journey to be with us here today and I would like to convey to you in particular my best wishes for a pleasant stay in our country.

There are three main reasons why I am particularly pleased to welcome you here today.

Firstly, this meeting has been organised by the French Senate and the Organisation for Economic Co-operation and Development, which is more used to working with national executives. I am therefore pleased that today's meeting is the first of a long series bringing together the representatives of Parliaments of the OECD countries, and I congratulate my colleague Alain Lambert for having taken this initiative.

Secondly, I am especially pleased that this meeting on the theme of budgetary oversight is being held in the Senate, that is, in an upper house of Parliament. For it could legitimately have been thought more appropriate for this short conference on the budget process to have been organised by one of the lower houses of the OECD, since they are naturally pre-eminent in budgetary matters because of their consent to taxation.

However, I view the fact that this meeting is being held in the Senate as an interesting symbol. For I believe that upper houses have a special role to play in this field, at least in parliamentary systems. The first mission of the lower house in these systems is to support the government. Without either being subservient to the other, the government in power and the majority of deputies who support it must continually maintain a close consistency of views. This is essential for a parliamentary system to work properly, but it makes budgetary oversight in particular a difficult exercise, for can we really oversee someone that we support?

I am not saying this in a partisan spirit, for this contradiction, which is inherent in the functioning of parliamentary systems, holds true regardless of the political colour of the government in power.

This is why I believe that upper houses have a specific role to play in budgetary oversight, different from that of lower houses, but also distinct from that of the supervisory authorities outside Parliament, such as audit offices. Budgetary oversight, as I see it, is less oversight of the regularity of the budget than of its appropriateness, that is, verification of whether budgetary resources are in line with government programmes. It is for these reasons that, when I was elected president of the Senate, I sought to make oversight an almost innate characteristic of the French Senate. I think that there has been a positive response on the part of the two chairs of the committees with special powers in this regard, namely the Social Affairs Committee and the Finance Committee, and I wish
Lastly, I am very pleased that this first meeting is being held at the French Senate, for as you perhaps know, the French Parliament is currently preparing a reform of the Organic Order of 2 January 1959, which is as it were France's "financial constitution". This law, which is highly restrictive as to the budgetary prerogatives of parliamentarians, needed to be amended. The situation in France has changed greatly since 1958, and far from the irresponsible behaviour of some parliamentarians under the 4th Republic, the most recent experience of the OECD countries shows that the countries in which the budgetary prerogatives of parliamentarians are weakest are not necessarily those in which public finances are best managed.

It is for this reason that a bill was put before the National Assembly by the rapporteur general of the budget, Mr. Didier Migaud. It will soon be examined by a special committee chaired by the President of the National Assembly, Mr. Raymond Forni. Alain Lambert and I are directly involved in this process that will lead, I hope, to a major reform by the end of the year. You should be aware, then, that what you say here today will have a direct impact on the thinking of French parliamentarians, and of Senators in particular.

Thank you for your attention, and I hope that your discussions will be highly productive.

3. LEGISLATURES ARE A VITAL PART OF THE BUDGET PROCESS

by Mr. Donald Johnston,
Secretary General,
Organisation for Economic Co-operation and Development

Thank you and welcome to the first meeting for parliamentary budget chairpersons of OECD Member countries.

I would first like to extend our sincere gratitude to the President of the Senate, Mr. Christian Poncelet, and the Chairman of the Senate Finance Committee, Mr. Alain Lambert, for co-hosting this important and timely event.

As you may know, the Organisation for Economic Co-operation and Development (OECD) is an organisation of developed countries committed to the market economy, which has been created to advance intergovernmental policy and develop best practices recommendations. OECD countries produce two thirds of the world's goods and services. There are now 30 Member countries with the accession of the Slovak Republic at the beginning of the year. Additionally, the OECD involves a wider participation in its work and Members see it as an important part of the OECD's mission to engage in policy dialogue and exchange experience with interested non-members. Indeed, the OECD has relationships with some 70 countries outside its direct membership, including wide-ranging co-operation programmes with Russia, China and Brazil. We increasingly hold important meetings and
organised by the OECD last week in Dubai to discuss the main challenges of the global digital economy, in particular the role of new information and communication technologies, and which brought together policy makers from OECD Members, countries in the region and beyond, the business sector and the other stakeholders; and also the "World Congress on Local Clusters" this week.

The OECD’s mission is to help policy-makers tackle the economic, social and governance challenges of a globalised economy. To achieve its mission, the Organisation increasingly draws upon experiences of a wide array of groups including non-governmental organisations, civil society as well as governments and parliaments.

Today’s meeting is a unique and important occasion for the OECD. This is one of the first formal meetings bringing together Member countries' parliamentarians under the auspices of the Organisation. In the last few years, the OECD has moved from a traditional focus on central governments or the executive to greater analysis of public and private governance structures. From the dialogue on governance issues like transparency, accountability, responsiveness and forward-looking policies, it soon became clear that legislatures are a vital part of the overall picture. However, as a former Parliamentarian, I believe that governments need to strengthen their public credibility by increasing the "real" power of Parliaments where it does not exist. Erosion of that power may in some cases account for the increased presence of NGOs in public policy debates.

Well-informed and competent legislatures provide countries with coherent policy and legislation, and also provide the legitimate democratic check on executive policies and actions. It is because of this role in governance that I attach profound importance to improving the quality of the Organisation's relationship with Parliaments.

This is a period of time when parliaments are making great changes in the way they work. Perhaps the most important aspect of parliamentary oversight and, therefore, an area of intense interest is the budget process, the topic of today's meeting. Many OECD Member countries are currently enjoying a period of relative fiscal health, as evidenced by a drop in the average fiscal deficit from almost four percent of GDP in 1995 to less than one percent of GDP in 1999. However, the sour aftertaste of large structural deficits, the concerns of short and medium term economic dislocation and the challenge of future funding requirements to meet an ageing population and to address environmental risks, combine to continue the pressure to improve Member countries' governance arrangements.

Previously there was too often a disconnect between policy making and budgeting processes. As a result, money flowed to new initiatives with little attempt to maintain fiscal discipline. In response, Parliaments have taken the lead in devising new mechanisms that mean that in most OECD countries no policy can now be developed without calculating and discussing the fiscal effects. As a result, the budget in many countries has become a primary vehicle for policy development. However, in many instances, new management and budgetary techniques have been regarded as internal matters, of exclusive concern to the executive branch with little acknowledgement of a role for the legislative branch. But, over time, it has become increasingly recognised that without parliamentary acceptance, modern techniques are doomed to failure. Creating a better understanding of this is perhaps another contribution which we might be able to make.
The OECD is seeking to strengthen its relations with parliaments. I have made it a point to meet with Parliamentarians at every opportunity either in Paris or on official visits to capitals. The Organisation has been active in regulatory reform issues and during its recent regulatory review of Italy the Secretariat worked closely with the Italian Parliament. In future reviews we will be looking to promote similar partnerships. We have also recently published a survey on parliaments that is included in your meeting material.

This conference represents a welcome opportunity to extend the Organisation's knowledge and to reinforce contacts with parliamentary institutions. I trust that the proceedings will be of value to you. We stand by ready to pick up your suggestions as to how the OECD can play a greater role not only in this but other areas of your work.

Thank you and, again, welcome.
I would like to thank the Chairperson of the Finance Committee of the French Senate, and the Senior officials of the OECD and its Public Management (PUMA) section, for having invited me to open such a significant exchange among the foremost representatives or parliamentary bodies specialised in budgetary matters in OECD Member countries.

I look upon this invitation as an honor, and as a challenging enterprise due to the innovative nature and purpose of this meeting, as well as its thorough and excellent preparation.

The comparative studies already conducted by OECD enable all of us to go beyond a mere exchange of experiences and set ourselves two objectives:

- understand the changes now underway in our countries, and identify the ensuing requirements;
- identify the principles to adapt budget procedures to these new requirements.

The original function of parliaments at large is linked to consensus on taxation and control over budget balance.

With the passing of time the Budget session as embodied new elements, but it still constitutes one of the most important moments in the annual agenda of parliaments. The crucial function of the budget process explains, among other things, the key role played by your representative Committees in the various parliaments, and quite often within the political system as a whole.

Originally, the budget was the typical instrument used by parliaments to exercise control over the implementation of legislative policies by governments.

As time passed, it assumed diverse characteristics according to the functions pursued by budget policies.

When the top political priority was reducing the deficit, the budget became the main instrument for control and policy-setting with respect to legislative policies.

This trend became more marked in the 1990’s as a result of interplay among various factors.
- Reducing the deficit became the primary concern on the part of policy-makers and economic players;

- The restrictive nature of budget policies reduced the power wielded by lobbies and interest groups;

- Decision-making procedures were determined mainly by the relationship between Parliament and the Executive;

- Domestic considerations prevailed since the impact of market globalization was still limited;

- Budget processes were dominated by the need to control budget balances; as a result, governments defined the boundaries of the sphere of action of Parliaments, and not the other way around; the determination of the orders of magnitude of budget totals was necessarily the responsibility of governments everywhere.

Nowadays, due to economic growth in general, and especially due to the impressive expansion of globalization, a new phase is beginning, and emerging on the horizon are new requirements to which budget processes are called upon to respond.

The most evident feature of the current phase is the shift of the main legislative policies towards decision-makers outside the parliament-government circuit.

Three major factors:

- Economic growth heightens the pressure exercised by the requests advanced by organized sectorial interests inside and outside parliament;

- The presence of supranational authorities imposes upon budget both constraints and objectives not chosen in the traditional fora of national sovereignty;

- Sub-national, regional or local authorities are becoming more important in all advanced countries as a reaction to globalization, and also due to increasing difficulties faced by central governments in governing ever more complex and conflict prone processes.

As a result of these factors, a greater role in budget policies is being played by the negotiations conducted in supranational fora, and within the framework of relations with local autonomous authorities and the major economic and social interest groups.

The regulation and allocation of public resources are indeed the very core of the negotiations with all the other powers: at both supranational level and within individual countries, such as local authorities, regulatory authorities, and organized interest groups.

The processes are by no means simple, and at times are impossible to steer.
Let us focus, by way of example, on the following:

- Inter-governmental negotiations within international organizations such as the IMF or continental supranational organizations (above all the European Union, but likewise MERCOSUR, NAFTA, etc.) to ensure that the regulation of public finances is compatible with the smooth running of open economies;

- Agreements for the territorial redistribution of resources between central government and both regional and local centers of government;

- Forms of consultation and concertation between political power and social partners, economic powers, and representatives of major and broad-based interest groups, for the distribution of advantages and disadvantages;

- Relations between political power and technocratic bodies entrusted with independent functions for the regulation of the economy and markets (e.g. central banks and other independent authorities).

The expanding role played by these new actors at the highest levels of policy-making is a reflection of profound transformations in the relationship among politics, economy, and society? Therefore, it is neither possible nor desirable to propound a model which would return all decision-making processes back within the government-parliament tandem. Nonetheless, there are essential pre-requisites of democracy which must continue to be safeguarded:

- A public debate on the different fundamental choices of governance: fragmented sectoral approaches and never-ending negotiations at all levels dilute the overall significance of decisions, and make it difficult to have any sort of serious public debate on the future of our societies;

- The reaffirmation of the principle of accountability: in increasingly complex decision-making processes, influenced more and more by technocratic elements, it is indispensable to pinpoint the responsibilities of the various players who took part in decision-making, along with the respective underlying reasons;

- Assessment of the outcome of public policies: there is a widespread trend to seek consensus by announcing via the mass media decisions yet to be made.

A full safeguarding of these values may only be guaranteed by the bodies of general representation, i.e. Parliament and Government.

Therefore, the political question before us during this new phase may be phrased in the following terms: In which ways may the essential organs of democracy, parliament and government, resume control over major political choices without ending up ‘rubber-stamping’ decisions lade either by others or in other fora?

Here would be my answer: the budget process may become an essential tool creating a political common ground for the various decision-making processes.
Within the budget process, parliament and government interact first of all with one another, but they also interact with the entire system of powers external to them.

The parliamentary budget session represents perhaps the sole procedure among the new forms of global governance (supranational, technocratic, and broad-based) which comes under the competence of government and parliament together.

Only the budget process is able to piece together an overall framework of governance choices and policies in each sector, and do so in a concrete and reliable fashion.

Without such a process there can be no true political debate on the appropriateness of the choices proposed by government or by the forces in parliament, on possible alternatives, on the coherence of diverse lines of action pursued in different areas, on the responsibilities incumbent upon the various decision makers, or on the medium- and long-term prospects of each country.

This is the reason why parliamentary budget processes may neither see their role downsized, nor return to being mere accounting procedures as even some experts seem to hope, at least in my country.

Studies conducted by OECD illustrate that the majority of major democracies have yet to grasp this new comprehensive governance function of the budget process, and persist in deploying cumbersome budget procedures not always able to link decisions on the overall policy framework for the future of a country to the parliament-government tandem, that is the expression of popular sovereignty.

It is therefore necessary for the ponderous apparatus of budget procedures to refocus towards new tasks which have more to do with quality than quantity.

The new procedures must be able to concentrate on resources, objectives and final results of public action, and ensure consistency among the multiplicity of policies and decision-makers.

It is in the utmost interest of parliaments to move ahead in this direction in order not to lose control over general policy and major decisions, at least in terms of policy-setting first, and in terms of result assessment afterwards.

It is likewise in the utmost interest of governments to use the unifying political force of parliaments to create a common ground among different agencies and areas; what comes to mind, for example, are the individual Ministries, which are part of a government, but tend to elude a general political orientation in order to sidestep the controls and overall consistency principles of government action.

Therefore, it is now in the utmost interest of government and parliament to 'work in tandem' and forge a new equilibrium in the budget process.

In the final analysis, their respective roles depend on the ability to work out a comprehensive vision enabling politics to perform its irreplaceable task of synthesis, and thereby compete with those powers endowed with other forms of legitimacy.
particularly **useful** to this end is the overview of budget experiences illustrated in the OECD studies.

They do highlight significant trends geared to improve the quality and consistency of new systems of governance, as well as the overall transparency and accountability thereof.

It is possible to detect at least three concrete indications:

- The first of these has to do with bolstering the instruments of parliamentary information. Instead of the traditional forms of overly lengthy and analytical documentation, now required is a new type of streamlined information focusing on politically relevant aspects. This new information may not be limited to a detailed description of individual items. On the contrary, it must above all provide data so that parliament may take a position on the overall framework of fundamental choices. This type of information must be assured first by the government, and then by all the entities which exercise public functions or are of public importance in various sectors. In addition, it is becoming increasingly important for this type of information to be cross-checked by neutral entities (e.g. parliamentary departments, bodies specialized in financial auditing, etc.), and through the stable linkage of parliaments with major research institutes in economy, social affairs, and statistics.

- The second indication may be seen in the trend to enhance program or policy-setting documents rather than traditional accounting and analytical formats. Choices are illustrated in program documents with an adequate description of the reasons behind them, and this makes it possible to assess the degree of consistency between constraints and objectives. This type of documents highlights the general context into which the individual choices fit. Therefore, they: a) make it possible to take individual decisions on the basis of the overall context; b) bring under the umbrella of parliament the task of defining the supranational, local or social levels; c) assure a medium- and long-term view in the evolution of public policies at large, supplying specific benchmarks for priority policy-setting decisions and for the monitoring of results.

- The third indication has to do with gauging the distribution of public resources among the various centers in the light of the radio between objectives and results. This makes it possible to take a comprehensive approach to the entire decision-making cycle up and including result assessment, shaping accordingly the relationship between parliament and government. It is a matter of identifying concrete objectives from the very outset, verifying their feasibility, and designating precise spheres of responsibility. New objectives are defined each year in the light of the results achieved in the previous year, with the adoption of appropriate corrective measures if the results are not achieved.

In conclusion, I feel that a high-level political meeting such as this should not dwell at length on the diverse technicalities of budget processes, but should respond to the principal political question before us: nowadays, what is the main function of budget
procedures, and what may be the evolutionary elements or lines of action which would ensure their best possible operation in the various countries?

That is the thesis I wished to present for your consideration, and am looking forward to comparing it with other possible indications during the upcoming round of discussion. Only at the end of our debate will it perhaps be possible to venture some conclusions which may help each one of us to gain a better understanding of our own experiences as compared with other points of view.

2. CAN NATIONAL LEGISLATURES REGAIN AN EFFECTIVE VOICE IN BUDGET POLICY?

by Mr. Allen Schick,
Maryland University, United States

Two contemporary developments are buffeting legislative work on the budget. One is the drive to discipline public finance by constraining the 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 it 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 number of countries, the national legislature now votes the budget totals, in addition to its traditional work on revenue and spending measures. While this role still is exceptional, there is good reason to believe that it will spread to many countries during the next decade. Maastricht-type rules and other efforts to stabilize 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 cooperation 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 a adversary. The probability is that adversarial relationships will predominate in presidential systems and cooperative relationships in parliamentary regimes. But other variables, such as the party system, may intervene to induce cooperation in governments where power is formally divided and to generate friction in countries where power is formally shared.

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 and a progressive rise in the share of national income spent by the government. As unlikely as this may appear to contemporary promoters of legislative activism, it has been the predominant view of legislatures for hundreds of years and even
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 an influential 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. There is good 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 on budgetary matters than they were in the post-World War II era. A 1998 OECD study reported that legislatures in more than half the countries surveyed had a larger budgetary role than they had a decade earlier. 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 from 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, the also need the political capacity to reject salient elements of the government's budget.

In dealing with budgets and other matters, legislatures face tension between the self-interest of members to promote their careers or to do good for constituents and the collective interest of the institution to produce sound, coherent legislation. As individuals, members tend to favor increased spending on particular items; as institutionalists, they have an imperative to adopt prudent revenue and spending totals. Numerous variables influence the manner in which legislators resolve these cross pressures, including party discipline, the electoral system, budget rules, and relations between the government and the legislature. As these variables differ among countries, so too does legislative treatment of the budget. Westminster-style legislatures characteristically resolve tensions between the budget's parts and totals by severely restricting the power of legislators to amend the government's budget; Congress-style legislatures typically allow members broad scope to revise the budget and make their own revenue and spending decisions. European parliaments generally fall between these extremes; they permit legislators to modify the budget, but restrict changes to the totals.

Although legislatures differ in their budget roles, we can discern three stages in their evolution:

- emergence of the legislature's power to tax and spend;

- development of government capacity and processes to formulate and implement the budget; and

- introduction of a legislative budget process.

The first two stages coincide in countries that embraced democracy only recently; those they are separated by generations or centuries in countries that have a long
history of democracy. In these countries, the first stage evolved in the course of efforts to build an independent national legislature; the second emerged in the course of developing administrative institutions. The third stage is underway in some countries, but has not yet started in many others. It may never emerge in countries which assign a passive role to the legislature on budget matters.

Each stage is described in the sections that follow. My aim is not to conduct an historical tour of budgeting, but to shed light on the contemporary roles of democratic legislatures and to explain why taking a more active and independent posture may be beyond the reach of some. Parliaments are tradition-steeped institutions; getting them to change is not simply a matter of grafting new practices onto the old, but of rethinking their place. This certainly is the case with respect to legislative budgeting, for new responsibilities must be accommodated both to long-standing appropriations processes and to political relations with government.

Section 1 surveys the first two stages and explains why national legislatures which rose to power on the principal that they should control the purse ceded budget initiative to the government, thereby giving ministers and officials much of the financial prerogative that had once been wrested from the crown. Section 2 analyzes the factors that have enfeebled many contemporary legislatures in tax legislation and appropriations. Section 3 discusses recent efforts in a number of countries to establish legislative budget processes. This development has not yet run its course, and its spread to countries which presently restrict legislative budget initiative is problematic. The concluding section presents alternative scenarios of the future budget role of national legislatures.

1. Legislative Appropriations and Executive Budgets

Some national legislatures which trace their lineage back hundreds of years had more effective financial powers centuries ago than they have today. This anomaly lies at the heart of debate over the budgetary-role of contemporary legislatures. Explaining it is facilitated by distinguishing between appropriations and budgets. Before governments prepared budgets, democratic legislatures made appropriations. This historical sequence is important for two reasons: first, it indicates that legislatures had fiscal power before governments did; second, it suggests that budgetary practices emerged because legislative action was deemed to be an inadequate means of fiscal control. The details may differ from one country to another, but the pattern is near-universal legislatures appropriate, governments budget. This section outlines the story of appropriations and budgets as it unfolded in England and France, two of the earliest countries to impose legislative control of the purse. These countries faced similar struggles in reining in the crown's appetite to tax and spend, but they resolved the issue differently. England proscribed legislative initiative, France did not. Each country has served as a role model for many others, even for countries which, have never been-rulled by monarchs.

England's struggle for legislative preeminence dates back to Magna Carta in 1215 when King John covenanted with the barons not to levy any tax without their assent. But far from settling the issue, this great event set the stage for almost five centuries of conflict between the Crown and the people's representatives. The King had several advantages in this contest: his own income which was commingled with tax
revenue, authority to decide when Parliament met, and the asserted right to spend as he wanted. But when his resources were depleted or inadequate, as in time of war, the King had to call upon Parliament to replenish his treasury. Over time, Parliament extracted concessions in exchange for supplying the needed money. One was to separate the Crown's own money from the public's, another was to insist that money be spent only on authorized purposes. To enforce its will, Commons devised the tactic of voting appropriations near the end of the session, after the Crown had already spent some of his own money. Inasmuch as he could not be certain that the appropriations would be forthcoming, he had an incentive to be prudent in managing expenditure and in complying with the dictates of Commons. Over time, however, this means of controlling public spending contributed to the decline of legislative power. With appropriations voted after the fiscal year was underway, Parliament came to merely endorse spending that had already incurred. When government replaced the Crown as the spender, ex post appropriations become mechanical exercises rather than means of financial control.

Commons curtailed its power in yet another way by adopting a standing order in 1706 that, with some change in language, persists to this day:

This House shall not accept any petition for any sum of money relating to the public service, nor shall it pass upon a motion which would bring about a vote on a subsidy or on a charge against public revenues... unless upon recommendation of the Crown.

According to Erskine May, the pre-eminent parliamentary authority, this rule codified "constitutional practice which had become established long before the passing of that order ... it was the natural result of the constitutional relations between the Crown and Parliament at the time when the practice was established." Inasmuch as the purpose of tax legislation and appropriations was to restrain the Crown, it made no sense for Commons to vote money that had not been requested. With the transfer of financial authority from the Crown to the government, Commons found itself barred by his standing orders from initiating expenditures and by political Realpolitik from denying requested funds. Its vaunted power of the purse was reduced to hollow ritual.

The legislature's acquisition of financial power followed approximately the same party in France as in England, but there were some notable differences between the two countries. The French monarch insisted on unfettered power to tax and spend, while legislative bodies, initially composed of the privileged classes but broadened over centuries to represent the people, asserted authority to control the purse. During long periods in the 15th-18th centuries, the King had the upper hand because he rarely convened the États Généraux, which was the legislative assembly. In fact, this body did not meet at all in the 175 years from 1614 to 1789. Another complicating problem was the practice of the King to commingle public funds with his own. He felt no compunction in doing this because the King claimed an absolute right to use all money as he wanted.

In contrast to England, where legislative authority emerged in a gradual, largely peaceful manner, in France it required a revolution to establish the principle that no tax could be levied without the consent of the National Assembly. In contrast to the House of Commons which limited its fiscal power, the National Assembly did not restrict its power to initiate taxes or appropriations. Moreover, it asserted a more direct role in receiving how appropriated funds were spent. A 1791 decree proclaimed that "The Assembly shall
itself definitely examine and audit the accounts of the Nation ". An accounting bureau, under the direction of the Assembly, was charged with reviewing expenditures.

In the more than two centuries since its Revolution, France has experienced a number of political upheavals which have affected financial relations between the government and the legislature. A recurring issue has been the competence of the National Assembly to take an independent position on appropriations. The country has gone through alternations in legislative-government relations, with periods of legislative dominance followed by changes which have constricted legislative independence. Thus, in response to the independent, some would say irresponsible, exercise of financial power by the National Assembly during the prewar Third Republic, the Constitution of the Fifth Republic constrains legislative independence.

The Budget: Aiding and constraining legislative action. Thus far, we have avoided using the word budget because during the formative period of legislative control of the purse, official budgets did not exist. It is generally agreed that this word was first used to describe government financial practices in England during the 18th century, more than one hundred years after Parliament's authority in taxation and expenditure was finally secured. The word budget was first used in official French documents early in the 19th century; it then spread rapidly to other developed countries. One of the earliest formal definitions appeared in an 1862 French law which described the budget as "a document which forecasts and authorizes the annual receipts and expenditures of the State,..." This definition contains the seeds of two rival conceptions of budgetary practice. One views the budget as a plan for a future period, normally the upcoming fiscal year; the other regards it as an authoritative decision on future receipts and expenditures. As a plan, the budget is a set of proposals that carry no social weight other than the influence the government has to sway legislative actions; as an authoritative decision, the government may tax and spend, subject to routine legislative approval, on the basis of the revenues and expenditures set forth in the budget. As a proposal, the budget does not expressly infringe on the legislature's primacy in financial matters; as an authoritative decision, it dictates or overrides legislative preferences.

Governments budgeted their revenues and expenditures before they had formal budget systems. That is, they compiled revenue and spending in a single document that was transmitted to the legislature at regular intervals. But as governments expanded during the 19th century, it became increasingly desirable to coordinate the claims on their finances by preparing comprehensive budgets. Rather than propose or decide revenues and expenditures in bits and pieces, the budget enabled the government to present the legislature a complete picture of public finance. The formalization of budgeting coincided with other major reforms in public administration, such as professionalization of the civil service, standardization of accounts, and the bureaucratization of government operations.

But the formalization of budgeting did more than rationalize public administration; it also altered the balance of financial power between governments and legislatures. With government decisions on the budget preceding legislative action, tax legislation and appropriations were either constrained or strongly influenced by the government's preferences. Even those parliaments which retained legal authority to deviate from the government's budget were politically subordinated to its dictates. It became common in developed countries to assess legislative revenue and spending
decisions in the light of the executive's budget recommendations. The budget became the universal metric for measuring legislative action. The budget impelled a Copernican revolution in public finance. The legislative supremacy which had been hard earned in centuries of struggle was surrendered on the battlefield of executive budgets.

It was taken for granted in all countries that budgeting is an executive function carried out by the executive, not by the legislature. Only the executive had the organization and capacity to coordinate the spending bids of its various departments and agencies; only it could implement actual spending by these entities. In fact, efforts by some legislatures to bolster their capacity to review the government's spending plans met with strong opposition in some countries on the ground that they were trespassing on executive responsibilities. Stourn reports that the eminent French economist Leon Say opposed efforts by the National Assembly to establish a permanent committee to review the government's budget:

*The Committee on Budget wants to put itself in the place of the administration and to prepare the budget itself instead of being satisfied with receiving it for the purpose of control. The Chairman of the Committee on Budget has become to some extent the First Lord of the Treasury... The opponents of ministerial power see at once the benefits they could derive from this new institution.*

Say's view, which expressed the sentiments of the times, was that the legislature's job is, to control public finance, that is, to vote appropriations that the limit the amount to be spent. It's job was not to plan and coordinate public finance.

In most developed countries, legislators welcomed the new budget practices, for they brought order and coherence to tax legislation and appropriations. Legislators now had a fairly comprehensive view of how the parts fitted together and of total revenue and expenditure. Moreover, standards of good budget practice were codified in a set of principles which gained acceptance in most countries. These principles included *annuality* in budget decisions, comprehensiveness of budget accounts, and specification of the objects of expenditure. Only a few national legislatures resisted the rapid spread of the budget idea. The strongest objections came from the United States Congress, which sensed that entrusting the executive with budgetary power would weaken its authority on taxes and appropriations. Congress acceded to an executive budget process in 1921, later than all major European countries, and only after the costs of world war had demonstrated the need to discipline public finance. When Congress acted, some political experts pre that the president's new budget power would spell the end of legislative supremacy.

Why did budgeting, which was seen as strengthening legislative fiscal control, turn into a means of subordinating the legislature? The answers lie less in the realm of legal authority and more in politics. The budget submitted to the legislature is the end product of a lengthy process of organizing, monitoring and controlling public finances. Putting together the budget and overseeing its implementation engages a vast enterprise of specialists centered in the finance ministry or a similar organization at the top of government. This ministry's reach extends to all government departments and agencies, and entails sifting through vast amounts of financial and operational data. To do its job well, the finance ministry must also assess political demands and interests, as well as the
efficiency of expenditure. When the budget is submitted, the finance ministry knows a
great deal about public finance, and the legislature knows very little other than what the
government wants of it. This information asymmetry places the legislature at an
enormous disadvantage. Even with standing committees and modest staff resources of its
own, the legislature is no match for the government. While they can compensate
somewhat through the hard work of sifting through the estimates, legislators rarely
acquire a deep understanding of how public money is spend or of the implications of
appropriating more or less than was budgeted by the government.

The vast growth of government, beginning in the last decades of the 19th century
and accelerating through most of the 20th century, further diminished the legislature’s
influence. With growth, the budget's line items were consolidated into broader
categories. For example, rather than specifying each position in the public service, the
budget estimates the amounts to be spent in each job classification or in a group of
classifications. In some countries, consolidation was taken further, so that a single sum
was entered for all personnel expenditures. Consolidation made the budget less unwieldy,
but also reduced legislative control over individual line items. Another byproduct of
government expansion was that the budget came to be seen more as a statement of public
programs and objectives and less as an instrument of financial control. The budget also
matured into a means of guiding and stabilizing the economy, and its totals acquired a
fiscal salience that transcended the individual items of expenditure. In some countries,
the budget also gained status as the means by which government managed its
administrative entities and operations and prodded them to improve efficiency. As
laudable as these transformations were, they subordinated financial control to larger
budget purposes. In a legal sense, little had changed, politically hardly anything was the
same.

2. The Decline of National Legislatures

Contemporary scholars speak routinely of the decline of national legislatures,
not only on budgetary matters but on the full range of legislative responsibilities. Decline
has occurred, they agree, despite the fact the modern legislatures are better organized and
resourced them before. In their view, the decline has little to do with internal legislative
operations, but to three external developments that have stripped parliaments of
independence and control:

- the rise of disciplined political parties which set the legislative agenda and
  compel legislators to defer to vote the party line;

- the enormous escalation in public spending, and the concomitant shift away
  from spending on housekeeping and security functions to spending on
  entitlements and income support; and

- the rise in interest and corporatist Political arrangements.

In combination, these trends reduced many parliaments to debating clubs which
have ample freedom to deliberate but not to decide. Although it is a sweeping
generalization which brushes aside important differences in political culture and
structure, the "decline of parliaments" hypothesis appears to fit most OECD countries.
During the past 100-150 years, party lines have stabilized in many countries and solidaristic parties, organized to enforce political discipline, have become the norms. In quite a few parliaments, the only scope members have to express independence is on private bills which the government takes little interest in. Budget deals are made outside parliament, within government or by party functionaries, and then ratified within it. Extra-parliamentary budgetary arrangements prevail in majoritarian regimes where the budget is imposed on parliament by government diktat, and in coalition regimes where the parties to the coalition hammer out an agreement that frames parliament's work for the life of the government. In some countries, the budget is negotiated through formal party channels which parallel the government's budget process. In Japan, the dominant Liberal Democratic Party has standing committees which review the Ministry of Finance's budget and make final decisions which are then transmitted to the Diet. The role of parties is especially prominent when the government takes significant policy initiatives or prepares a budget package which is adopted in a single vote. One insightful observer of Nordic parliaments concludes that

“... the penetration of the internal machinery of assemblies by solidaristic political parties has significantly limited the efficacy of parliamentary activity. Briefly stated, party control has tended to mean that the legislative function of assemblies i.e. the successful initiation of proposals, has been subordinated....”

A second driver of parliamentary decline has been the vast expansion in the scale of government. In the OECD community, the growth in public spending during the 1960-1980 period averaged more than one percentage point relative to GDP a year. Most of the rise in spending on entitlements, which must be paid regardless of the government's financial condition or other demands on the budget. As government expanded beyond its watchman responsibility to maintain domestic order and protect citizens against external threats to one whose main financial effort is to sustain the economic wellbeing of its people, the traditional role of legislatures in restraining the exercise of power no longer fitted well. Expansionary government needed empowerment, not restraint, and empowerment needed a stable supply of money to government. An expanded state needs secure financing, which is not impeded by legislative whim or impasse. While expanded entitlements weaken executives, who also are beholden to commitments made by their predecessors, it does even more damage to legislative capacity, for parliaments typically finance income transfer schemes in permanent legislation which, unlike conventional budget expenditures, do not require periodic legislative approval.

Expansion of the state strains legislative capacity to oversee the executive, not only because there is so much more to review but also because effective power shifts from elected ministers to non-elected officials who work in massive bureaucracies that are shielded from public view and are difficult to penetrate. Despite innovations such as the ombudsman and enlargement of legislative staffs, it is not feasible for legislators to control a state that has grown so large and active. More importantly, enlargement of the state has stirred interest in performance and results rather than with legality and propriety in public expenditure. Citizens want government to do more for them, not to be held back by stingy legislators.
Growth of the state has affected legislative power in yet another way. Although it is conventionally assumed that legislators add to the budget, government executives have been the prime movers in stretching the programmatic boundaries. For decades, the budget tabled by governments regularly proposed program initiatives and spending increases in excess of the rate of increase in prices or in economic activity. Governments also regularly proposed, and parliaments adopted, tax increases to finance incessant program expansions. As noted earlier, the legislative contribution to spending increases was typically marginal. Thus expansion itself cannoted a shift in the balance of power between parliament and government.

The third blow to legislative capacity has been delivered by the multiplication and activism of interest groups. All democratic countries have many more politically active groups than they had a generation ago, but a vital distinction must be drawn between pluralist and corporatist versions of the relationship between groups and government. The pluralist model, which is most evident in the United States, narrows group interests; the corporatist model broadens these interests. In pluralist societies, the sheer number of groups impels them to take a narrow view of their interests; consequently, the demands they make on legislators (and other political actors) typically deal with marginal matters which can be satisfied with a little more or less taxing or spending. The budget impact of pluralism is to discourage legislators from focusing on the big picture. The marginalized legislature is busy with a large number of amendments that may attract much political notice but barely make a dent in the government's budget plans. In corporatist societies, major government policies are made in consultation with conglomerations of groups which represent a broad swath of interests. There may be one such conglomeration speaking for industry, another for workers, another for municipalities, etc. In some cases, the government maintains formal, continuing relations with these "social partners" and acts only after it has discussed policy initiatives with them. But once government and corporatist interests have reached agreement, the legislature either has no role or must go along.

**Decline in the legislature's budget role.** The foregoing paragraphs deal with the overall place of modern legislatures and governing institutions; it does not single out their budget powers. But a legislature cannot be influential in financial policy if it has been marginalized as a policy institution. The 1998 OECD survey of referred to earlier confirms that contemporary legislatures are perceived to have a weak budget role. Table 1 summarizes country responses to the following set of questions:

Does the legislature typically enact the budget a proposed by the government? How many amendments to the budget (in number and amount) are typically proposed by the government and opposition members of the legislature respectively?

Most countries responded that they make no changes or only minor adjustments in the budget proposed by the government. Among the countries that have numerous legislative amendments, most reported that these do not significantly change the government's budget.

In some countries, the bulk of the adopted amendments come from the government itself or from legislators affiliated with it. This pattern indicates that working with the government rather than against it may be the most productive route to legislative
influence. After it submits the budget, the government may accept or offer amendments, either to thwart opposition or to reward loyal members by embracing their proposals. In some countries, robust, behind-the-scenes negotiations between the government and legislative leaders give parliament some opportunity to influence the budget at the margins.

The OECD survey indicates that constraints on legislative influence arise more out of political considerations than from formal restrictions on its power to amend the budget. Table 2 drawn from the survey compiles country self-assessments on the restrictions faced by their legislatures. In pointing to political rather than legal factors, the data suggest that even if budget rules were changed to accommodate a broader legislative role, underlying political conditions may preclude significant change in legislative behavior. A corollary of this conclusion is that the impact of efforts to empower the legislature will vary among countries. Depending, on political variables, changes that spur the legislature to take a more active role on the budget in some countries may induce continuing passivity in others.

The OECD survey invited each country to offer a brief response, without supporting analysis or explanation. Some of the details can be filled in by revisiting an insightful study published a quarter of a century ago on the budget role of six European parliaments. In The Power of the Purse: A Symposium on the Role of European Parliaments in Budget Decisions, David Coombes and his colleagues generally concluded that parliament had become marginalized on budget policy. The following paragraphs, drawn directly from this study, assess the legislature's budget role in four of the countries.

In Germany, K.H. Friauf notes, the government and its parliamentary majority are not regarded as politically identical. There is some separation of power between the two which allows the Bundestag to express its own will. The Bundestag can amend the government's budget without raising a question of confidence. But Friauf concludes that although the government frequently accepts additions to the budget offered by the Bundestag, "the total amounts involved in additional expenditures voted by parliament are usually insignificant when set against the total volume of the budget." Inasmuch as Friauf's conclusions were drawn mostly from the Adenauer years, it may be appropriate to reconsider them in the light of more recent developments, especially those since unification of Germany, a period during which the Bundestag was called upon to vote tax increases and cuts in some social programs. The distaste of these actions and the weakening of the government's ruling coalition may have enlarged legislative budgetary influence.

A. Dupes begins his article on parliamentary control of the budget in France by noting that in "France, as in many other representative democracies, the decline of parliament has become a favorite theme for political theorists... The belief that parliament's examination of the budget must now be considered an unimportant ritual is one which many experts and politicians of all shades will support .... Today, all real power has passed to the executive; the debate on the budget is no more than conversational and the parliamentary role is limited to the registration of governmental decisions." Later in his analysis, Dupas softens this harsh conclusion by arguing that the National Assembly can modify the budget. He describes the Assembly's distinction between crédits votes, which are the expenditures authorized for the current year,
services votes, which are the costs of carrying out approved activities in the next year, and mesures nouvelles, which are proposed initiatives for the next year. This arrangement institutionalizes a form of incrementalism, for it invites the legislature to concentrate on changes to the base of authorized expenditures. Incrementalism is a fact of budgetary life, whether or not it is formalized in procedural rules. The relevant question is whether in behaving incrementally, parliament rubber stamps or revises the proposed budget. One feature of the French system suggests a limited parliamentary influence: the service votes in the general budget are approved en bloc rather than by individual item or budget chapter. Despite this practice, Dupas concludes: "it would be the opposite of the truth to maintain that the French parliament is no more than a register for budgetary decisions. Constructively or otherwise, voting on the budget gives parliament an opportunity to make its mark."

This surprising conclusion is openly challenged by P. Lalumiere, another contributor to the symposium who notes that the 1958 Constitution of the Fifth Republic "reaffirms parliament's power of decision in budgetary matters while multiplying the legal restrictions on exercising this power... In fact, the actual working of the budgetary institutions betrays an important decline in parliamentary influence." According to Lalumiere, "budgetary debates no longer provide the parliamentary assemblies with an opportunity to exercise real influence over the choices proposed and thereby over government activity. The majority of observers now admit that the institution of parliament has been effaced in this way..."

Nowhere is the budgetary decline of parliament more noticeable than in Britain. J. Molinier sums up the process by which the House of Commons, the cradle of budgetary democracy, lost all formal influence over revenues and expenditures:

The emergence of two large mass, coherent and disciplined parties with national support and alternating in power led in effect to a transfer to the Cabinet of what was essential in the financial and other powers exercised previously by the House of Commons, Having stripped the monarchy of its financial prerogatives, parliament was in turn stripped of its financial competencies by the Cabinet .... Today the House of Commons is hardly able to participate effectively in the determination of the budget.

The British parliament is distinguished from other national legislatures in that both its budgetary success and decline occurred much earlier than in other countries, and its loss of budgetary role has been greater. As an outlier, it is a model that few legislatures have emulated but most have rejected. Nevertheless, there are elements of the British experience in the many countries which have sought to avoid the fate that has befallen the House of Commons.

In Italy, the frequent turnover in government and the constant bargaining and bickering among coalition partners gives the legislature abundant opportunity to shape budgetary outcomes. But in Italy the problem is not that parliament is weak vis-a-vis government, but that both have been undermined by political instability and financial rigidity. V. Onida describes the reality of Italian budgeting in these words:

The budgetary system is dominated by the concept of strict parliamentary control. It is designed to place tight restrictions on government
expenditure and to ensure that these are respected. In reality, however, parliamentary control is emptied of all significance. The root of this apparent contradiction is most likely to be found in the fact that the type of parliamentary control for which this system is designed ... is quite different from the control which the assemblies really want.

Onida points to a significant change in legislative practice that has been underway in many OECD countries; "the increasing tendency for the locus of decisions regarding both the overall amount and the particular use of expenditure to move out of the annual budget altogether into the procedure for passing ordinary laws which require and provide expenditure in particular sectors for a fixed number of years, often for many years." This observation is endorsed by another participant in the symposium who finds that "a large part of the national budget, consolidated in fixed expenditures or flowing from laws passed many years earlier, for practical purposes evades all control" While not mentioned, most of these laws are entitlements which weaken not only legislative control of the purse but the government's capacity to regulate short term fiscal outcomes. Arguably, legislatures cannot regain financial control if the budget itself is out of control.

3. Restoring Legislative Budget Capacity

In the distant past, legislatures leveraged their power of the purse to gain independence as governing institutions. The competence of legislatures to decide taxes and spending and to enforce their dictates on monarchs and executives opened the door to an active role in establishing government programs and policies. Can the budget once again be the wedge that enables resurgent legislatures to reclaim the budget powers yielded in the past century? The 24-25 January 2001 International Meeting has been convened on the expectation that parliamentary bodies are tooling up to once again take center stage in budgeting. But recapturing legislative hegemony in public finance cannot be achieved by reverting to the control posture that served legislatures so well in the past. While citizens may welcome more control of government, they also want more programs and benefits from government. They want the schools to be well staffed and the social security checks and other payments to arrive on time. If fiscal control gets in the way of these widely shared objectives, it will be brushed aside by legislators and executives alike bent on giving citizens what they want.

The problem for contemporary legislatures is that in the past they fought for a foothold in budgeting in order to represent the people. Today, the people do not want them to serve as controllers, for doing so would limit the flow of money and programs. Accordingly, legislators have to define a new role, that of promoting fiscal discipline, improving allocation of public money, and stimulating administrative entities to manage their operations more efficiently. Fulfilling these new roles requires

- enhancement of legislative capacity and resources to deal with budget issues,
- changes in both executive and legislative budgeting to promote fiscal discipline, allocative efficiency and operational efficiency,
- new tools for reconciling long-term commitments such as entitlements and other "sticky" expenditures with short and medium-term budget objectives, and
- redefinition of relationships with the government that recognizes the strong influence of political parties and interest groups on legislative behavior.

Resourcing the legislature for a renewed budget role is the easiest of the required changes, though it may stir up conflict both within parliament and between it and the government. One move has been to expand the role of standing committees to deal with the budget. These committees are authorized to review the estimates, take evidence, demand information on the budget, and recommend legislative action. In countries where the legislature may amend the budget, its committees also recommend changes in the fiscal plans submitted by the government. There are, however, significant differences in the way committees are structured to deal with the budget. One pattern is to assign full responsibility to a finance or budget committee; another is to disperse jurisdiction among sectoral committees. The first eases the task of coordination and promotes consistency in legislative budget action; the second allows wider scope for sectoral interests to influence the budget. The first encourages examining the budget in fiscal terms, the second encourages a program orientation. The centralized model facilitates fiscal discipline, the second may complicate the task of maintaining discipline.

A well-balanced legislature needs both a program and fiscal outlook; both considerations must be welded together in producing a legislative position on the budget. Accordingly, a third version has gained popularity in recent years: it empowers sectoral committees to review relevant portions of the budget and recommend legislative action within an overall fiscal framework maintained by the finance committee. As will be discussed below, some countries have formalized this arrangement in a two step process, in which the legislature first votes budget totals, and sectoral committees then make recommendations consistent with the agreed totals.

Responsible and effective legislative action on the budget depends on adequate information concerning the activities financed with public funds and the results ensuing from government programs. It also requires information on how changes to the budget submitted by the government may affect activities and program results. Getting these types of information has not always been easy because budgeting in many countries is still wedded to inputs, with detailed estimates of the amounts allocated for personnel, equipment, supplies, travel, and other items. In the past, efforts to shift budgeting to a more programmatic orientation have not been successful. The well-known failures include planning-programming budgeting systems (United States), public expenditure management (Canada), program budgeting (Sweden), rationalisation des choix budgétaires (France), and program analysis and review (Britain). It is highly unlikely that the legislature will take a programmatic orientation if the government does not.

The failed reforms all involved changes to rationalize budget practices within government. The legislature was not directly affected, though advocates of the reforms typically argued that it too would benefit from an enriched supply of budget information. Contemporary reforms concentrate explicitly on the information given to legislatures, and even more importantly on the form and content of estimates and appropriations. Led by New Zealand, which has shifted both estimates and appropriations from inputs to outputs, a number of countries have drawn the conclusion that successful implementation of budget reform within government is contingent on changing the way the legislature makes fiscal decisions. While this thesis appears sound, it opens up a critical question: will the legislature be better able to influence the budget and maintain accountability for
expenditures and results if it is supplied program and output information, along with a
flow of analytic and evaluative reports? On the surface, the answer appears obvious: the
legislature is always better off with this type of information than with line item data. But
the verdict is not in yet, for legislators inured by generations of practice to review input
detail may be disadvantaged by the complexities of program-oriented budget and
overwhelmed by the volume of information given them. In this regard, it bears
mentioning that most developed countries have not joined the performance budgeting
bandwagon. Most have settled for injecting more data on performance into their budgets,
but have stopped short of removing the input data and fundamentally restructuring the
estimates and appropriations.

One of the frontiers of changes in budgetary information and structure entails a
shift from cash-based accounting and budgeting to an accrual basis. More than half a
dozen countries are in the vanguard of this movement including Australia, Britain, the
Netherlands, New Zealand, Iceland and Sweden. The shift to an accrual basis has been
given momentum by the Maastricht accords whose enforcement depends on application
of internationally accepted accounting standards, and IMF's conversion of it government
financial statistics to an accrual basis. In terms of prospective impact on legislative
behavior, a distinction must be drawn between accrual accounting and accrual budgeting.
If only the accounting basis were changed, the effect on legislative action would be
modest. The legislature would have cost-based information to supplement the
conventional cash-based estimates. But if government were to budget on an accrual basis,
the impact might be truly significant, for the form and content of the estimates and
appropriations would also be changed.

The supply of information has also been enriched in some countries by building
the capacity of audit offices to assist the legislature. While the relationship of the audit
office to the legislature varies among countries in some the audit office is directly
responsible to the legislature, in others it is an entirely independent entity, and in a few it
is responsible to government - these organizations have become more active over the past
decade in reviewing the financial and program performance of government departments
and agencies. The list of countries requiring audited financial statements is growing from
year to year, and though-lagging behind, so too, is the list of countries expanding the
audit function to cover substantive results.

To make effective use of the avalanche of information, modern legislatures have
added staff, invested in IT, and professionalized their operations. There is a marked trend
to expand the staffs of standing committees, so that they can sift through the voluminous
information and assist legislators in reviewing executive proposals, devise alternatives
and amendments, and review performance. The up-staffing of legislatures is not limited
to budget work, but it is in this area that some of the most dramatic changes are likely to
occur. While still few in number, a growing number of legislatures are inching to the
view that they cannot truly exercise independent judgement on the budget if they do not
have expert staff to help them do the job. The question for these legislatures is not
whether to add a position here or there, but to establish a separate legislative budget
organization. Although it rarely is a model for other legislatures, the US Congress may be
so in this area. The Congressional Budget Office established 25 years ago has garnered
considerable acclaim for its objective analysis and forthright budget projections. Staffed
by more than 200 professionals selected on a nonpartisan basis, this office has exerted
considerable influence on US budget policy. Other national legislatures may follow its lead, but their budget organizations are likely to be more modestly sized.

Resourcing the legislature does not itself ensure that it will assume a larger or more effective role. The legislature must also define how it fits into overall governance. The three trends identified in the previous section that account for the decline of legislatures are not going to be reversed. Public spending is not likely to decline as a proportion of GDP, nor will the fraction of the budget allocated to entitlements shrink. Political parties will not disappear, though their ability to enforce discipline may be weakened, and the number of interest groups is likely to climb in the years ahead, though corporatist arrangements may give way to more pluralistic patterns. How, then, can a legislature stake out a truly independent position when it is beholden to entitlements, whipped into line by party leaders, and pressured by groups bent on protecting their interests? The answer is, not easily. But perhaps the best way to address this question is by considering the specific budget tasks that legislatures may participate in. Three of these tasks -- fiscal discipline, allocative improvement, and operational efficiency -- were briefly mentioned earlier. Discussing each in turn will shed light on the niche contemporary legislatures may carve for themselves.

Before doing so, it would be appropriate to discuss the traditional role of the legislature as a restraint on the exercise of government power. Clearly, this role survive in most countries, though not as robustly as before. In a legal sense, the doctrine of control has not been impaired. Stripped to its essentials, it means that government may not spend more than authorized in law or for other than authorized purposes. De facto however, control does not mean the same today as it once did. Nowadays, appropriations tend to be lump sum, and are intended as much to authorize as to limit spending. Moreover, entitlements generally are established in permanent legislation which does not specify or limit the amount to be spent.

Currently, legislative budget work has as much to do with making policy as with controlling executive action. This entails a more integrated examination of the budget than most legislatures are prepared to undertake, as well as capacity to specify in law or by other means the performance required of those who spend public funds. Some legislatures have sought to hold on to a control orientation by shifting from ex-ante control of expenditure to ex post accountability for expenditures and results. But in view of the fact that reporting and auditing of performance are still underdeveloped in most countries, one cannot be certain that legislatures are prepared for this new assignment.

If it is involved in policy, the legislature will have to contribute to the maintenance of fiscal discipline by giving precedence in its decisions to budget totals before it takes up the various parts. Sweden, the Czech Republic, and a few other countries have introduced a two-stage budget process involving both governmental and legislative decisions. In the first stage, decisions are taken on the aggregates as well as on the amounts allocated to major sectors. The aggregates are prepared by the government and transmitted to the legislature for review and, in a few countries, approval. Some months after the first stage has been completed, the government tables estimates and these are voted under the rule that the sum of all the voted amounts may not exceed the aggregates agreed in the first stage. Enforcing the totals is dependent on adequate information concerning the cost of programs and the prospective impact of policy changes. It also requires controllers in both the executive and legislature to maintain
discipline in the face of spending pressures. In legislatures which parcel the budget among sectoral committees, this watchman role falls to the budget committee which monitors what each of the other committees is doing. The price of enforcing discipline in this matter is to generate friction among legislative committees as they fight for budget shares.

Contributing to improved allocation of public money requires that the legislature take a program perspective, and that it be prepared to shift money from lower priority and less effective activities to higher priorities and more productive uses. Realistically, however, this is a momentous task, especially for legislators schooled in the politics of distribution. Redistribution does not come easily to legislatures, if at all. But in light of the determination of many countries to reduce or stabilize public expenditure, the only way to find resources for new priorities will be to take them from older ones. Redistribution may be most difficult in the case of entitlements, where citizens have been programmed to expect benefits from government as a legal right. Nevertheless, quite a few OECD countries have been compelled by budgetary force majeure to trim these payments, though typically only at the margins. As aging populations add to budget pressures one may see even more vigorous efforts to curtail entitlements in the future.

Efforts to reduce the budgetary burdens imposed by permanent law may be difficult for yet another reason. Quite a few countries draw a distinction between legislation and the budget or appropriations. The former establish law and policy, the latter provide money. Changing the amounts spent on entitlements means that in addition to budgeting fewer resources for these programs, underlying laws must be modified. There is a need to link legislative action on the budget with actions affecting such laws. Some governments have taken to produce budget packages which combine revenues, spending, and changes in standing law. The United States has had a reconciliation process since 1980 which enables Congress to use its budget to initiate changes in revenue and entitlement legislation. Reconciliation is not used every year, only in those where major changes in budget policy are undertaken.

Finally, legislatures may participate in the contemporary movement to improve the quality and efficiency of public services by appropriating funds on the basis of expectations and results on performance. A legislature which rewards or ignores poor results will get poor results. Legislatures should be in the vanguard of demanding better information on performance, relying on performance measures in appropriating money, and specifying in advance the performance expected of government agencies.

4. Legislative Futures: Alternative Scenarios

Future legislatures will have more resources to carry out budget responsibilities. They will have staff, committees, and information. But will they have will? The answer will differ in each country which tools up for budget work. But for ease of analysis, let us draw two starkly different scenarios, one of resources without Eole, the other of a role without support. The first scenario can be jestfully summed up as the atheist's nightmare. The story is told of the atheist who arranged the following inscription on his tombstone: "All dressed up, but nowhere to go." So one path is for legislatures to be all dressed up with resources, but not know what to do. Of course, they may continue with the habits of
the past and tinker with minor adjustments here and there, all along taking credit for helping constituents and promoting their political careers. This role is similar to that played by many legislatures in the recent past. Perhaps having staff and budget responsibility will broaden legislative perspective and ambition and generate bigger changes to the budget.

The second scenario has the legislature transforming itself into a budgeting institution, preparing budgets with the scope found in the government's budget. Rather than adjusting the budget at the margins, the legislature would deploy its added resources and enlarged role to challenge the policies and priorities presented to it by the government. But will a legislature bent on taking on this role have the requisite political support to sustain its ambitions? Will the political system be able to bear the elevated conflict and tension that would surely arise when the legislative charts its own course on the budget. Which will give way first, party discipline or the legislature's drive to forge ahead independently?

Neither scenario is particularly appealing; they are poles apart, legislatures will have to find their way in between. This is the challenge facing contemporary legislature builders: the past cannot be abandoned, but neither can they deny the future.
Table 1  
LEGISLATURE'S AUTHORITY TO AMEND THE GOVERNMENT'S BUDGET

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>The House of Representatives may modify the budget, but it rarely does so because the Government holds a majority in the House.</td>
</tr>
<tr>
<td></td>
<td>The Senate may not initiate taxation or appropriations bills, nor may it amend such measures. It can, however, refuse to pass revenue or appropriations bills until they are amended to its liking by the House.</td>
</tr>
<tr>
<td>Austria</td>
<td>The National Council may amend the draft budget submitted by the Government, but it usually only makes slight corrections.</td>
</tr>
<tr>
<td>Belgium</td>
<td>The ability of the Chamber of Deputies to modify the budget is not limited by law, but the legislature faces at least two constraints in practice. First, Belgium has committed to some unrestricted and recurring expenses that are not subject to debate. Second, a major modification to a budget proposal by the Chamber of Deputies would be the equivalent of calling for a “vote of confidence” regarding the Government.</td>
</tr>
<tr>
<td>Brazil</td>
<td>The National Congress may amend the budget, but it cannot increase total spending or modify payroll expenditure, debt service, or constitutional transfers. Amendments must be within the parameters of the annual Budget Guidelines Law and quadrennial Multi-Year Plan.</td>
</tr>
<tr>
<td>Canada</td>
<td>Although there are no formal restrictions, it is difficult to adopt changes once the budget has been introduced in Parliament. Legislators often consult with the Government before the budget is formally submitted. Defeat of the budget in the House of Commons implies a defeat of the Government and leads to new elections.</td>
</tr>
<tr>
<td>Chile</td>
<td>The Constitution severely curtails the budget role of the National Congress; Congress discusses the budget, but it may not revise revenue estimates or increase expenditures. It may cut variable expenditure. Adopted amendments have only a marginal impact and usually are presented by the Government pursuant to negotiations with Congress.</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Parliament may modify the budget, but must not contravene the various laws that circumscribe its ability to do so.</td>
</tr>
<tr>
<td>Denmark</td>
<td>In principle, legislators may present budget proposals; in practice, they lack the administrative capacity to prepare such proposals.</td>
</tr>
<tr>
<td></td>
<td>Parliament may make changes to any part of the Government's budget proposal before adopting it.</td>
</tr>
<tr>
<td>Finland</td>
<td>Parliament's right to make changes to the budget is not restricted, but it is constrained by certain procedural rules.</td>
</tr>
<tr>
<td>Country</td>
<td>Description</td>
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</tr>
<tr>
<td>France</td>
<td>Current law dictates that Parliament may not raise spending above a pre-established ceiling, or lower revenues below a pre-established floor. If some legislators wish to change either or both of these numbers, Parliament must first vote to approve their proposal.</td>
</tr>
<tr>
<td>Germany</td>
<td>In theory, various budget regulations provide the only constraint on Parliament's ability to change the budget. In practice, however, legislators face additional constraints, since about 80 to 85 percent of budget expenditures are required by various laws and treaties.</td>
</tr>
<tr>
<td>Hungary</td>
<td>The Constitution does not restrict the National Assembly's ability to modify the budget. The Public Finance Act dictates that the legislature must decide the amount of the budget deficit, as well as budget expenditures and revenues for each chapter. After those amounts have been voted, legislators may only reallocate amounts within the chapters.</td>
</tr>
<tr>
<td>Iceland</td>
<td>Parliament is not formally constrained in its ability to change the budget. The Government almost always has a majority in the legislature, and that majority usually consults with the Government prior to modifying the budget.</td>
</tr>
<tr>
<td>Ireland</td>
<td>The Dáil may only vote appropriations requested by the Government. The legislature may not amend expenditures, but it may, and does, make changes to revenues.</td>
</tr>
<tr>
<td>Italy</td>
<td>Parliament may modify the budget. It is restricted by the financial covering principle that applies to proposed increases in spending or decreases in revenue.</td>
</tr>
<tr>
<td>Japan</td>
<td>The administration develops and proposes the budget; the Diet may modify the budget as long as the modifications are consistent with the Constitution.</td>
</tr>
<tr>
<td>Korea</td>
<td>The National Assembly may reduce the budget as it sees fit, but the Government must approve proposed budget increases.</td>
</tr>
<tr>
<td>New Zealand</td>
<td>The Standing Orders of the House of Representatives dictate that it will not pass a measure that will have a significant impact on the Government's fiscal aggregates.</td>
</tr>
<tr>
<td></td>
<td>The Government may veto a spending proposal if it will affect the Crown's overall financial position. This veto cannot be overturned by the House.</td>
</tr>
<tr>
<td></td>
<td>Members of the House may propose changes that would affect Votes, and the Government may veto such proposed changes.</td>
</tr>
<tr>
<td>Norway</td>
<td>Parliamentary parties may introduce any budget measures they wish, but the legislature is constrained by financial obligations to the beneficiaries of the National Insurance Scheme and state employees, and by the statutory rights of Norwegians to health care, education, and law and order.</td>
</tr>
<tr>
<td>Portugal</td>
<td>The Assembly of the Republic has no restrictions on its ability to make changes.</td>
</tr>
<tr>
<td>Spain</td>
<td>The Constitution specifies that the Government must approve proposed increases in expenditure or decreases in revenue before these may be discussed in Parliament.</td>
</tr>
<tr>
<td>Sweden</td>
<td>Parliament has no restrictions on its ability to make changes.</td>
</tr>
<tr>
<td>Country</td>
<td>Description</td>
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</tr>
<tr>
<td>Switzerland</td>
<td>Around 80 percent of expenditures cannot be reduced, because they are the product of legal prescriptions or contractual commitments.</td>
</tr>
<tr>
<td></td>
<td>The Constitution specifies the maximum tax rates that may be imposed.</td>
</tr>
<tr>
<td>Turkey</td>
<td>The budget is reviewed first by the Plan and Budget Committee and then by Parliament. During the first step, members of the Plan and Budget Committee may propose whatever changes they wish; during the second step, legislators may not propose changes that would increase expenditures or decrease revenues.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>The House of Commons may amend tax proposals.</td>
</tr>
<tr>
<td></td>
<td>The Commons cannot increase the Government's spending proposals, and in practice its ability to do other than accept them is very limited.</td>
</tr>
<tr>
<td></td>
<td>The House of Lords is not significantly involved in the budget process.</td>
</tr>
<tr>
<td>United States</td>
<td>Congress faces no specific restrictions on its power to change the president's budget. However, revenue and spending legislation are controlled by budget enforcement rules that have been in effect since 1990.</td>
</tr>
</tbody>
</table>

Source: OECD, "Role of the Legislature" (1998).
Adapted from country responses to question 2.1: "Are there any restrictions on the ability of the legislature to modify the budget proposed by the government? If so, what form do these take?"
## LEGISLATIVE MODIFICATION OF THE GOVERNMENT'S BUDGET

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>The legislature typically enacts the Government's budget. The House of Representatives does not usually offer amendments, as the Government always holds a majority. Most amendments are proposed by opposition Senators, and most of these amendments fail.</td>
</tr>
<tr>
<td>Austria</td>
<td>Although the National Council can in principle amend the budget during the time allotted for that purpose, it usually only makes slight changes.</td>
</tr>
<tr>
<td>Belgium</td>
<td>The Chamber of Deputies typically adopts the proposed budget, with the majority coalition voting in favor of the budget and the opposition voting against it. During the first trimester of the budget year, departments have the opportunity to propose changes in their budgets. In general, the legislature rarely makes significant mid-year adjustments.</td>
</tr>
<tr>
<td>Brazil</td>
<td>The National Congress made a large number of amendments to the budgets proposed during a recent three-year period.</td>
</tr>
<tr>
<td>Canada</td>
<td>Parliament typically enacts the Government's budget; the legislature offered few, if any, significant budget amendments during a recent three-year period. The opposition may make minor amendments to the budget if the Government assents.</td>
</tr>
<tr>
<td>Chile</td>
<td>Most of the budget is not significantly modified by the National Congress. When changes occur, they are usually the result of negotiations between the legislature and the Government.</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Parliament enacts the Government’s budgets with minor changes only.</td>
</tr>
<tr>
<td>Denmark</td>
<td>Parliament typically enacts the Government's budget, including the numerous amendments the Government proposes. Amendments proposed by the opposition usually fail.</td>
</tr>
<tr>
<td>Finland</td>
<td>Parliament usually approves the Government’s budget bill. The most important approved amendments come from the Government. Few amendments proposed by individual legislators pass.</td>
</tr>
<tr>
<td>France</td>
<td>The Government's budget is always adopted by Parliament, but the legislature might make changes prior to approving it. These do not significantly affect the balance of the budget, and do not modify the bulk of the budget’s revenues and expenditures.</td>
</tr>
<tr>
<td>Germany</td>
<td>Parliament reviews the budget before passing it. The review process includes consultations between legislators and ministry officials.</td>
</tr>
<tr>
<td>Country</td>
<td>Description</td>
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</tr>
<tr>
<td>Hungary</td>
<td>The National Assembly has made numerous amendments to each of the Government's budget proposals. A large portion of proposed amendments aim to secure funds for minor development projects or other purposes; these do not significantly influence the financial commitments or internal structure of the budget.</td>
</tr>
<tr>
<td>Iceland</td>
<td>Parliament usually passes the Government's budget. During a recent two-year period, the legislature made numerous amendments to the budget. All of the amendments were offered by the Government or by its supporters.</td>
</tr>
<tr>
<td>Ireland</td>
<td>The <strong>Dáil</strong> usually offers a significant number of amendments to the budget. Typically, only Government amendments are approved. Legislators cannot propose amendments to the expenditure side of the budget.</td>
</tr>
<tr>
<td>Italy</td>
<td>Many minor amendments are proposed each year, and Parliament typically passes a number of them.</td>
</tr>
<tr>
<td>Japan</td>
<td>When the ruling party dominates the legislative majority (as usually has been the case), the Government's proposed budget is normally approved without alteration.</td>
</tr>
<tr>
<td>Korea</td>
<td>The National Assembly typically modifies the Government's budget. Government and opposition parties conduct talks to determine the changes to be made. They usually only make small modifications.</td>
</tr>
<tr>
<td>New Zealand</td>
<td>The House of Representatives usually enacts the budget proposed by the Government. Few, if any, amendments are proposed, and usually no amendments are enacted.</td>
</tr>
<tr>
<td>Norway</td>
<td>Typically, Parliament enacts the Government's budget after making a number of small changes, but its behavior depends on the political situation. During the 1990s, minority governments negotiated with opposition parties.</td>
</tr>
<tr>
<td>Portugal</td>
<td>The Assembly of the Republic typically makes relatively minor changes to the Government's budget. The Government does not propose amendments; the number of amendments proposed by parliamentary groups varies.</td>
</tr>
<tr>
<td>Spain</td>
<td>All political groups represented in Parliament submit amendments to the budget.</td>
</tr>
<tr>
<td>Sweden</td>
<td>Parliament typically enacts the budget proposed by the Government. Opposition parties can propose changes to the budget during a two-week period.</td>
</tr>
<tr>
<td>Switzerland</td>
<td>The Federal Assembly adopts the budget after making changes to the Government's draft. Most changes proposed by members of the governing coalition are approved, while most proposed by opposition members are rejected.</td>
</tr>
<tr>
<td>Country</td>
<td>Description</td>
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</tr>
<tr>
<td>Turkey</td>
<td>Parliament does offer amendments to the Government's budget. During a recent three-year period, these amendments only had a small impact on the budget as a whole.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>The House of Commons enacts the Government's proposals. A number of amendments are usually made to the budget bill, but the Government is almost always the proposer of these changes.</td>
</tr>
<tr>
<td>United States</td>
<td>Congress does not vote on the president's budget, but in acting on revenue and spending measures it often deviates from the president's proposals.</td>
</tr>
</tbody>
</table>

Source: OECD. "Role of the Legislature" (1998). Adapted from 'country responses to question 2.2: "Does the legislature typically enact the budget as proposed by the government? How many amendments to the budget... are typically proposed by the government and opposition members of the legislature, respectively? How many of these are typically approved?"
Table 3

CHANGES IN THE LEGISLATURE’S BUDGET ROLE DURING THE 1988-98 PERIOD

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>The role of the legislature has not changed substantively in recent years, although Senate committees now have access to more information when considering the estimates.</td>
</tr>
<tr>
<td>Austria</td>
<td>The role of the National Council has not changed over the past ten years.</td>
</tr>
<tr>
<td>Brazil</td>
<td>There have been no substantial changes in the role of the National Congress over the past ten years.</td>
</tr>
<tr>
<td>Canada</td>
<td>Parliament’s role in the budget preparation process has expanded. The Government now produces an economic and fiscal statement each fall; this statement has enhanced the legislature’s pre-budget consultations.</td>
</tr>
<tr>
<td></td>
<td>The budget has emerged as a major policy statement.</td>
</tr>
<tr>
<td>Chile</td>
<td>In recent years, the National Congress has debated budget ceilings and limits on budgetary flexibility within those ceilings.</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>The legislature’s role has changed dramatically since the transition from socialism.</td>
</tr>
<tr>
<td>Finland</td>
<td>The role of Parliament has become smaller because the budget bill has become less itemized, and there has been an increase in extra-budgetary funds and organizations.</td>
</tr>
<tr>
<td>Germany</td>
<td>The role of Parliament has not changed much over the past ten years, although legislators must now offset any proposed spending increase with a cut in spending elsewhere in the budget.</td>
</tr>
<tr>
<td>Hungary</td>
<td>Since the transition from socialism, the legislature has been much more involved in the creation of budget laws and in the process of making budget decisions.</td>
</tr>
<tr>
<td>Italy</td>
<td>In 1997, Parliament changed the budget process in ways that have allowed it to evaluate available resources and their utilization more easily.</td>
</tr>
<tr>
<td>Ireland</td>
<td>The number and scope of Dáil committees has increased significantly in recent years. This development has meant that the annual estimates receive greater scrutiny by the Dáil.</td>
</tr>
<tr>
<td>Japan</td>
<td>The institutional framework for the role of the Diet has not changed since World War II, Lately, though, some individuals have argued that the legislature should deliberate the contents of the budget more fully.</td>
</tr>
<tr>
<td>Korea</td>
<td>There have been no significant changes in the role played by the National Assembly in the budget process.</td>
</tr>
<tr>
<td>Country</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>New Zealand</td>
<td>The Fiscal Responsibility Act of 1992 has increased the amount of information put before Parliament during the budgeting process. The Government must now provide Parliament with a statement indicating its broad strategic priorities for the upcoming budget, its fiscal intentions for the next three years, and its long-term fiscal policy objectives.</td>
</tr>
<tr>
<td>Norway</td>
<td>The role of Parliament varies with the political situation. The proportion of seats held by the Government in the legislature has an impact. In 1998, the Government held only 42 of the 165 seats in the legislature; this situation probably increased the role of the legislature.</td>
</tr>
<tr>
<td>Portugal</td>
<td>The Assembly of the Republic has become more active over the past ten years. Possible reasons for this change include the recent expansion of its budgetary responsibilities, and the fact that the present Government is not represented by a majority in the legislature.</td>
</tr>
<tr>
<td>Spain</td>
<td>Parliament currently has the same preeminent role in the budgetary process that it had ten years ago.</td>
</tr>
<tr>
<td>Sweden</td>
<td>Sweden recently instituted a new budget process. It has yet to be determined if Parliament's role has changed as a result.</td>
</tr>
<tr>
<td>Switzerland</td>
<td>In response to the sharp deterioration of the Swiss Government's finances in recent years, the Federal Assembly has come to play a more active role in budget discussions.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>In recent years, legislators have added a greater number of pages to the Finance Bill between its publication and Royal Assent. This change suggests that either the number or length of amendments, or both, has increased.</td>
</tr>
</tbody>
</table>

Source: OECD, "Role of the Legislature" (1998).
Adapted from country responses to question 2.2: "Does the legislature take a more active role in the budget process now than it did ten years ago? If so, why?"
I have personal experience from my time as minister for transport and communications in 1991-1994 of how difficult it can be for a minority government to pursue an economic policy. Our coalition government was, in practice, dependent on the support of the populist party New Democracy. That was tricky for several reasons, which I won't go into in depth here, but one of the reasons was that New Democracy's parliamentary party group was struck by internal conflicts. Towards the end of the electoral period, the group was so divided that it was impossible to foresee their action and thus for the Government to predict the outcome of a vote in the Chamber in those instances where New Democracy held the balance of power.

The second condition which triggered the reforms was related to the economy. During the last full decade, Sweden experienced a spectacular deterioration – and their recovery – of its budget balance. From having enjoyed the largest budget surpluses of any OECD country in the late 1980s, Sweden went to having the largest deficits of any Member country in the early 1990s. These huge budget deficits were accompanied by a massive increase in government debt. In a span of just five years, the level of debt nearly doubled. By the end of the 1990s, the budget had been brought back to balance.

This illustrates the vulnerability of financial systems that are as sensitive to fluctuation in the business cycle as the Swedish one, with its high levels of both taxation and expenditure.

Many believed that the budget process itself had not been strong enough to hinder the deterioration of the public finances and urged for a reform. Furthermore, there was wide consensus on the need to improve the possibilities for a minority government to get its budget bill through parliament.

In the early 1990s, a parliamentary commission was appointed to study various aspects of how the Riksdag was functioning – among them the budget process. The commission found a need for better parliamentary co-ordination and improved conditions for long-term decision-making. In the old budget process, appropriations were considered one at a time and the scrutiny of the Budget Bill was divided among the various committees without any institutionally binding co-ordination. The total expenditures were never explicitly decided on, but were the results of hundreds of decisions taken on each appropriation and thus simply a sum of a myriad of isolated decisions.

The commission presented its results in 1993 and the Riksdag adopted its proposals in 1994, but that was not the end of the story. The Government also took initiatives to reform the budget process including a proposal for a Budget Act, which wa:
passed by the Riksdag in 1996. The new budget process was first applied in 1996 when
the budget for 1997 was prepared.

The key features of the reforms included the adoption of a multi-year budget
framework and a top-down budget process. A Spring Fiscal Policy Bill was introduced,
whereby parliament discusses and approves the key aggregate figures in the budget
framework. The budget process was made more comprehensive by the inclusion of
entities that had previously operated off-budget, primarily in the social security field. The
principle of gross budgeting (separating revenues and expenditures and accounting fully
for each of them) was adopted to increase transparency for certain transactions, again
primarily in the social security field. All open-ended appropriations were abolished,
which improved budget discipline and also the Riksdag's ability to control the
development of the public finances during the ongoing fiscal year. Furthermore, the fiscal
year, which had previously started in July, was changed to correspond to the calendar
year. The legal basis for budgeting was strengthened. This involved the enactment of a
Budget Act and additional measures in the Riksdag's standing orders in relation to the
budget process. In practice, this often meant codifying practices that had previously been
subject to administrative decision or simply tradition.

An Outline of the Budget Process

Sweden employs a multi-year budget framework as the basis for the annual
budget process. It has a three-year time horizon, i.e. the upcoming budget and the two
following years. The multi-year budget framework provides the link between the
Government's fiscal policy objectives in a macroeconomic context and their application
in an operational context. It operates at three cascading levels. The first level constitutes
the articulation of the Government's fiscal policy objectives in macroeconomic terms. At
the second level, these objectives are translated into a maximum level of total
expenditure based on certain economic assumptions. At the third level, the limit for total
expenditure is further operationalised by giving indicative funding levels for each of the
27 expenditure areas within which appropriations are allocated.

As a multi-year budget framework is in place, the starting point in the annual
budget exercise is to update the information for the third year in the framework. The
multi-year budget framework therefore provides a "anchor" for the annual budget
process and thereby fosters discipline. Sweden had employed multi-year forecasts prior to
the latest reforms but they were not binding. Rather, each year started with the
preparation of new multi-year forecasts with no direct reference to previous forecasts.

The budget process of the Riksdag starts when the Government submits the
Spring Fiscal Policy Bill in April, containing proposals on central government
expenditure ceilings for the third year in the multi-year framework. Apart from the
proposals on expenditure ceilings, the Government presents in this Spring Bill a
preliminary allocation of expenditure for 27 different expenditure areas for each year of
the three-year budget cycle. Both these decisions steer the Government when it prepares
the Budget Bill during the summer.
The ceiling on total expenditure covers all expenditure areas in the central government budget with the exception of interest on the government debt. In addition, the ceiling covers the national supplementary pension scheme (ATP), which is not included in any of the 27 expenditure areas and is not a part of the central government budget. Since it is difficult to assess with a reasonable degree of certainty expenditure changes three years ahead, the expenditure ceiling has been set at a level slightly above the estimates for the different expenditure areas. The budget "buffer" provides scope for further decisions to be taken on spending without exceeding the ceiling. However, use of the budget "buffer" does mean that central government expenditure is increasing, and for the budget balance to be maintained there must be matching increases in revenue.

The Government submits its Budget Bill for the following budget year by 20th September, a few days after the opening of the Riksdag session. The Budget Bill should be complete, as no further budget proposals may be submitted during the autumn. The central government budget covers all expenditure which may have an effect on central government borrowing requirements.

The Budget Bill also contains proposals on how central government activities in different areas are to be run. The scope of these activities is determined by the amount of funds allocated to around 500 appropriations in the central government budget. Decisions on these appropriations are made for a period of one year.

The Budget Bill also contains estimates of central government revenues. These estimates take into account the effects of any proposals for changes in taxes and charges submitted by the Government in the Bill.

Once a year, at the beginning of the autumn, the members of the Riksdag can submit proposals on any issue falling within the jurisdiction of the Riksdag.

In their motions, the opposition parties can present alternative proposals to those of the Government. Usually the opposition parties provide an overall presentation of their budget alternatives in special motions on economic policy. In this context, the parties present their proposals on a total expenditure ceiling and on how expenditure should be allocated between different expenditure areas. In the motions the parties also present an overview of the changes in taxes and charges they wish to implement and how proposals for different reforms should be financed.

The Riksdag’s Budget Office – not to be compared to the US CBO in size or function – supports the opposition parties when they prepare their budget alternatives. The Budget Office can estimate the financial effects of the proposals that the parties want to include in their alternatives. Since the Budget Office applies the same norms as the Ministry of Finance for how estimations should be made, it should be possible to compare the figures presented in the opposition parties’ proposals with the figures presented in the Budget Bill.

The decision-making procedure, which the Riksdag uses when considering the Budget Bill, is known as the framework model. This means that the Riksdag first takes a decision on the overall size of the budget, i.e. total central government expenditure and how this should be allocated between the 27 different expenditure areas. By means of this decision, expenditure is fixed and the level determined for each expenditure area
thereafter functions as a limit which may not be exceeded at a later stage when the Riksdag finalises the budget. In this decision the Riksdag also determines which taxes and charges are to be implemented. This enables the level of central government revenues for the following fiscal year to be estimated.

All expenditure frames (from different parties) and tax changes are treated as a single "package", and alternatives are weighed against each other as single "packages". The Riksdag then chooses one of these packages in a single decision. The opposition parties cannot form a majority on a single budget issue and use this to reject a proposal. They must agree on a whole package of proposals. This is to avoid "leap-fragging" in parliament. It is usually easier to find a majority for new programmes or increased appropriations than economy measures.

After the overall frames have been determined for different expenditure areas, appropriations are considered in greater detail in different Riksdag committees, all of which must stay within the frames previously decided on.

The Riksdag thus has an important role in decision-making phase of the budget process, but it has also a role to play during the implementation of the budget and after the fiscal year. During the fiscal year the Riksdag receives reports from the Government at least twice a year on the development of the public finances – we keep an eye on how well the Government has succeeded in keeping to budget restrictions. We also decide on supplementary budgets. The Riksdag’s role after the fact is important but I believe, and so do many of my colleagues, that the Riksdag needs to get better at following up and evaluating earlier decisions.

The Riksdag’s most important instrument for controlling public finances is the Parliamentary Auditors. The Auditors consist of 12 members (or former members) of the Riksdag who are assisted by a secretariat. Increasingly enough, we have recently decided to reform this control mechanism. We reached a broad compromise among all the Riksdag party groups, with the effect that a new auditing authority will be established in the spring of 2003.

Conclusions

As I mention already at the outset, Sweden has a history of minority governments. This has required successive governments to seek the support of opposition parties in order to win sufficient support for the budget in parliament. Negotiations between the Government and one or more of the opposition parties have become a natural part of the budget process. As a result, the Swedish parliament has a more significant role in the budget process than in many other countries.

What are our experiences so far of the new budget process? I would say that the main conclusion must be positive. The changes enable the Riksdag to take a more general and co-ordinated approach to the budget, focussing not only on details but also on aggregates. They have also improved our ability to debate the budget in a multi-year framework. The level of central government spending is determined three years ahead by setting expenditure ceilings. In sum, this has made it easier to identify the differences
between the Government’s economic policy and the opposition’s. They have also improved budget discipline.

There are, however, also disadvantages with the new budget process. One is that the process has become too long. It feels as if we deal with budget matters in the Riksdag all year round – and the autumn phase has almost become an echo of the spring phase. The aim was that the process should be concentrated in time and that the spring should be devoted to aggregates and long-term issues, but this has not really been accomplished. We deal too much with details already in the spring, which leads to repeated discussions on more or less the same issues in the spring as well as the autumn.

Another disadvantage is related to the ceiling for total expenditure. The so-called budget buffer has been too small to fulfil its function. With the support of its majority in the Riksdag, the Government has used up the buffer for new expenditures, which has led to a bitter situation where it has had to intervene with short-term measures in order to avoid exceeding the ceiling. As a consequence, the Government has decreased spending on, e.g., international developing assistance – a measure that has been heavily criticised by the opposition, including the Christian Democrats. In our view, the Government’s measures have been characterised by desperation and bad planning.

However, both these shortcomings are now subject for consideration in both the Riksdag and the Cabinet and I am confident that we will be able to find solutions to these problems.

Ladies and Gentlemen! This is a brief overview, the Swedish recipe for a budget process: not too spicy, but well balanced. It meets both the deliberate needs of the Government to use the budget as a measure for implementing its policies and of the Riksdag’s democratically well-justified right to influence the content of the budget. It also balances the need for budget discipline with the need to meet unexpected costs after the budget has been drawn up.

However, when it comes down to it, we all stand before a similar dilemma: resources are in short supply. We must prioritise between different needs. Put in the words of the 19th century Swedish priest and poet, Esaias Tegnér: "There is as great a shortage of money on Earth as there is a shortage of priests in heaven".
2. WHAT DO PARLIAMENTS NEED FOR EFFECTIVE OVERSIGHT ON THE
BUDGETARY PLANNING AND EXECUTION?

by Mr. Che Shik Chang,
Chair, Special Committee on Budget & Accounts,
Korean National Assembly

Before I start, I would like to thank the French Senate and the OECD for taking
the initiative to organise this unprecedented meeting of the chairpersons of the
parliamentary budgetary committees of the OECD Member countries.

It is my great honour to offer some brief reflections on the main topic of this
symposium -- the methods for exercising effective parliamentary oversight on the
processes of budgetary planning and execution.

Historically, the parliament came into being because the rulers needed popular
consent for taxation. Therefore, an effective democracy can only be sustained when the
parliament is effective in reviewing the budgetary plans of the executive branch of the
government and supervising the implementation of the approved plans.

However, in many countries, the executive branch has become overly powerful
and the parliament lacks the resources and the capabilities to effectively oversee the
budgetary process. Especially in developing countries where the separation of power is
still inadequate, the parliament often rubber-stamps whatever the executive branch
demands.

In order to enhance the ability of the parliament to engage in effective oversight
of the budgetary process, a number of conditions are necessary.

First of all, the power of the parliament should be at least equal to or even
greater than the power of the executive. This is absolutely necessary, especially in
countries with a short history of democracy. Unless the parliament has sufficient
authority, no scheme of budgetary oversight can work effectively.

I want to share with you an account of a few institutional innovations that the
Korean parliament has made in this regard.

The most important of these is the year round parliamentary investigation and
audit exercise over the executive. Of course, it is true that all parliaments investigate and
audit the executive when particular matters arise that warrant parliamentary attention. However, what is interesting about the Korean exercise is that this exercise covers all
matters and happens regularly, at the beginning of the yearly session in autumn.

In this exercise, the parliament can demand the executive personnel to provide
any necessary information, either on paper or in person. This exercise also enables the
parliament to conduct a preliminary investigation on budgetary matters before the actual
budgetary procedure later in the year.
The second institutional innovation made by the Korean parliament is that it not only scrutinises the budgetary plans for the coming year but also assesses how well the previous year's budgetary plans were implemented.

This post-implementation scrutiny provides some very useful information that can be used to assess various budgetary proposals.

Thirdly, the Board of Audit and Inspection which is directly under the president, submits its report on the accounts of various executive departments to the Parliament. This report is very useful in evaluating the execution of the previous year's budget and in assessing the budgetary proposals for the new year.

The Korean parliament has the right to demand any information from the executive in relation to the assessment of budgetary plans. For example, the Special Committee on Budget that I chair normally demands over 5,000 items of information each year.

Another important condition for an effective parliamentary oversight is expertise. The Members of Parliament need to have expert knowledge and the ability to acquire and use the necessary information, which in turn requires support organisations. The Korean parliament has quite a substantial capability for budget analysis.

Firstly, there is a dedicated Budget Policy Bureau of the Parliament with 40 staff. Second, the Special Committee on Budget is supported by budget analysts and legal advisors. Third, every MP has his/her own policy aides, whose salaries are paid by the parliament. Fourth, the political parties with negotiating status are given the funds to employ policy analysts.

The parliament also needs to have co-operation from outside experts, in order to improve the quality of its decision-making and to build political consensus over its decisions. The Korean parliament consults on outside experts widely. It also holds a number of public hearings, although the discussion often remains rather superficial.

In addition, all budgetary plans by the executive need to be subject to thorough cost-benefit analyses by the parliamentary budget committee before the plans are finally concluded. It is well known that various executive branches jockey for larger budgets, which necessitates a balanced assessments of the costs and benefits of their proposals. Moreover, many government projects involve large capital expenditure, which makes it very costly to terminate them in the middle. The same applies to the enactment of laws that involve real expenditure.

Unfortunately, the cost-benefit analyses for budgetary plans in the Korean parliament need to become comprehensive, and as the current chairman of the budgetary committee, I am determined to make this happen. It is my belief that without a thorough cost-benefit analysis, an effective budgetary oversight becomes impossible.

An effective assessment of budgetary plans, at the same time, needs to be accompanied by an effective supervision of the execution of the budget, including field visits. For this purpose, since June 2000, the budget committee in the Korean parliament has been made to operate throughout the year not only during the budgetary assessment.
Lastly, we are trying to introduce a performance-based budget system (result-oriented budgeting). The current budgetary system in Korea classifies budgetary plans according to their material nature and/or governmental department, as this makes control of budgetary execution easier.

Therefore, the productivity of budget implementation will be enhanced by linking budget performance assessments to decision on which projects should receive budgetary support and the amount of support to be provided. And each government agency will work with enhanced responsibility to achieve specific goals.

In the performance-based budget system, as you all know, assessments of the budget implemented are mainly evaluated by the output of the planned budget.

What is more, once a performance-related system is introduced, MPs will have greater incentive to become more far-sighted and less sensitive to the needs of their individual constituencies.

Under the current system, constituency-based MPs often press for budgetary expenditures that will benefit their constituencies, regardless of their impacts on the overall society.

In this talk, I have proposed the necessary reforms to improve the parliamentary oversight of the budget plan and implementation.

Before closing, I would like to suggest two things to the OECD Member countries.

Firstly, I suggest that we build an information network among the parliamentary budget committee of the Member countries and increase their interaction. This will make it easier to standardise the key budgetary indicators, which will facilitate international comparison and make it easier to learn lessons from each other.

Secondly, I suggest that the member country budget committees should promote bilateral and multilateral exchanges of personnel. This will not only deepen mutual understanding but also allow us to share our knowledge.

In this context, the Korean Parliament welcomes visits by the chairpersons and the members of the parliamentary budget committees of the Member countries any time.

I would like to conclude by once again thanking the French Senate and the OECD for organising this wonderful symposium and inviting me to share my thought with everyone in this room.

Thank you.
3. MAKING MPs WORK FOR OUR MONEY

by Mr. Edward Davey,
Member, Treasury Select Committee,
United Kingdom House of Commons

SUMMARY OF RECOMMENDATIONS

Proposal One: The Creation of the Office of the Taxpayer" (Oftax) to:

- Provide independent advice to MPs and Select Committees in their scrutiny of government spending and taxation proposals;
- Be headed by the "Taxpayers’ Investigator General" ("TIG"), a new Officer of the House of Commons, with top level security clearance and access to Government papers.

Proposal Two: A Parliamentary Budget Bill to reform the Supply Process by:

- Incentivising MPs to scrutinise budget plans, with new powers to amend the budget, replacing Crown Financial Initiative with a Crown Financial Veto system and ending the convention that an Estimate amendment is a vote of "no confidence";
- Forcing MPs on Select Committees to report on Budget Plans and Public Service Agreements to the House;
- Entrusting MPs and Select Committees with power to propose amendments for neutral switches and increases in spending;
- Involving MPs directly in budget debate prior to finalisation within a new budget timetable, through reforming the Supply Process and radically revising Parliament’s Standing Orders by placing Orders relating to the budget on a Statutory Basis.

Proposal Three: A Budget Information Bill to improve information to MPs by:

- Requiring all budget documents to meet the highest standards of transparency and to be subject to review by Oftax;
- Restructuring and widening the scope of the Supply Estimates to include a larger proportion of the annual budget and to enhance distinctions between the different types of expenditure (e.g., interest expenses, social security, debt repayment, asset purchase, service purchase, etc);
- Requiring direct & detailed links between Estimates & policy outputs and outcomes, to show the purpose of individual expenditures and to match expenditure inputs to Government objectives, building on the Public Service Agreements;
- Introducing options for "provisional estimates" for year two and three departmental spending;
Introducing options for "multi-year" estimates, covering programmes lasting more than one year.

Proposal Four: End Treasury control of its own accounting definitions by:
• Making the Accounting Standards Board responsible for setting accounting standards in the public sector;
• Seeking EU and OECD standards for public sector accounting definitions in the longer term.

Proposal Five: Introduce independent audit and validation of Whitehall’s own performance measures by:
• Making the National Audit Office responsible for auditing the Output and Performance Measurements of Departments.

Proposal Six: Subject all expenditure to enhanced Parliamentary audit by:
• Making the National Audit Office responsible for auditing all public monies now outside the remit of other public auditors;
• Establishing new Finance and Audit Sub-Committees for each Departmental Select Committee.

Proposal Seven: Enhance the role of the Public Accounts Committee by:
• Providing salary enhancements for its Chairman and Members, equivalent at least to salaries of Junior Ministers;
• Transferring all appointments to the Public Accounts Committee from the Whips to a new Commons Committee.

Proposal Eight: Promote evidence-based policy with systematic audit of:
• Whitehall’s progress on NAO and PAC recommendations;
• Aggregate Government expenditure out-turns.

Proposal Nine: Reform of the Finance Bill process, including:
• Separation of technical tax from political and revenue issues, with 2 types of tax Bills – Finance Bills and Tax Technicalities Bills (the later published in draft & subject to consultation);
• A statutory requirement that tax bills must be backed by a compliance costs report, including the methodology used.

Proposal Ten: A new Lords Select Committee for Tax Simplification to:
• Undertake continual and systematic review of all Acts of Parliament and EU Directives relating to tax, with the task of recommending simplifications of the tax system.
I. INTRODUCTION

Select Committee on Procedure (Supply), 1980-81:
“...parliamentary control of government expenditure is a myth...”

Select Committee on Procedure, 1997-98:
“... if [it is] not a constitutional myth, it is very close to one...”

Parliamentary Reform

The reform of Parliament is racing towards the top of the political agenda. As a Parliament of extensive constitutional reform comes towards its end, it is the House of Commons itself that is increasingly under the spotlight.1

This paper focuses on the reform of Parliament's historic core function, that of challenging Government's demands for taxation and spending. Such reform must surely be central to any meaningful modernisation of Parliament.

Calls for the reform of Parliament are not new. Nor is the desire to improve parliamentary oversight of the Government's budget. Yet few substantive reforms have been achieved, particularly in the area of financial accountability, with the notable exception of the work of the National Audit Office.

However, the need for Commons reform has become more acute. Many features of Parliamentary power have changed, affected by forces ranging from devolution to the demands of twenty-four hour media. While this need for reform has been recognised, with the formation of the Select Committee on Modernization of the House of Commons, the main focus to date has been with the trivial and unchallenging. The danger is that Parliament may accept modest reforms, not focused on its core historic role of budget scrutiny. If that happens, Parliament's importance in the country's daily life will surely continue to decline.

The Significance of Budget Scrutiny

The significance of budget scrutiny can perhaps best be seen when set in the context of the most divisive issue in modern British politics, namely Britain's role in Europe. As the House of Commons has manifestly failed to hold successive Governments to account for their budgets, some Eurosceptic thinkers have linked this failure of "democracy" and "parliamentary sovereignty" to the wider European question. While reform of the EU is surely needed, it is perhaps ironic that the most significant strengthening of British democracy and parliamentary sovereignty will only come from reform of the House of Commons itself.

1. See, inter alia, Parliament under Blair, Peter Riddell (2000); Mr. Blair’s Poodle, Andrew Tyrie (2000); Systematic Scrutiny, Reforming the Select Committees, Alex Brazier (2000); Commons Liaison Committee – Shifting the Balance: Select Committees and the Executive (March 2000, HC 300).


This paper therefore argues that the biggest threat to British parliamentary sovereignty actually comes from UK MPs themselves. While the Commons is supposed to have the historic role of scrutinising tax and spending proposals by Government, in practice MPs do little more than rubber stamp the Executive’s budget. Indeed, compared to MPs in Parliament, many councillors on local authorities play a more active role in setting the budget. MPs in many Parliaments abroad also get far more involved in genuine budget scrutiny.

Unfortunately, British MPs to date have shown little interest for the nitty-gritty of financial scrutiny. If reform is to succeed in "Making MPs work for our money", changes have to be focused on reviving MPs’ interest in the budget, through new incentives and obligations for MPs.

There are many barriers to creating such a new-style of MP, who engages in detailed financial scrutiny. Government whips take a dim view of Government backbenchers tabling any amendments to Government business. Opposition MPs likewise have little incentive to amend the budget, faced with procedural constraints and the improbability of success.

With almost no resources to examine taxation and spending proposals in any profound way, individual MPs gain more prestige and power from media or constituency appearances. Yet if Parliament is to change its ways, individual MPs must change their ways first. That will require sticks as well as carrots.

Reform Proposals

The paper begins by describing the current reality of Parliamentary scrutiny of the budget to reveal the extent of the failure. It looks at how other countries’ legislatures perform the task of financial accountability. Finally, it makes a number of radical reform proposals. These proposals reflect some ideas set out in the recent report by the House of Commons Liaison Committee, “Shifting the Balance: Select Committees and the Executive” [1], and the Procedure Select Committee’s recent report on "Procedure for Debate on the Government’s Expenditure Plans” [2] to which this paper’s author was a signatory.

However, this paper goes much further. Its proposals are far more radical, particularly in the area of ex ante scrutiny of public expenditure. Drawing on the recent experience of countries such as the US, New Zealand and Sweden, it develops a model of financial accountability, separating out three core requirements for effective scrutiny, namely information needs, resourcing issues and procedural reforms. A key reform thus advocated is the setting up of a new body to advise MPs on budget proposals - ”The Office of the Taxpayer” (“OfTax”) headed by a new Officer of the House of Commons, the ”Taxpayers' Investigator General” (“TIG”).

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1. **Liaison Committee – Shifting the Balance: Select Committees and the Executive** (March 2000, HC 300).

The paper includes proposals to reform *ex post* analysis of expenditure, through augmenting the role of the Public Accounts Committee and the National Audit Office. Reform of Parliament's role in scrutinising taxation proposals are also covered. Proposals are advanced for improving parliamentary scrutiny of taxation and also for a process to promote greater simplicity in the tax system – a major goal for microeconomic reform.

**Building on Labour's Reforms and Some Conservative Ideas**

Labour's fiscal reforms have actually made such radical reform both easier to implement and to contemplate.

The introduction of a new public sector accounting system (resource accounting and budgeting) and the move towards a more stable budgeting process, particularly the two/three year Spending Review process, have, for example, eliminated some of the information and timetable problems faced by previous reform proposals.

Labour's constitutional reforms, in particular devolution and reform of the House of Lords, could also provide a major opportunity for a radical reappraisal of the role of MPs in scrutinising the British executive, particularly on taxation and expenditure.

Whether Labour is now prepared to think more strategically about such constitutional reform, and to embrace reform at the heart of central government – the budget – remains to be seen.

At long last, however, some Conservatives are thinking rather more deeply about Britain's constitution. Having been the main culprits in the last century of the undermining of the power of the House of Commons, some Tory thinkers are addressing this issue. Although so far this work has produced relatively little in the key area of financial scrutiny, those ideas that have emerged appear at least to be heading in the right direction.

While the Liberal Democrats do now have a coherent set of reforms for improving budget scrutiny, the urgency of reforming Parliament's role here is too important to belong to one party. Since it would involve radical change to the way MPs work, it has to involve all parties. It is time to reclaim the historic role of Parliament in the finances of the nation. It is time that MPs were forced to work for our money.

<table>
<thead>
<tr>
<th>The Myth of Parliamentary Control of Government Expenditure</th>
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<tbody>
<tr>
<td>When was the last time MPs voted down a request for cash from Ministers?</td>
</tr>
<tr>
<td>In 1919, when the then Lord Chancellor was denied funding for a second bathroom. Perhaps that's why modern Lord Chancellors have such expensive wallpaper.</td>
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</tbody>
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2. HOW BRITAIN's MPs EXAMINE GOVERNMENT EXPENDITURE

The annual Budget speech by the Chancellor of the Exchequer is the most famous Parliamentary occasion of the year. The media and MPs go into a frenzy of activity. This feeds the myth that a Parliamentary process is being initiated that will somehow ensure that the Government's budget is examined with a fine tooth-comb.

This chapter seeks to debunk that myth for the expenditure side of the budget, with chapter 3 analysing the taxation side. Both chapters examine Parliament's role before the decisions are finalised (ex ante scrutiny) and after the decisions have been made (ex post scrutiny).

While expenditure and taxation are dealt with separately, the need to bring them together in a Unified Budget is vital to reforming budget scrutiny. If MPs are to give budget proposals rigorous and prudent analysis, revenue and expenditure must be considered together, on a formal timetable as discussed below.

Of course, there has been a recent experiment to do just that, with the introduction of a Unified Budget by the last Conservative Government. However, this was largely a gimmick, and was not driven by any underlying desire to involve MPs in the budget process. Built on such flimsy foundations, it was not surprisingly ditched by the incoming Labour Government.

2.1 Ex ante Scrutiny of Expenditure -- the Supply Process

The Government formally requests money from Parliament through the system known as "Supply". This consists of the Treasury presenting Parliament with its "Main Estimates" of what funds the Government will need for the coming year.

However, the Estimates only come at the very end of the budget-setting process. Before they are published, Ministers and civil servants will have toiled in secret for months. Moreover, budgetary decisions are not first presented to Parliament in the formal form of Estimates. They are presented in Statements by the Chancellor of the Exchequer, and related publications.

The timing and names of these budget statements have changed over the years, but currently there is the November Pre-Budget Statement, the March Budget Statement and what looks like becoming a bi-annual Spending Review Statement.

Consequently, almost all modern analysis of budget-making in British Government focuses on internal workings of the Treasury, Cabinet and Cabinet committees, looking at the rules and timetables Governments have imposed on themselves, rather than events in Parliament.

After a Government presents such statements, there is much debate in Parliament and the media. Much of this focuses on trying to unravel the implications of what has been said and published. Each budget statement and publication contains literally hundreds and thousands of decisions, all announced on one day. Some of these decisions are relatively firm, such as the overall figures, main tax proposals and departmental spending allocations, whilst others, such as intra-departmental, allocations will only be made over the coming months. To make this difficult task of comprehending so many
decisions almost impossible, the Treasury's budget publications have increasingly come to resemble glossy sales brochures, containing figures and tables that seem more designed to confuse than enlighten.

The Commons' debates on statements of taxation and spending proposals are often focused on claim and counter-claim as to what the Government has actually proposed, rather than on the merits or demerits of the proposals. The debates are not even required to end in votes on specific spending totals, but may have a motion "welcoming" a statement, or in the case of the March Budget, a long series of votes on resolutions relating to specific proposed changes to individual taxes.

Indeed, the timetable for the formal Supply process and votes on actual spending requests can run somewhat independently of the actual Statements by the Chancellor. There is, for example, no relationship between the Pre-Budget Report and the Estimates: indeed, the Pre-budget is increasingly more like a mini-budget than a draft budget¹.

There are now only three days formally allotted to debating these Supply Estimates and votes on the Estimates are rarely taken. So it is immediately obvious that the Supply Process has, in modern times, become effectively redundant, even though this process is Parliament's formal process for budget scrutiny. Even Select Committees, who often do quiz Ministers and Civil Servants on spending plans, normally ignore the Estimates themselves.

This weakness in the Supply Process is not new. Parliament has actually never played a pro-active role in budget-setting. This passivity can be traced directly back to the medieval era when the primary role of Parliament was to grant funds to monarchs keen on waging expensive wars.

"The financial relations between the Crown and Parliament took shape during the period while the King still governed through ministers responsible to himself, and the House of Commons only exercised a negative control through its power to withhold supplies. These constitutional relationships have been maintained in essential continuity, despite the establishment of Cabinet government dependent upon the support of the House of Commons"².

Despite several reform in both the last two centuries, the reality of Britain's parliamentary supply process today would, perhaps, be the one aspect of twenty-first century Government that a medieval monarch could relate to.

2.1.1 The Supply Process³

In order to understand how one might reform Parliament's procedures for budget scrutiny, it is necessary to review the formal Supply Process in a little more detail. The Supply Process operates on an annual basis and is largely governed by the Standing

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3. For more detailed descriptions of the Supply Process, see, for example, Public Expenditure, Who Really Controls It And How, Chapter 7, Prof: Andrew Likierman (1988).
Orders of the House of Commons. A summary of the chronological application of the relevant Standing Orders illustrates the charade this now represents.

According to Standing Order 55, the Treasury must effectively present Parliament with "The Main Estimates" for the year by August of that year, though normally they are laid much sooner, usually after the Budget Statement. "The Main Estimates" are the Government's request for cash for that year, based on decisions and announcements previously made.

Each Government Department has its own Supply Estimate, and contained within it there are "Votes", which are in effect individual supply estimates, for disaggregated amounts of expenditure for that department. There are different "Classes of Votes" reflecting different types of expenditures, and Ambits for votes which try to describe what that Vote can (and therefore cannot) be used for.

Select Committees may spend some time considering these Estimates. However, there is no formal referral of the Estimates to the relevant select committee and committees are not obliged to consider them at all. If they wish to do so, they are given at least 7 days between the presentation of an estimate and the relevant House vote. Select Committee current practice is not to examine the Estimates in any detail, with some notable exceptions such as Defence.

Votes on Account are anyway made the November before. These appropriate for the forthcoming year 45 per cent of the funds received by departments in the previous fiscal year without debate. The purpose being that since a vote on the main Estimates cannot take place until 4 months after the start of the next fiscal year, government would grind to a halt if it did not have authorisation to spend money.

After the spring publication of the Main Estimates, "Parliamentary "guillotines" ensure that a vote on them is taken around June. There may be a debate on some of these Main Estimates, but not always. So votes may occur without debate, and rarely provoke an actual division.

Indeed, the 3 days allocated for debating the Estimates per session can be dispersed throughout the year. They are often used up for debates on the "Supplementary Estimates", which are revised or additional spending requests presented by the Treasury later on in the fiscal year.

In true Commons' fashion, Estimate Days rarely involve a debate on the actual Estimates. The Liaison Committee will have chosen a Select Committee report to be "tagged" on to the relevant Estimate, (SO 145) though sometimes the relation between the report and the Estimate is tenuous. The debate will almost invariably then focus on the policy issues raised in the Select Committee Reports, and not on the budget figures in the Estimates. So MPs fail to use even the small amount of time allocated for debating spending proposals to do so.

Final votes on the Estimates can be taken on the Consolidated Fund Bills, which are presented to Parliament and bring together the winter and spring Supplementary

1. "Guillotine Day", by when all Estimate votes must be taken, is 5th August (Standing Order 55).
Estimates. The summer Supplementary Estimates and Main Estimates are formally passed in an annual *Appropriation Bill* that also confirms the sums appropriated in winter and spring.

Thus, despite the lack of meaningful debate, analysis or voting on the Estimates, maintenance of the myth of parliamentary control requires an elaborate parliamentary procedure throughout the year. This keeps a number of Civil Servants busy but rarely troubles MPs.

It is sometimes argued that the Estimates will always be irrelevant to the role of MPs in budget scrutiny because Estimates represent decisions already announced. For some items in the Estimates, that is true, because they may effectively represent invoices for procurements contracted for by Government some time ago. Yet it is not true for many of the Votes within the Estimates. Moreover, if the current format of the Estimates is the barrier to more rigorous scrutiny, it should surely be reformed or replaced.

2.1.2. *Procedural, Information & Resource Deficiencies of Ex ante scrutiny*

In drawing up the recommendations for reform proposed in Chapter 6, it is useful to have a model of the important features of what might constitute “ideal budget scrutiny”.

One can identify three core requirements for effective budget scrutiny. Above all, Parliament needs proper procedures, if MPs are to be able to debate and vote on spending proposals. Yet to enable those procedures to be used meaningfully, MPs must receive comprehensible information on the budget. Finally, MPs must also have the resources and skills to interpret and utilise such information. All three components - procedures, information and resources – must be in place if budget scrutiny is to be a reality. One should note before proceeding that there is actually a key fourth requirement for effective budget scrutiny, namely the willingness of Members of Parliament to engage in the process. Even if these three necessary requirements are met, they may still prove insufficient to encourage or force MPs themselves to do the work required to scrutinise the budget.

With that caveat, to which we will return, in mind, we can now analyse the UK’s system within our proposed model.

**Procedure**

The Supply Process described in 2.1.1 above reveals a system in which MPs are unable to contribute in any meaningful way. This creates a vicious circle. Unable to gain any real changes from engaging in budget scrutiny, MPs give up and look elsewhere to exercise influence and power.

The root problem actually springs from the historical constitutional convention of the right of the Crown to "Financial Initiative". In the modern day context, this has become even more powerful because of the influence of the Whips and the modern convention that an amendment to an Estimate is taken as a vote of no confidence in the

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1. *Some other guiding principles I found useful were set out in a memorandum to the Procedure Select Committee in 1993 by Michael Ryle, former Clerk of Committees, House of Commons.*
Government of the day. In effect, Parliamentary approval for Britain's national spending proposals is a constitutional "given" when the Government has a majority.

Formally, the basis for Supply Procedure and the Crown's Financial Initiative is not a statutory one. There is no Act of Parliament that sets down Government obligations or Parliament's powers with regard to the Estimates. Instead, the rules are set out in Parliament's Standing Orders on Public Money. These arcane and impenetrable rules are typified by Standing Order 48, which is the rule that effectively prevents MPs from proposing increases or even "switches" in expenditure, guaranteeing the Crown's Financial Initiative:

"48. This House will receive no petition for any sum relating to public service or proceed upon any motion for a grant or charge upon the public revenue, whether payable out of the Consolidated Fund or the National Loans Fund or out of money to be provided by Parliament, or for releasing or compounding any sum of money owing to the Crown, unless recommended by the Crown".

Therefore, any reform of procedure, whilst it must address issues like the timetable for debating the Estimates and Select Committee involvement, must tackle these constitutional blocks.

Information

The information provided to Parliament on the budget has improved in recent years but MPs are still largely dependent on those whom they are supposed to be scrutinising in the first place.

The Treasury and each Department have developed their official documents on expenditure and far more information is published by Departments than ever before, with copious volumes containing the Estimates, Departmental Plans and Departmental Reports. These have been refined over the years to show not just the amounts spent, but the purposes and effectiveness of spending. A further radical overhaul is taking place now, with the introduction of Resource Accounting and Budgeting (RAB) and the development of the Public Service Agreements (PSAs).

Nonetheless, there remain some significant weaknesses, particularly with respect to the Estimates and information on spending plans.

The new "Resource Estimates" which Parliament will soon receive for the first time under the RAB initiative will still be relatively impenetrable. Draft resource estimates suggest that these links between spending proposals and "outputs" (i.e. policy objectives) will not be developed in any detail: in almost all cases they will simply be for illustrative purposes and not for the purposes of budgeting or scrutiny.

The problem with working out the best way of reforming the provision of information to MPs is compounded by the absence of budget scrutiny in the current system. As a result, no one is clear what information MPs really need to do the job properly. If Parliament was reformed to enable pro-active budget scrutiny, it is likely that MPs, as they became active users of that information, would seek quite radical reform.
Resources

The lack of specialised resources at MPs’ disposal for analysing the information that is available is arguably the greatest weakness of the Supply Process. Few MPs are accountants or financial experts. Even those who are will need explanations from qualified experts to appreciate fully the contents of an Estimate or Departmental Expenditure Plan.

MPs are busy and rarely have the time themselves to do the thorough background work needed to grapple with the detail of a Supply Estimate or, for that matter, a new tax proposal. The existing specialist resources are limited and overstretched.

Moreover, on entering Parliament, MPs will not normally have the training or expertise to give the Government's Estimates or Accounts the type of detailed scrutiny required. Therefore, there is a prima facie case for a radical upgrading of the resources available to MPs to help with this task. A brief review of the current resources available to MPs illustrates this point further.

Individual MPs have two main resources to which they can turn. First, their Office Cost Allowance contains provision for one Researcher, though not at very attractive salary rates. Second, they can utilise the "pooled" research staff in the House of Commons Library, where there are a handful of genuine experts on Government Expenditure.

In addition, Select Committees have a small number of research staff, normally up to about three per committee. These tend to be policy experts rather than accountants or financial experts, but they can provide some support. The front-benchers of each Opposition Party do, in addition, receive funding for research staff. However, the research undertaken by these resources will largely be analysis directed from a partisan not a parliamentary basis.

Available resources, with genuine expertise in government expenditure and taxation, are extremely limited. While Parliament could choose to use more of its current resources for budget scrutiny, past experience suggests this will not happen. Therefore, if the taxpayers' interests are to be better protected by MPs, there is a real need for dedicated specialised resources, focused purely on budget scrutiny.

2.2. Ex Post Scrutiny of Expenditure– the Public Accounts Committee & the National Audit Office

Parliament's record on ex post scrutiny of Government Expenditure is relatively good and has significantly improved in recent years.

Moreover, the current Government has set up the "Review of Audit and Accountability for Central Government" under the Chairmanship of Lord Sharman, and this is set to report shortly. It is possible that this review may make some important reform proposals. Therefore this section will be correspondingly brief. However, the ex-post process is worth recording, as are the number of weaknesses that still remain, if only to see if the Sharman report does address the key remaining problems.
The history of auditing the Government’s accounts goes back to medieval times, but the current system takes its key features from Gladstone’s reforms, which have proved remarkably robust.

Through its modern day key components -- the National Audit Office [NAO] and the Public Accounts Committee [PAC] -- Parliament’s ex post scrutiny does help prevent and root out fraud and promote value for money in the public sector.

2.2.1 The Process of Ex Post Scrutiny

Whitehall Departments prepare their accounts, have internal audit procedures and work with a central financial control function, the Treasury, in a way that is broadly analogous to large firms. After the accounts have passed through such internal processes, the external checks kick-in, in the form of the National Audit Office.

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1. See Audit, Accountability and Government, Kathryn Hollingsworth and Fidelma White (Clarendon 1999), see Chapter 4 for a fuller historical account
A MODEL FOR EX ANTE BUDGET SCRUTINY

- Prompt publication, ease of access
- Rich content, e.g. capital/current, disaggregated breakdown
- Links between finance & objectives

Independent staff analysing draft budget
- Modelling competences to verify assumptions and run alternatives
- Training for MPs and staff to specialise

Parliamentary Budget timetable linked to Whitehall proposals
- Sufficient time for debates
  No obstacles to amendments

- Requirements for MPs to scrutinise
- Incentives for MPs to scrutinise
The National Audit Office is the most powerful weapon MPs have on behalf of the taxpayer, and perhaps the least well known.

The NAO acts as the servant of Parliament, not of the Government, and it has wide powers of access to every Government Department's financial documents. On the basis of this privileged access, it undertakes auditing exercises of the Government's accounts and prepares reports for Parliament.

In the Commons the Public Accounts Committee then undertakes for the House a large number of investigations every year, based on the work and with the support of the NAO. It summons top civil servants and holds them directly to account for the budgets they have administered.

Permanent Secretaries of Departments are directly charged with responsibility for the financial affairs of their Departments, and in this role are known in the legislation as the Principal Accounting Officers. They appear before the Public Accounts Committee in this Accounting Officer guise.

This role in many ways is key to understanding part of the problem with the current UK system, because it serves to remove, or at least obscure, the role of Ministers in accounting for a Department's budget.

With Ministers' ex post line of accountability effectively non-existent, since it is undertaken by civil servants, the logic and need for Ministers to worry about ex ante scrutiny is necessarily reduced. Ministers are therefore encouraged to worry only about policy, with different policies being given different price tags by the Civil Service ex ante, with the Permanent Secretary having to answer for cost over-runs ex post. However, the notion that there exists such a neat split between "policy" and "budget" seems highly contestable.

Nevertheless, within this current framework for ex post budget scrutiny, the NAO and PAC would seem to perform an important role well. How well they perform it would require regular and independent research to gauge fully. However, such evidence as there is readily available is very positive. The NAO can provide a wide variety of measures of its success in reducing waste and improving value for money. (VFM) In 1998, for example, it identified savings of £341 million through its VFM studies alone and a further £24 million through its financial audits. Over the last three years, the NAO have saved some £1.2 billion. Indeed, the fact that such amounts are uncovered by the NAO and PAC in the ex post scrutiny constitute by itself a powerful argument for strengthening ex ante scrutiny.

2.2.2. Weaknesses in Parliament's ex post scrutiny

This relative success notwithstanding, there remains ample room for major improvements to the system of ex post scrutiny of central government expenditure.

Accounting Definitions

If a Government has the power to decide its own accounting definitions, and how they are changed, then there will always be a large question mark over the whole
framework of ex post scrutiny. Unfortunately, the UK Treasury has always retained the power to set its own financial reporting rules, by which others judge it. A first order question then surrounds the accounting framework that the National Audit Office and the Public Accounts Committee must work within.

As it so happens, this is changing dramatically now, with the shift from cash accounting to resource accounting, the most radical reform of the Government's own accounting definitions in history – a fact almost totally neglected by the Westminster media. While this change has involved outside experts sitting on a specially configured body – the Financial Reporting Advisory Board – the reform has been carefully controlled by the Treasury.

During the passage of the relevant legislation - the Government Resources and Accounts Bill in the 1999/2000 session of Parliament -- major questions arose about who should actually control the system of central Government accounts, and their definitions. Throughout the Commons' stages the Treasury insisted upon its ultimate right to decide how its own accounts are drawn up, although during the passage of the Bill in the Lords some new safeguards were won. However, the goal of an independent body to decide the Government's accounting definitions sought by the Liberal Democrats and the Conservatives was not conceded. That ought to remain a key parliamentary objective.

**Resources & Remit of the National Audit Office**

Perhaps a more immediate issue is whether or not we are providing the expert watchdogs with enough barking power. The NAO can never be everywhere across Whitehall, and will never have the resources to undertake the number of detailed studies and "fishing" exercises an auditor would ideally like. Therefore, a major question arises about whether the NAO has the resource capacity it should have, and equally whether the Public Accounts Committee has the status, independence and clout it should have within the Commons.

A third and related question is the extent of the remit of the NAO. Many central government bodies spending taxpayers money lie outside Government Departments – most notably the category of agencies known as the Non-Departmental Public Bodies (NDPBs) such as English Heritage, the Environment Agency, the National Lottery Board and over 80 others - but also bodies such as the BBC.

Currently, the NAO’s remit does not automatically run to such bodies, which means that its power to access their financial papers is not automatic. Organisations spending well over three billion pounds of taxpayers' money can frustrate and potentially avoid the ex post scrutiny of Parliament's financial watchdog. Yet the quango state arguably needs auditing more closely than the democratic state.

**3. HOW BRITAIN's MPs EXAMINE TAXATION**

Compared to the expenditure side of the Budget, MPs do give taxation proposals regular and detailed scrutiny. We just do not do it very well.

Partly as a result, there is great disquiet about the way the UK’s taxation has evolved and looks set to evolve. This disquiet appears to be growing amongst the accountancy profession and the wider business community.
The issues range from the sheer amount of taxation legislation that Parliament passes every year, to its complexity, its inconsistency and resulting opacity. These features impose great compliance costs on the private, public and voluntary sectors, and represent Government regulation of the economy at its worst.

While much of the blame for this must inevitably lie with Ministers, the Treasury and the tax authorities themselves, the fact that Parliament appears unable or unwilling to blow the whistle is a huge cause for concern.

Reforming the parliamentary scrutiny of new taxation proposals is probably the best way to prevent the situation getting worse, to enable us then to correct the errors of the past.

3.1 Ex ante scrutiny of taxation proposals

The questions that surround the current parliamentary ex ante scrutiny of taxation is not then whether MPs have the information, resources and procedures for fulfilling their role, but whether they have the right ones.

3.1.1 The Finance Bill process of taxation scrutiny

The focus of MPs’ scrutiny of taxation proposals is the annual Finance Bill. This puts into law the new taxation proposals announced in the Chancellor's Budget.

The Finance Bill is published several weeks after Budget Day. Several days later it is debated on the Floor of the House of Commons, in a Second Reading Debate lasting one day, as is the case for any major Government Bill.

After a further gap of days or weeks, the Finance Bill goes to its Committee Stage. Unlike other Bills, however, there is a period of two days when the Commons sits as the Committee of the Whole House to debate a selection of the clauses from the Bill, before the rest of the Bill is committed to the Standing Committee itself. This Committee has in recent years tended to sit for nearly three months, effectively from May to July, with Report Stage in mid to late July. The House of Lords only considers the Finance Bill formally.

The Finance Bill process does undoubtedly provide an annual and protracted opportunity for debating not just the actual contents of the Bill, but other aspects of taxation too.

Glaring errors are sometimes corrected during the passage of a Bill. Ministers and officials can be forced to think again by both the lobbying of external interests and the political arguments heard inside and outside of the Committee. Since the Finance Bill is an annual exercise, mistakes or ideas revealed in one year, which were too politically difficult for Ministers to accept at the time, can be revisited and implemented afterwards. None of these advantages of scrutiny are enjoyed on the expenditure side.

Furthermore, prior to the Finance Bill, there is the Pre-Budget Report in November and the March Budget Day jamboree, both of which provide opportunities for MPs to analyse Government taxation proposals. In addition to these events, in any one
year there may be a succession of both primary and secondary pieces of legislation with implications for the taxation system. Taxation scrutiny does exist.

3.1.2. Weaknesses with the Finance Bill Process of Taxation Scrutiny

However, there are a number of serious structural and technical problems with the Finance Bill procedure. These limit the efficacy of its ex ante scrutiny and prevent the process from having a more positive effect on the resulting tax legislation.

Coupled with the deeper political and constitutional barriers to effective budget scrutiny, such as the power of the whips and the lack of political incentives for individual MPs to participate more enthusiastically in tax scrutiny, the Finance Bill Committee process is becoming increasingly discredited.

Technical issues that either become political or are not debated at all

The most frustrating part of the Finance Bill process is that the sub-standard tax legislation it produces could be avoided at no political cost or loss of Executive control. There is, therefore, a political and economic "free lunch" to be taken. This arises from the fact that the vast bulk of every Finance Bill is made up of technical changes that are not politically contentious.

However, partly because of time constraints and partly because of the endemic partisan nature of Standing Committees, even non-contentious changes proposed by Opposition MPs have come to be seen as political attacks which must be repelled. With no scrutiny provided for Finance Bills in the more independent-minded and more politically balanced House of Lords, this problem is made that more serious.

The flip side of this problem is that if the Opposition choose not to focus on the merits or demerits of a technical issue, that proposal gets little or no scrutiny. With ever longer and more complex Finance Bills, the temptation for MPs to ignore the non-sexy political bits becomes itself ever greater. Mistakes get through unnoticed.

Inadequate regulatory assessment into tax compliance costs

With many other regulations, Government now produces an estimate of the compliance costs for the private sector of a particular change. However, with the Finance Bill and other taxation legislation, the effort to do this is minimal to say the least.

The tax authorities have, as yet, never published the detailed methodology they use for estimating such compliance costs, so they have never been independently tested. There is widespread suspicion that Whitehall's calculations fail to take any account of the cumulative effect of a vast number of regular, small changes.

Whitehall's expectation appears to be that, because there is already a highly sophisticated set of tax practitioners advising firms, the marginal costs of administering an extra tax change must be relatively small. This is at best contentious and at worst highly inaccurate. Moreover, the introduction of wide scale self-assessment must anyway have undermined the logic of such a defence.
While MPs receive inadequate information on the compliance costs of an individual piece of taxation legislation, there is no attempt at all to estimate the total compliance cost of all the changes contained in any one Finance Bill. So, once again, MPs are left ill-placed to be able to question the real need for certain taxation proposals.

**Late tabling of government amendments**

A procedural weakness that can be directed at all Standing Committees in Parliament is the unquestioned right of the Government to table amendments to its own Bill with only twenty-four hours’ notice (and there are procedures to reduce even that period of notice).

There may be occasions when Governments need to legislate quickly and at the last minute, though these ought to be few and far between, and be confined to genuine emergencies.

When one considers the Finance Bill, those occasions should, in principle, not exist at all. To begin with, the process in any one year is an extended one. Moreover, there is always a chance to return to an issue within twelve months, since the Treasury can always guarantee they will have space in the legislative timetable for a Finance Bill. This means that the Government only has to announce its intention to legislate on an issue, or even to publish draft legislation for next year’s Finance Bill for consultation, often to have exactly the same effect that it would get from forcing the proposals through without due notice or scrutiny.

The reality is that the Treasury regularly abuses its ability to give short notice on amendments, primarily when Ministers are in political difficulties and want to avoid too much press scrutiny. Proposals then get even less scrutiny than normal.

**Too much tax legislation and too little consultation**

In many ways, the problem of late tabling of amendment reflects the wider problem with tax legislation in the current parliamentary framework, namely that Government can too easily and too quickly alter tax laws. In recent years, under both Conservative and Labour Chancellors, the volume of tax legislation has grown, and a number of consultation processes have been highly criticised by the tax profession.

To alter this would require either a new self-denying ordinance by the Treasury, or new procedures within Parliament to restrict or delay the endless stream of new tax law. However, as yet, consultation processes have no statutory nature and the strong culture of both Whitehall and Westminster, is that the elected Government should be able to do whatever it wants, whenever it wants.

**Resources and skills**

The vast majority of MPs who serve on Finance Bill Committees have little or no professional knowledge of the taxation system. Some strive hard to get to grips with the details. However, for reasons already outlined, the constraints on MPs to do this thoroughly are enormous, and the political incentives almost non-existent.
Many of the professional bodies representing tax, legal and business sectors do provide advice and support. Yet many of these have not thought carefully enough about the needs and practicalities facing Finance Bill Committee Members. Moreover, they too are burdened down with other tasks and restricted by the tight timetables imposed by Government.

The net result, yet again, is that many of the debates avoid the technicalities, and focus on the generalities. The debates become dominated by the party politics with which the MPs feel comfortable, rather than the detailed analysis of the issue before the Committee.

3.2. Ex post Scrutiny of Taxation Proposals

There is relatively little parliamentary scrutiny of taxation ex post, let alone a systematic analysis that might be parallel to an "audit" of expenditure.

The annual Finance Bill does give MPs the chance to go over old ground and to bring up any aspect of the tax system. So, to some extent, ex post and ex ante scrutiny of taxation merge. Yet this is only in a very ad hoc fashion.

The Treasury and Social Security Select Committees are potential fora for MPs to engage in analysing taxation in something resembling a systematic way. Indeed, occasionally one of these committees does undertake an enquiry into an area of the tax system, such as the recent enquiry by the Treasury Sub-Committee into Customs and Excise as an organisation. This, for example, asked the strategic question whether there was a case for merging Customs with the Inland Revenue.

Nonetheless, these tend to be the exception not the rule. There is really no parliamentary opportunity for strategic analysis of the taxation system – how it is operating, what effect a particular tax is having on the economy, what reform options there are within the income tax system to make it less complex and cumbersome. All such work is, by default, left to the Treasury and outside bodies, such as the Tax Law Rewrite Project.

Therefore, if MPs wanted to play a role in this area, either existing structures would have to be reformed radically or new ones created.

4. HOW OTHER PARLIAMENTS SCRUTINISE THE BUDGET

In looking for reform ideas for the UK Parliament, other countries' experience can be extremely instructive. This chapter examines how legislatures in the US, Sweden and New Zealand scrutinise their Government's budgets. We also draw on a recent OECD study into comparative developments in budget-making and legislative scrutiny in 27 countries.

Together the United States, Sweden and New Zealand offer important lessons on the benefits and potential problems of enhanced budget scrutiny. All three countries have different political systems and have embarked on reforms in this area recently. Each country has arrived at a different system for allowing legislative scrutiny whilst

attempting (with varying degrees of success) to avoid legislative anarchy and fiscal imprudence.  

4.1 USA

Given their memorable revolutionary sound bite – "No taxation without representation" – the American model ought to interest us. Indeed, its constitution was specifically designed to limit the unchallenged exercise of Executive power that had so infuriated the colonists about Governments in Europe. This greater potential for discord between America’s legislative and executive branches is certainly manifest in the budget process.

The President presents the Budget to Congress, but both Houses of Congress are free to amend it. Moreover, partly thanks to fixed term elections, a refusal to pass the President’s budget does not threaten Congress with an election, as it does the Commons. With such powers and independence, the US legislature has both the motive and opportunity for rigorous and meaningful scrutiny. *Ex ante* scrutiny almost becomes budget-making in this model.

The constitutional differences between the UK and the US might therefore suggest that this model is unhelpful, since not even Britain’s political reform junkies in the Liberal Democrats have proposed introducing separation of powers. However, there are many hybrids of the pure constitutional models. Thanks to its major role in budget scrutiny, Congress has developed procedures and resources to assist its budget scrutiny, which are independent of the constitutional relationships and therefore potentially relevant to the UK.

4.1.1 *Ex Ante* Scrutiny in the USA

**Process**

Congress submits the President’s Budget to intense scrutiny via a process formalised in the Congressional Budget Act (CBA) of 1974. This process largely brings decisions on taxation and expenditure together in a budget process that is far more unified than the UK’s.

*Ex ante* scrutiny begins with the process to pass the annual budget resolution, after the President has submitted his draft budget. This resolution acts as a guide for the House and Senate in later deliberations of the budget details.

The Congressional Budget Act (CBA) states that in arriving at the budget resolution the Budget Committees of the Senate and the House must hold hearings. The CBA requires a comparison between the proposals of Congress and the President. Budget committees consider the macroeconomic impact of the President’s budget and receive reports on detailed plans from the 13 appropriation subcommittees in each house.

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covering areas of government expenditure roughly comparable with Whitehall departments. These subcommittees amend proposals – the number of amendments can be as many as 100 – to reflect what they consider the policy priorities to be. After this intensive period of ex ante scrutiny lasting 6 weeks the budget resolution is finally reported by the two Budget Committees. Debate now moves to “floor action” in the House and the Senate. Both houses vote on each Budget Committees’ report and later on a joint conference report on the budget resolution. Only after a further report from the Authorising Committees on the need for any reconciliation legislation does the process of considering the actual budget legislation begin.

The details of the budget are set out in the annual Appropriation Bills. Debate on this, according to the CBA, should begin on the 15\text{th} May, more than two months after the President’s initial submission. Appropriation bills are considered by both Houses of Congress, passed and then reconciled into a common conference report. Ex ante legislative scrutiny theoretically comes to an end at some point between 1\text{st} July and 30\text{th} September.

The contrast between intense scrutiny in Congress and Parliament’s impotence could hardly be more extreme. At the end of the US process the President’s original budget will have been voted and reported 73 times by committees, subcommittees, the House and the Senate. Substantive changes may well have been made to the sum and allocation of government expenditure. Around 60 per cent of votes in the Senate relate either to the budget, appropriations or tax measures. Indeed, the amount of time devoted to the budget has led some to argue it consumes too much time. Recently a bill was proposed by Senator Domenici for a biennial appropriation system to free up more time for the consideration of other issues.

\textbf{Resources}

In addition to this greater time resource, Congress possesses much better staff resources than the Commons to analyse and examine budget proposals. For example the Senate Budget Committee employs approximately 50 members of staff to support its members. These staff provide briefing and summaries to Senators. Specialised drafting assistance is more comprehensive with specialised lawyers to assist members in writing amendments and bills.

Most importantly the CBA established the Congressional Budget Office (CBO) -a body specifically designed to support Congress in its budget setting and scrutiny roles. The CBO acts as an important counterpart to the President’s budgetary resources: the Office for the Management of the Budget (OMB) and the Council of Economic Advisors. These resources are a key part of the scrutiny process and allow Congress to put into practice the powers given to it in theory by its co-equal status with the President.


2. \textit{Information from member of staff on the Senate Budget Committee.}
4.1.2 Ex post scrutiny in the USA

These significant *ex ante* resources are supplemented by a strong *ex post* capability in the form of the General Audit Office (the GAO).

The GAO was created in 1921 by the Budget and Accounting Act in response to the chaos in the public finances following the First World War. Like the National Audit Office, it is not a part of the executive and is responsible to the legislature. The modern GAO employs 3200 people and has a budget of $354.2 million. It has an important role in overseeing the efficiency of government spending and its effectiveness at meeting policy objectives. Members of the GAO disseminate information to Congress via written reports ("blue books") and oral testimony. In the financial year 1999 it published 1 163 reports. As evidence of its effectiveness in assuring that maximum value is extracted from government spending the GAO claims that its work delivers a measurable *financial* benefit of $20.1 billion.

4.1.3 Lessons from the USA model

In theory the US's combination of legislative power supported by strong, independent resources is an attractive model of budget scrutiny. It appears to offer major benefits, both in terms of democratic legitimacy and accountability and in practical terms of discovering and preventing waste and inefficiency. Legislative budget scrutiny operates powerfully both *ex ante* and *ex post*.

However, there is a downside. For Congress's budgetary legislation to become law it must have the approval of the President, who has the power to veto it if he feels it does not conform closely enough with his initial submission and his political priorities.

When the President and the majority in Congress are from different parties a stalemate is often the result of extensive legislative scrutiny and amendment of the budget. Consider for example the conflict between President Clinton and Newt Gingrich and Bob Dole in the winter of 1995-1996.

Clinton vetoed the budget passed by Congress. The Republican controlled Congress set a limit on the continuation of Federal funding of the 13th November. When the two sides failed to reach agreement the Federal government was forced to shutdown from 14th - 19th November and then again from 15th December-2nd January 1996, before the crisis was finally resolved. It is estimated that these two shutdowns cost the American taxpayer $1.5 billion.

Budgetary deadlock can also have the unfortunate side effect of fostering a culture of *backroom* deals, or "pork-barrel politics". To attempt to avoid the costs and difficulties of government shutdown both the President and the congressional leaders of

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1. The Background and History of the GAO – [www.gao.gov/about/history.html](http://www.gao.gov/about/history.html)
3. Williams R. & Jubb E. – Shutting Down the Government: Budget Crises in the American Political System – Published in Parliamentary Affairs
his party are often forced to fund the pet projects of Senators and Representatives to ensure that they have the required majorities.

The US system of *ex ante* expenditure scrutiny is arguably a demonstration of the dangers of excessive legislative power over government spending. However, it should be noted that the fundamental cause of these difficulties is not scrutiny itself. It is rather the nature of the US political system and the constitutional doctrine of the separation of powers. As noted above, within the UK system it would be almost impossible for the executive to disagree with the legislature for a period of months. However, the stark fact of government shutdowns does serve as a useful reminder that tipping the balance too far in favour of the legislature can be just as negative as the executive predominance currently experienced in the UK.

4.2 Sweden

The Swedish political system is more easily approximated to the UK’s than the US model. As in the UK, executive power is wielded by the Prime Minister and the Cabinet who are drawn from the legislature, the Riksdag.

In recent years Sweden's public management systems have undergone radical and far-reaching reform. The impetus for these changes was provided by economic hardship: between 1991 and 1993 GNP fell by 5 per cent and unemployment reached 13 per cent. This period also saw major deficits in public finances and significant increases in government debt.

To deal with this crisis, many parts of Sweden's public sector were reformed, including Sweden' parliamentary budget process. This was due to a belief in Sweden that the previous structures and procedures had played an important part in the deterioration of the public finances in the early 1990s.

The previous system had been somewhat chaotic. When first presented to the Riksdag the budget was incomplete, with the Government itself proposing major amendments and additions during its 5-month passage. Debate was normally focused on individual appropriations with little concern for or discussion of aggregate spending levels. This created a predisposition for total government spending to drift upwards during consideration, often by as much as 0.5 per cent of GDP.

A Commission of Inquiry was established in the early 1990s to evaluate the budget process and to consider improvements to it. A binding timetable was introduced for the consideration of the budget and the Government was prohibited from amending its own proposals except in exceptional circumstances.

4.2.1 Ex ante scrutiny in Sweden

The new procedures for considering the budget can be split into three phases:

- Approval of aggregate government spending via the Spring Fiscal Policy Bill
- Approval of the level of expenditure for each of the 27 Expenditure Areas
- Approval of the individual appropriation of funds for each of the 27 Expenditure Areas

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The government must present the Spring Fiscal Policy Bill to the Riksdag by the 15th April, 5 months before the budget. The bill sets a limit on total government spending and revenue.

In contrast with the UK system there are no limitations on the type of amendments that may be discussed or passed by the Riksdag at this stage. By discussing the aggregate level of government spending separately from departmental allocations, the Swedish system creates a climate in which the macroeconomic implications of policy can be disentangled from specific projects and proposals.

After the Spring Fiscal Policy Bill passes into law in early June, the government proposes its budget to the Riksdag no later than 20th September. The budget is divided into 27 Expenditure Areas and further sub-divided into 500 separate appropriations. Unless the government makes specific proposals to exceed the limit on government spending agreed upon in the Spring Fiscal Policy Act the budget must conform to this limit. Members of the Riksdag have until the 7th October to propose amendments. The only restriction on amendments is that they must not breech the aggregate limit already agreed upon.

The second phase of parliamentary approval is completed by the end of November when the distribution of funds between the 27 Expenditure Areas is agreed upon. The Riksdag's Finance Committee plays an important role in this process, making recommendations on both the total amounts of government spending and its distribution between the Expenditure Areas.

When the third phase of parliamentary oversight begins the Finance Committee's role of scrutiny is passed directly to the sectoral committees of the Riksdag. Senior civil servants responsible for governmental organisation are called to give evidence on their funding needs for the forthcoming year. Committees also investigate the outputs that can be expected from specific appropriations.

Once a Committee has finished its review a report is submitted to parliament detailing its proposed appropriations. This report may move funds from one appropriation to another. However, it may not exceed the total funds allocated to the Expenditure Area during phase two. Such a proposal if made would be out of order and could not be discussed by the Riksdag.

Once all of the sectoral committees have reported, their recommendations are considered and voted on by the whole Riksdag. The budget for the forthcoming financial year (which runs with the calendar year in Sweden) thus becomes law immediately before the Christmas recess.

4.2.2 Ex post scrutiny

The Riksdag has relatively few resources available to it to carry out ex post scrutiny. While in the UK, the National Audit Office is a creature of parliament, Sweden's largest ex post auditor, the Swedish National Audit Office (or Riksrevisionsverket) is subordinate to the Ministry of Finance and its head is appointed by the government. It has 520 staff dealing with financial audit, performance audit and

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financial management and is responsible for producing annual audits for 350 government agencies.

In comparison the Parliamentary Auditors (or Riksdagens Revisorer) whose role is guaranteed by the Swedish Constitution comprises only 12 members of the Riksdag, 12 deputies and 20 support staff. Given these limited resources, the Parliamentary Auditors address themselves to issues of general principle and performance rather than detailed financial audit. They range widely over all areas of government policy and their reports are presented to the relevant committee of the Riksdag. The whole Riksdag then debates the committee's response.

4.2.3 Lessons from the Swedish model

Sweden's recent budgetary reforms illustrate the fact that parliamentary power over the budget need not lead to escalating government expenditure. On the contrary the recent changes have incorporated a comprehensive system of ex ante approval with procedures specifically designed to keep spending under control. This staged, top-down approach actually places fewer restriction on the ability of members of parliament to propose amendments, though the three-staged process means that detailed amendments must stick within previously agreed aggregate limits. Nonetheless, committee work enhances the ability of parliamentarians to influence the budget. Furthermore, Sweden's strong legislative and cultural tradition of freedom of information has aided the Parliament to exercise more meaningful oversight than in the UK.

However, one criticism of the Swedish reforms is that they provided insufficient independent resources to Parliament to support its consideration of the budget. Committees of the Riksdag are reliant on costings from the Ministry of Finance when considering the expenditure implications of amendments. Although these costings are generally deemed trustworthy by members of parliament, there have been calls for the creation of an independent budget office (possibly similar to the CBO in the USA) to allow greater independence of ex ante oversight.

4.3 New Zealand

New Zealand possesses a system of parliamentary democracy explicitly modelled on Westminster and, as such, it provides some of the clearest parallels with the UK's budgetary processes. The basic tenet of the financial initiative of the Crown was carried over from the UK and upheld by both the Constitution Act (1986) and the Public Finance Act (1989), only being watered down slightly in 1996.

Like Sweden, New Zealand has been at the forefront of recent reforms of parliamentary procedures. Similar problems of persistent deficits and poor macroeconomic management provided the impetus needed for significant institutional reform. The intention underlying these changes was to create an institutional structure pre-disposed to fiscal responsibility and well-managed and efficient public service delivery. New Zealand's shift to the Mixed Member Proportional (MMP) system and

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minority and coalition governments, has also helped to make the budget process more open.

### 4.3.1 Ex ante scrutiny in New Zealand

The Fiscal Responsibility Act (1994) imposes a responsibility on the executive to produce several reports during the budget cycle. In the Budget Policy Statement (to be tabled no later than 31st March), it must disclose its broad strategic objectives, fiscal intentions for the next three years and long-term fiscal policy objectives. Furthermore, the government must state the consistency of these plans with the principles of sound public finance laid out in the Act:

- Total Crown debt must be reduced to prudent levels;
- Maintaining prudent levels of Crown debt once they have been achieved;
- Achieving levels of Crown net worth that provide a buffer against adverse future events;
- Managing prudently the risks facing the Crown.

Although the definitions within the Fiscal Responsibility Act (FRA) are necessarily imprecise they do provide a form of legislative benchmark against which the government’s plans can be evaluated. The FRA requires the government to publish a Fiscal Strategy Report at the time of the Budget (tabled around May/June for a 1st July fiscal year). This document examines whether or not the economic and fiscal update (a three-year forecast tabled on Budget night) is consistent with the government’s short-term tax plans.

In combination, these reporting requirements provide legislators and the interested public with valuable ex ante information on the taxation and spending policies of the executive.

Alongside these improvements in information, New Zealand has also developed a strong system of parliamentary scrutiny of the Budget. When the Budget is presented (on or before the 1st July) the Estimates of proposed government spending are also laid before the House of Representatives. The Estimates themselves contain far more information about the purpose of the expenditure and the link with policy objectives than is the case in the UK.

These Estimates and the individual Votes comprising them may then be subjected to a process of review and inquiry by Select Committees. The Finance and Expenditure Committee (FEC) may decide to investigate a particular Vote itself or it may refer it to another relevant committee for consideration. Each Vote Minister is also given a standard Estimates questionnaire to complete. Select Committees must report back to the House within two months of the presentation of the Budget. A similar process is used to scrutinise Supplementary Estimates. Select Committees also perform the task of reviewing government performance and service delivery in the ex post phase, with each

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Select Committee being required to produce a report before the first sitting day of each calendar year.

The most important development in *ex ante* scrutiny in New Zealand has been the modification of the financial initiative of the Crown. As has been shown, within the UK system parliamentary procedure allows MPs very little scope to amend the Budget. Not only are amendments to increase expenditure out of order, so are amendments to switch (or vire) funds between Votes. Effectively the only motion available to MPs is a "Motion to Reduce" a Vote. This process now stands in marked contrast to the options available to New Zealand’s parliamentarians.

In February 1996 new Standing Orders were introduced in the House of Representatives allowing its members much greater powers to attempt to amend the Budget. Amendments to the Budget could now increase expenditure and switch spending between Votes. As a *quid pro quo* to avoid legislative anarchy and imprudent management of the public finances, the executive was granted a "financial veto". The Government can use the financial veto on any piece of legislation if it believes it would have "a more than minor impact upon the Crown's fiscal aggregates" , such as:

- total operating expenses
- total operating revenues
- the balance between the Crown's total operating expenses and total operating revenues
- the level of the Crown's total debt
- the level of the Crown's net worth

When the Estimates are being considered a Veto Certificate can be issued if an amendment would have a more than minor impact on the composition of the Vote. In all cases of potential veto the government determines what constitutes a "more than minor impact". However, its explanation must be robust to debate and public scrutiny. When a certificate is issued it must specify why the government believes the vetoed proposal would have affected the state's finances or expenditure and the reason for the veto. Once a proposal has been vetoed it becomes out of order and cannot proceed to a vote. However, to constrain governments from irresponsible use, the justification of the use of the Veto Certificate may be debated when the House next considers the relevant piece of legislation.

Although these reforms are relatively recent it seems that the new procedures are being used responsibly by all parties in the budget process. New Zealand has not seen deterioration in its fiscal stance that some anticipated when it switched to proportional representation. Governments have not been over-enthusiastic with their use of Veto Certificates – only 4 times between 1996 and 1999 have they been issued (once on a Private Members Bill in 1997 and three times on opposition amendments to government legislation in 1998).

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In effect New Zealand's new system constitutes a subtle redistribution of financial power. The power of veto remains with the executive and provides a strong reiteration of the financial initiative of the Crown in major matters. However, this power has been made more accountable to elected representatives via the reforms to permit amendments to spending proposals.

4.3.2 Ex post scrutiny in New Zealand

Ex post scrutiny of this process is carried out by the Audit Office, headed by the Controller and Auditor General. Like the NAO, the Audit Office was specially created by the New Zealand parliament and is statutorily independent of government.

The Audit Office has wide ranging powers and responsibilities, being the auditor of nearly all public sector organisations. In total it is responsible for more than 3800 different bodies (including more than 2600 schools). The Audit Office's investigations examine the efficiency and probity of the public bodies and seek to minimise waste and assure that resources are only used for the purposes that Parliament intended. Its findings are relayed via:

- Parliamentary Reports – arising from specifically directed audits;
- Audit and Assurance Reports – an annual audit of the yearly accounts of every public sector organisation.

The Controller and Auditor General also provides some support to Select Committees when they are considering budget proposals. Thus the Audit Office provides a limited amount of ex ante assistance to the legislature.

4.3.3 Lessons from the New Zealand model

New Zealand has been a major influence to UK policymakers in many areas of economic policy over the last decade. From its creation of an independent central bank to its early introduction of resource accounting and budgeting, New Zealand has trail-blazed some major reforms.

Its reforms to Parliamentary scrutiny of the budget are particularly relevant to the UK because of the similarities of the model of parliamentary democracy and the tradition of the Crown's financial initiative. In this area, their reforms have been innovative and subtle, striking a balance between a strong desire to maintain macroeconomic and financial stability, whilst exposing budgets to greater scrutiny. Empowering MPs to submit amendments balanced with the financial veto concept is, perhaps, the most interesting development.

The major weakness of New Zealand's current system remains the lack of significant resources available to members of the House of Representatives to assist them in examining the Budget. New Zealand has no counterpart to the CBO in the USA. This limits the ability of the House to exercise effective scrutiny. Although Select Committees can investigate particular Votes and question Ministers, they lack the amount of specialist help they would need to make this process properly probing and incisive. This lack of technical support has tended to encourage overtly political amendments and
recommendations, such as reducing a Vote by the amount of a Minister’s salary, rather than a concentration on spending taxpayers’ money to best effect.

4.4 Wider International Comparisons

In each of the three countries we have compared the UK with so far, the House of Commons’ relative impotency in budget scrutiny was immediately evident. Even in the case of New Zealand, the country most similar to the Westminster model of Government, recent developments to prescribe the budget-making process more carefully, to improve information and to replace the Crown Financial Initiative with a weaker form of a Crown Financial Veto, are transforming budget scrutiny potential.

However, we have not simply chosen the three countries that most support our case: there are other countries where the legislature plays a more activist budget scrutiny role. The most up-to-date and comprehensive survey of how different countries set their budgets is a recent OECD survey of 27 countries\(^1\). This survey asked a series of questions about the powers of the legislature in the budget-making process as well as the types of accounting methodologies employed for public sector financial reporting. In this section, we have tried to present some of the results of that survey in tabular form. Not surprisingly, there are large variations in the respective powers of different Parliaments. The results of any such survey must come with the appropriate health warnings that, for example, they can fail to pick up the political culture and conventions that are often so important in comparative work.

Nonetheless, the OECD survey backs up our main contention, namely that the UK Parliament is behind many other Parliaments in its ability to scrutinise and change fiscal policy.

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\(^1\) *OECD Survey of Budgeting Developments (2000).*
<table>
<thead>
<tr>
<th>Question</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any legal restrictions on ability of legislature to modify proposed budget?</td>
<td>13 countries, including: Australia, Canada, France, Ireland, Italy, New Zealand, Spain &amp; UK</td>
<td>14 countries, including: Austria, Denmark, Finland, Japan, Netherlands, Norway, Sweden &amp; USA</td>
</tr>
<tr>
<td>Is a vote on the budget considered a vote of confidence?</td>
<td>4 countries: Australia, Canada, New Zealand &amp; UK</td>
<td>23 countries, including: Austria, Denmark, France, Germany, Italy, Japan, Spain, Sweden &amp; USA</td>
</tr>
<tr>
<td>Does legislature vote on total amount of revenue/expenditure before votes on specifics?</td>
<td>11 countries, including: Canada, France, Italy, Norway, Spain, Sweden &amp; USA</td>
<td>16 countries, including: Australia, Denmark, Germany, Japan, Netherlands, New Zealand &amp; UK</td>
</tr>
<tr>
<td>Is there a specialised research body linked to the legislature for budget analyses?</td>
<td>7 countries, including: Italy, Japan, Sweden and USA</td>
<td>20 countries, including: Australia, Canada, Denmark, France, Germany, New Zealand, Spain &amp; UK</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>In practice, does the legislature generally approve budget as presented by Government?</td>
<td>Yes - no change</td>
</tr>
<tr>
<td></td>
<td>6 countries, including: Australia, Canada, Japan, New Zealand &amp; UK</td>
</tr>
</tbody>
</table>

Note: Shaded boxes identify answers indicating more activist legislatures

This survey evidence is presented by the OECD in an objective way, without commentary, as you would expect. We will not impose our own, but use a linked quote, approvingly, from Mr. Bruce George MP, Chairman of the Defence Select Committee, when giving evidence to the Procedure Select Committee's Report on these matters:

"If you construct a continuum of legislatures with power, at the one end being the US Congress and at the other being the former Supreme Soviet, or the Parliaments in Saudi Arabia and Kuwait, I would say that we are rather nearer the latter end than the former when it comes to parliamentary influence and power."

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"The lesson we have not learned, that our grandfathers and great-great-grandfathers learned, going back to the medieval period, is that when you have control of the money you have control of their hearts and minds and everything else goes with it."

V. DEFENCES OF THE STATUS QUO REBUTTED

Before our reform proposals are set out, it is time to review critically the basic line of argument. While it might be readily accepted that the UK's system is much less democratic, and the Westminster Parliament far weaker than the myths, it might still be argued that this does not matter. If the economic and financial outcome for the country is not obviously worse, for example, perhaps the problem is not so serious.

For the author, the lack of democracy in the UK's system is reason enough for radical reform. Yet I believe there is far more at stake than simply improved accountability. The potential benefits could include large fiscal and economic improvements, accruing over time from reform, in terms of better value for money, increased efficiency and an enhanced representation of taxpayers' priorities in the taxation and expenditure policies of the UK Government.

However, proving the existence of such benefits would be hard, even with sophisticated comparative analysis. Further research might help substantiate such claims. More modestly, we here seek to address the counter-arguments head on. If all the arguments for keeping the status quo can be demolished, the case for reform on democratic grounds alone is surely strengthened.

5.1 Economic Efficiency

Perhaps Whitehall-directed budgeting turns out to be more efficient, in an economic sense. It could be argued that Britain's current relatively healthy fiscal outlook suggests that our system cannot be all that bad. It might be argued that, since the UK has a relatively low tax take compared to most other European countries, the taxpayer is well served. One could point to many examples where waste is uncovered in the UK system and UK Government spending does achieve good value for money.

However, this line of argument is fundamentally a historical. Our current system of scrutiny has produced times of fiscal crises as well as the relative success of recent times. The UK tax burden has fluctuated a good deal, higher and lower at different times than other European countries. It has certainly not had a sustained history of being amongst the lowest in the OECD. It is far from clear that the model of low tax/low spend is either what people want or what achieves a strong economy in the medium term. Indeed, there are many countries that are economically successful, where the legislatures play an active part in the budget, giving it democratic legitimacy and efficiency. These range from countries with very different wider political systems such as the USA to Westminster-style systems such as that in New Zealand.

5.2 Gridlock and Pork-barrel Politics

Alternatively, it could be argued that a strong legislative model of financial scrutiny produces gridlock and pork barrel politics, as was seen in the USA. It could be argued that involving the legislature more with spending and taxation risks replacing
"executive dictatorship" with "legislative anarchy", where pork-barrel politics and excessive tinkering and trade-offs constitute a high price for real democracy.

However, it does not follow that a move away from the "executive dictatorship" model of budget-making must lead to the adoption of a model of "legislative anarchy". There are many stops in between these two extremes, which avoid the costs associated with gridlock and pork barrel politics, but garner the benefits of scrutiny and transparency. Achieving a more balanced system is obviously possible as the examples of Sweden and New Zealand show. Moreover, the danger of pork-barrel politics is much less likely, as long as the Executive sits in Parliament and there is no US-style separation of powers.

5.3 Policy not Budgets ("the Civil Service View")

A deeper and more subtle objection to change is that the current system enables Ministers and MPs to focus on worrying about the policy issues – the real politics – while the civil servants worry about the detailed budgets.

Policy is, after all, what politicians are supposed to be good at, while civil servants are trained to implement and, therefore, to worry about whether a project has enough funds and whether those funds are being well spent. That is why the current system deliberately makes the Permanent Secretary of a Department into the official formally responsible for the budget of that Department, as the Principal Accounting Officer, and not the Minister.

It is only reasonable, so the argument goes, to make the implementers responsible for the finances, since the Minister cannot be expected to monitor the financial performance of a Department, especially when these are so complex nowadays.

Indeed, to argue that MPs should focus on policy not finances, as "the Civil Service view" does, is at one level very attractive to MPs. In true Sir Humphrey style, it is saying, at one and the same time, "Well, of course if the MPs want to worry about the finances they can, but it's jolly boring, you know. All you need to do is tell us what you want, and how much tax you want to raise and we'll sort out the messy bits." Exercise financial scrutiny solely through policy scrutiny, MPs are effectively told.

It is as a result of this type of thinking that we continue to have the charade of the current Supply system, which must be as annoyingly rigid and time-wasting for civil servants, as it is unhelpful for meaningful Parliamentary scrutiny. I strongly believe that the Civil Service would eventually prefer a more rigorous system of financial scrutiny by MPs, ex ante and ex post. It would mean that their hours of toil producing Estimates and Votes actually had a parliamentary and public purpose and benefit, and that MPs had to consider budget priorities.

Nonetheless, the "policy not budgets" view has been shared by many advocates of parliamentary reform in the past. Commentators who share this paper's concerns about the lack of financial scrutiny have still argued that Select Committees alone are the answer, with their focus on medium term strategic policy analysis.

This paper agrees with the notion of greater Select Committee involvement in analysing the budget. However, to limit reform to the Committees, and fail to end the
false **policy/budget** divide would be a profound mistake. The old conventions separating policy and finances ought to go: Ministers should play a much greater role *ex ante* and *ex post* in their budgets, and answer to Parliament for that. Policy should never be devoid of its financial consequences.

More radical reform is, after all, a far more practical idea than it ever used to be. Barriers to genuine financial accountability such as meaningful information and longer term budget setting are fast disappearing. Other Parliaments are showing how things can be reformed. Reform could produce systems far more akin to the flexible but transparent financial planning and accounting models found in major **PLCs**. Modern methods used in the commercial sector coupled with modern IT systems make this possible.

**Making Parliament the Taxpayer's Champion**

6.1. Reforming Ex-ante Scrutiny of Expenditure

A. New Resources – An **Office of the Taxpayer** to serve Parliament

**Proposal One:** The Creation of "**The Office of the Taxpayer**" (**OfTax**) to:

- provide independent advice to **MPs** and Select Committees in their scrutiny of government spending and taxation proposals;
- be headed by the "**Taxpayers' Investigator General**" ("**TIG**"), a new **Officer** of the House of Commons, with top level security clearance and access to Government papers.

Without doubt the most significant step in any reform of *ex ante* scrutiny of expenditure and taxation would be a huge improvement in the specialised resources available to **MPs** to analyse all aspects of budget proposals. The proposal for "**The Office of the Taxpayer**" is that reform.

In Chapter 2, Section 2.1.2, I reviewed the weaknesses of the current resources available to **MPs** for budget scrutiny, concluding that a dedicated and specialised resource was required. In Chapter 4, the international experience reviewed also suggested that the best type of parliamentary resource was a dedicated body whose sole purpose is to analyse the budget.

Solutions to this key resourcing problem have been proposed before. The Procedure Select Committee, for example, recommended in 1999, either to set up "a specialist panel of advisers on call, a free standing "Estimates Office" or to give extra responsibility to the Treasury Committee" \(^1\). The Liberal Democrats recently proposed a body they called the "Resource Estimates Commission" \(^2\). Both ideas seek to make such a body responsible directly to the House of Commons, like the National Audit Office, and to require it to report on the Supply Estimates to the House, Departmental Select Committees and individual **MPs**.

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\(^1\) *Opus cit., paragraphs 52 to 53.*

\(^2\) *Reforming Governance in the UK, Liberal Democrats (2000), page 24.*
My proposal for "The Office for the Taxpayer" builds on such ideas and analysis, but goes much further. In particular, OfTax would have a much wider remit and be much stronger than any previous proposals envisaged.

First, OfTax would cover all aspects of the Government's proposed budget on behalf of the taxpayer. Whether the Government's proposal involved spending, taxation or borrowing, OfTax would be empowered to consider it. There should be no opportunity for Ministers to propose any measure that produced a potential liability or charge for the taxpayer, without OfTax being informed about it and being able to consider it. Examples such as the recent secret government indemnity granted with respect to the Millennium Dome's future would not escape proper scrutiny in future.

Second, OfTax would be statutorily independent - of Government and indeed of all political interference. The model for OfTax’s constitutional status would be the NAO, created by the 1983 National Audit Act.

However, OfTax’s constitution could not be identical to the NAO’s. First, OfTax’s remit would be distinct and separate from the NAO, focused on an ex ante role, rather than an ex post, auditing function. Second, OfTax’s role would inevitably be more political, as it would be reporting on Government policies of the day. The challenge will be to ensure the independence and impartiality of OfTax, whilst enabling it to respond flexibly to the demands and needs of MPs involved in scrutinising the budget.

OfTax must be led by a very senior figure, comparable in authority to the Comptroller and Auditor General who heads the NAO. The position might be called the Taxpayers' Investigator General ("TIG), and would be appointed on the basis of a recommendation from the House of Commons Commission to Parliament, and confirmed only after affirmative votes in both Houses of Parliament.

The Taxpayers' Investigator General ("TIG) will have comparable powers and budgets to the Comptroller and Auditor General. Most significantly, TIG will have top level security clearance and access to all papers. No exemptions within any Freedom of Information legislation, for example, will apply to this officeholder, though TIG will be expected to treat confidential information appropriately.

Within the statute creating OfTax, TIG will have complete discretion in discharging OfTax’s functions. Any MP will be free to make requests for specific support and advice from OfTax, but the final decision as to whether or not to meet such requests will lie with TIG.

With such powers and authority created under statute, OfTax would be able to serve MPs and the wider public in all efforts to ensure that Government spending and taxation proposals were fully scrutinised.

We would expect that the staff of OfTax would be made up of highly skilled professionals, from both the private and public sectors. We would expect that OfTax would have the most modern resources to enable full modelling of Government budget proposals and potential alternatives.
We believe The Office of the Taxpayer could, even if no other proposal in this study were accepted, represent a major transformation in the ability of Parliament to scrutinise the budget.

B. New Procedures – Involving Parliament in the Budget Process

Proposal Two: A Parliamentary Budget Bill to reform the Supply Process by:

- Incentivising MPs to scrutinise budget plans, with new powers to amend the budget, replacing Crown Financial Initiative with a Crown Financial Veto system and ending the convention that an Estimate amendment is a vote of "no confidence";
- Forcing MPs on Select Committees to report on Budget Plans and Public Service Agreements to the House;
- Entrusting MPs and Select Committees with power to propose amendments for neutral switches and increases in spending;
- Involving MPs directly in budget debate prior to finalisation within a new budget timetable, through reforming the Supply.
- Process and radically revising Parliament's Standing Orders by placing Orders relating to the budget on a Statutory Basis.

New procedures must both encourage and force MPs to focus on budget scrutiny. There must be new incentives for MPs to spend time understanding the details of budgets, as well as new requirements for them to do so – a carrot and stick approach to "Making MPs Work for Our Money". Coupled with the new resources discussed above, and the better information proposed below, MPs would no longer have any excuse for not working much harder for the taxpayer.

Such new procedures will inevitably involve major reform of the current Supply system to link it more fully with the real budget-setting process now carried on in Cabinet Committee and Whitehall. Moreover, to ensure that the Government of the day does not try to reduce or side-step such new parliamentary powers, a new Supply system should be put on a statutory basis. This would, in itself, require a major revision of the Standing Orders of the Commons.

**Incentives for MPs to scrutinise the budget**

If MPs are to spend precious time grappling with budgetary details, they must be given some incentive to do so. The key incentive must, inevitably, be the chance of some political benefit. Such political kudos could really only come from actually achieving a change in some spending or taxation plan or from the media's interest in the attempt to do so.

However, under current rules MPs are only allowed to propose spending or taxation cuts. They cannot, for example, propose "switches" in spending between different priorities. Whilst there are a few ruses round this rigid system, this rule has effectively helped to stifle parliamentary involvement. New powers to amend budget plans, from the Estimates to the three year spending proposals, need to be developed.
This would be a radical change, and requires two major changes to current constitutional practice and understanding.

First, the constitutional convention that an amendment to a Budget Estimate acts as a Motion of No Confidence should be scrapped. The convention is based on the notion that if the Executive cannot get its Budget through, it must therefore be unable to command a majority or govern properly. However, the convention is an extreme interpretation of that idea, and if kept would be a block to meaningful budget amendments. To remove such a convention, the proposed Parliamentary Budget Bill would need to set out processes for resolving budget disputes between Parliament and the Executive. Such mechanisms would, when Governments enjoyed majorities, rarely be employed. However, during hung Parliaments they could be vital to enabling the House to participate actively in the Budget process and preventing instability.

Second, the quasi-constitutional doctrine of the absolute right to the Crown for Financial Initiative needs reform. (Standing Order 48). Once again, this rule can effectively stifle any direct parliamentary involvement in spending and taxation proposals. Moving away from the absolutist version of Crown Financial Initiative need not in any way undermine the position of the Crown as the main proposer of the Budget. Yet it would give Committees and MPs at least some incentive to perform genuine budget scrutiny, utilising the resources of OfTax.

To replace Crown Financial Initiative, we propose that a system of "financial veto" is introduced, similar to that introduced in New Zealand in 1996 (see Chapter 4). A system of the "financial veto" would, for the first time, enable MPs to propose amendments not just to cut spending, but also to raise or switch "vire" spending. However, such a proposal could, in certain circumstances, be vetoed without a vote by the Government.

A spending proposal from MPs could be contained in a new bill [such as a Private Member's Bill] or in an amendment to an existing bill, or as a proposed change to a Vote in the Estimates. The spending proposal might come as the result of a Select Committee Report on an Estimate in a motion proposing a budget change, or on the initiative of a single MP. Giving MPs such a power, backed by advice and modelling performed by the proposed Office of the Taxpayer, would radically alter the balance between Executive and Legislature.

To avoid MPs abusing this new power and undermining fiscal and macroeconomic stability, the Government would be given powers to reject destabilising spending proposal simply by presenting a "financial veto certificate" to Parliament. A veto certificate could not be voted on or overturned, though it could be debated.

As in New Zealand, we believe that the use by the Executive of the financial veto should be restricted. In New Zealand, the use is restricted to legislation that would have "more than a minor impact upon the Crown's fiscal aggregates". However, in many ways this is too restrictive. Therefore, we propose its use be restricted to spending proposals that would "significantly threaten the financial stability of the Government". There should be an explicit provision that vetoes could not be used where amendments were revenue neutral, i.e., "switching proposals", viring expenditures from one budget to another.
The dynamics of encouraging MPs to take an interest in the Estimates once again could be very powerful. Ministers would have to defend details of their budgets, which is extremely unusual now, and could, by itself, produce real benefits. For Ministers to defend their budgets, they would need to be briefed, so senior civil servants would also have to get a better grip on their budgets. Outside groups would naturally react to such a shift in process, as would the media. The debate about the Government's budget would become a real, informed and active one, rather than the current fatuous, swapping of statistics.

**Forcing MPs to scrutinise the budget**

A quid pro quo of giving MPs more power and freedom to propose budget amendments must be requirements that force them to behave responsibly. Budget amendments that have been well researched and obtained cross-party support are anyway both more likely to carry the House and to persuade the Government. The departmental select committees are the obvious bodies for such detailed analysis of Government budget proposals.

By requiring each select committee to examine the budget plans of the Government, separately from the departmental accounts, scrutiny may become both better informed and a genuinely useful tool towards better governance.

Select Committees would be likely to find this task both easier and more rewarding, with changes already proposed by Government. The development of Public Service Agreements (PSAs), that try to link spending with policy objectives, coupled with the vastly increased and improved budget information coming from Resource Accounting and Budgeting, should make this requirement to study the budget more palatable than was previously the case.

Indeed, it is not a new idea to propose that select committees should study the Estimates and the departmental budget plans. Most recently the idea has been put forward by a number of people and bodies including Peter Riddell, the Procedure Select Committee, Andrew Tyrie MP and the Conservatives' Norton Commission on Strengthening Parliament. This “stick” approach to forcing MPs to take budget scrutiny seriously is obviously gathering momentum.

**Entrusting MPs with budget amendment powers to switch and increase spending**

For the new incentives and requirements so far proposed to work, MPs must be entrusted with far more budget amendment powers than at present.

At the moment, MPs are restricted to budget amendments that propose reductions to Government expenditure plans or to taxes. Most reformers who have considered this restriction have argued that MPs and Select Committees should be given a new power to “switch” or “vire” expenditures, primarily between budget heads within a department’s overall spending plan.

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2. Norton, Davies, etc.
As already outlined above, this paper goes considerably further than such reformers by proposing that MPs have the power to propose spending increases not just switches. There are solid arguments for both approaches, and any debate between reformers on this should not cloud the real issue, namely the need to provide an active budget amending role for MPs and to replace the current supine and passive functions.

Proponents of switching powers only are presumably concerned to force MPs to make hard choices. They are concerned by charges that the legislature's involvement in the budget could lead to pork barrel, pressure group-led politics, and want to head off such charges by limiting new parliamentary powers to amending budget priorities rather than total budgets. In this view, MPs must be forced to think about the difficult choices Ministers must consider, and not be allowed to opt for the easy option of arguing for more spending.

While I understand such arguments, I believe they are wildly exaggerated and misinterpret how the dynamics of budgetary politics are likely to work in a reformed UK Parliament. They do not take into account the new procedural device proposed by this paper, namely the Crown Financial Veto. Moreover, if we do not entrust MPs with a full range of budget amending powers, there is a danger that MPs' behaviour will not change sufficiently to make budget scrutiny a reality.

For the House of Commons to vote for an amendment to the Government's budget, the amendment would have to be capable of gaining wide cross-party support and significant extra-parliamentary support in both the media and the wider electorate. Otherwise, there would be little or no chance of persuading Government backbench MPs to vote against a whip. The more extravagant or ill-considered a budget amendment, the less likely it is that such a wider consensus could be established. Such considerations would inevitably lead to more modest amendments and to amendments directed purely at "switching" between expenditure priorities.

Furthermore, with the Financial Veto Certificate system put forward here, proposals to increase spending could always be vetoed by the Government. In contrast, expenditure switches could not be vetoed.

For a Select Committee intent on building cross-party consensus and avoiding the Executive veto, proposing budget amendments that merely "vire" expenditures would be the obvious tactical way forward. Yet, where Select Committees felt so strongly that additional money was needed, they could make their case, but take the risk that Ministers would play the veto card.

With such a combination, MPs would be forced to think through not only the fiscal and policy implications of budget amendments, but also consider the political ramifications. Such considerations would, I believe, prove extremely seductive to politicians, and act as a real stimulus for their active engagement in budget scrutiny.

Involving Parliament within a New Budget-Setting Timetable

Parliament's new scrutiny role would need to include reform of the budget-making timetable, the information, motions, debates, voting procedures and so on. Significant extra parliamentary time for budget scrutiny would, for example, be an
essential part of reform. This would require either a drastic reform of Standing Orders or a new Act of Parliament.

I believe it is time to put the framework for budget-setting on to a statutory basis, to provide greater protection to Parliament's role in an eventual settlement. This explains the proposal for a Parliamentary Budget Bill.

This Bill should set out a prescribed timetable for setting a budget that covers both the coming year, and provisional settlements for the following two years. The timetable would specify the dates by when the Chancellor would need to present his taxation and spending plans to Parliament, and the dates by when Parliament would need to have completed its debates and votes on those plans.

I broadly favour a timetable split into three decision stages, similar to that proposed by Michael Ryle, former Clerk of Committees, in evidence he gave to the Procedure Committee in 1993. This timetable is likewise not dissimilar to the revised Swedish model reviewed earlier.

A three stage timetable for expenditure decisions would itself provide a disciplined framework. The first stage would set the overall expenditure for the relevant financial years; the second stage would set the individual departmental allocations, whilst the third stage would deal with the intra-departmental allocations.

This three stage approach is effectively what happens at the moment, except all the decisions are taken within Cabinet, its committees and Whitehall Departments, and are then presented as fait accompli to Parliament. By legislating for a prescribed timetable, Parliament's direct involvement could be required at each stage, and ministerial decisions could thereby be reviewed at each stage.

There is theoretically some tension between such a "staged" approach to setting the budget and the new freedoms previously proposed for MPs to propose budget amendments that not only "vire" expenditures, but also increase expenditures. If in stage one, the total aggregate expenditure levels have been set, it might seem counter-intuitive that amendments could then be proposed for net additional spending at stage two or stage three.

Yet this is exactly what happens under the current system, except that additional spending proposals are set by Government. It is common for Chancellors to announce extra spending over and above previously announced ceilings. Normally the "surprise" announcement comes from large margins or contingency funds deliberately built in at stage one.

Such provision for "extra" spending amendments is moreover common in other countries. Budget margins once again are the main source, and new information that becomes available during the fiscal year can also influence the extent to which such freedom is exercised. Budget amendments to increase spending also tend to focus on the "provisional" spending plans for years two and three, where the margins are larger and the ability to develop practical and meaningful programmes is greater.

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1. *Budgetary Reform, Second Report, Select Committee on Procedure, 92-93, Cmnd 727, Evidence given on 9th June 1993.*
The combination of a "staged" timetable with the new budget amendment powers once again reveals that a reformed system will contain its own incentives and requirements for **MPs** to exercise these new powers responsibly. With Parliament voting on aggregate levels and then departmental totals, the space for "pork-barrel" or ill-considered budgetary amendments will be limited. Amendments proposing increases will once again be forced to be modest if they are to stand any chance of passing, whilst "switching" amendments will be the norm.

Finally, it should be noted that with a statutory timetable for passing the budget, the overall Commons' timetable will need reform, including a major increase in days for budget debates. The innovation of Westminster Hall will have helped this process, since it provides a device for having more of the debates with no votes away from the Floor of the House\(^1\). I would also strongly argue that extra time is found for these new "Estimate" days out of Government time. By reducing time for Government Bills, such a reform itself has its own attractions. Less government legislation and improved budget scrutiny seem a compelling combination as objectives for parliamentary reform.

### C. New Information – Transparency in Budget Information

**Proposal Three:** A Budget Information Bill to improve information to **MPs** by:

- Requiring all budget documents to meet the highest standards of transparency and to be subject to review by **OfTax**;

Restructuring and widening the scope of the Supply Estimates to include a larger proportion of the annual budget and to enhance distinctions between the different types of expenditure (e.g. interest expenses, **social** security, debt repayment, asset purchase, service purchase etc);

- Requiring direct & detailed links between Estimates & policy outputs and outcomes, to show the purpose of individual expenditures and to match expenditure inputs to Government objectives, building on the Public **Service Agreements**;

Introducing options for "**provisional**" estimates for year two and three departmental spending;

- Introducing options for "multi-year" estimates, covering programmes lasting more than one year.

There has for a long time been concern that Chancellors do not set out transparently their spending proposals and deliberately obscure what is happening through ruses such as "redefinitions" of spending totals. To the extent that anyone has bothered with the Estimates, the criticism there has been that the information provided was extremely impenetrable.

The Labour Government promised to end much of this with a Code of Fiscal Stability that, amongst other things, promised full transparency. The reality has been...

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1. A recent reform introduced Westminster Hall, a second chamber of the House of Commons, where **MPs** can debate with Ministers without a vote being taken.
significantly different, with budget documents containing as many devices to confuse the reader as ever.

While it is arguable that any Government will continue these practices, I believe that the best way to reduce such misinformation is through legislation setting down standards, form and nature of budget information that Parliament must receive from Government. A Budget Information Bill could include provision for the quality and standards of budget documents to be independently reviewed by OfTax. It would also then be appropriate for the responsibility of reviewing and reporting on the validity of the assumptions underlying the Treasury forecasts to be transferred from the National Audit Office to the new Office of the Taxpayer.

There is also a need for a wholesale reform of the Estimates and the separate votes and ambits contained in the Estimates. This needs to be led by Parliament, not the Treasury, and should involve the Treasury, Procedure and Public Accounts Committees developing a new model. Such reform needs to consider how Public Service Agreements – or "output and outcome" information– could be included in some form within the Estimates, as New Zealand has done. Reform should also consider how to deal with the welcome and profound innovation of the Labour Government to plan expenditure on a multi-year basis, linking this directly into the Supply process.
6.2 Reforming Ex-post Scrutiny of Expenditure

Proposal Four:  End Treasury control of its own accounting definitions by:

- **Making** the Accounting Standards Board responsible for setting accounting standards in the public sector;
- **Seeking** EU and OECD standards for public sector accounting definitions in the longer term.

The accounting standards and definitions of the Government's own accounts should not, in our view, be set by Government. There is a clear conflict of interests, and the Treasury's role in this should be reduced to an advisory capacity, with its effective veto removed.

The obvious body to set accounting standards for Government is the body that sets standards for the private sector, namely the Accounting Standards Board (ASB). There will need to be some consideration given to what accounts would come under the ASB's jurisdiction, because any large organisation has a set of internal management accounts as well as the published external accounts, but the focus would clearly be on the latter.

It also makes sense for scrutiny if international comparisons and benchmarking were to become easier to carry out. Therefore, just as there have been attempts to harmonise some international standards in private sector accounting, it would be helpful if public sector accounting standards were made more comparable internationally. This is a longer term goal, worth pursuing within both the EU and OECD.

Proposal Five:  Introduce independent audit and validation of Whitehall's own performance measures by:

- **Making** the National Audit Office responsible for auditing the Output and Performance Measurements of Departments.

With the proliferation of new output and outcome measures in Whitehall, there is a need for Parliament quickly to come to terms with what this new set of information is saying.

The most important first step, both for Parliament and Government, is to ensure that new measures have credibility. The auditing of a Department's claims on Output and Performance measurements should be externally and independently validated. It seems quite wrong that a Department should not only set how it should be measured, but also collect and audit its own performance measurements.

Proposal Six:  Subject all expenditure to enhanced Parliamentary audit by:

- **Making** the National Audit Office responsible for auditing all public monies now outside the remit of other public auditors;
- Establishing new Finance and Audit **Sub-Committees** for each Departmental Select Committee.
While the National Audit Office on the whole does an excellent job as auditor of central government, there remain some oddities about its remit. In particular, it is statutorily excluded from auditing some national public sector bodies even though they spend millions of pounds of taxpayers' money. Its jurisdiction, in this regard, is less comprehensive than the Audit Commission for local government, or indeed the Court of Auditors, for the European Union. The Shaman Committee is widely expected to propose significant reforms in this area, but the best way would be to give the NAO a "catch-all" responsibility.

The Public Accounts Committee (PAC) remains one of the unsung heroes of Parliament, and I strongly believe its role should be enhanced as I propose below.

Nonetheless, as Alex Brazier of the Hansard Society cogently argues, we may be expecting too much of the PAC. Brazier argues powerfully for a more systematic and coherent parliamentary oversight of Government's audited accounts and calls for more fire-power to complement and support the work of the PAC.

I likewise believe there is a case for considering structural reform to parliamentary audit, so long as the prime role is left to the PAC. One option might be to give a duty to review the audited accounts to a Committee in the House of Lords.

My preferred option for backing up the PAC work is to require departmental select committees to report formally on the accounts, as this once again forces MPs to get their hands dirty with the figures. I am grateful to Alex Brazier for his excellent proposal to establish, for each select committee, a permanent Finance and Audit Sub-Committee.

Proposal Seven: Enhance the role of the Public Accounts Committee by:

- providing salary enhancements for its Chairman and Members, equivalent at least to salaries of Junior Ministers;
- removing all appointments to the Public Accounts Committee from the Whips to a new Commons Committee.

To emphasise and highlight the work of the PAC in Parliament, and to promote its wider coverage, its role should be significantly enhanced.

Following on from proposals made in the First Report of the Liaison Committee (99/00), I believe that both the Chairmanship and indeed membership of this Committee need to be given enhanced status, so that MPs see serving on this particular Committee as a major career achievement in itself.

This would be a significant new incentive for some MPs to become specialists in understanding Government expenditure and to be less partisan. This proposal goes hand-in-hand with the Liaison Committee's other proposal that decisions on Committee membership should be taken away from the party whips and given to a Select Committee Panel.

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Proposal Eight: Promote evidence-based policy with systematic audit of:

- Whitehall's progress on NAO and PAC recommendations;
- Aggregate Government expenditure out-turns.

There is finally the issue of what happens to all the audited accounts of Government and the reports on individual audits undertaken by the National Audit Office and the Public Accounts Committee.

I have a major concern that many good ideas and much hard work is effectively lost, because of the lack of systematic follow-up. Although public policy debates are now peppered with buzz words such as “evidence-based policy”, “best practice” and “best value”, there is a shocking lack of systematic learning.

I should stress that this is not meant to suggest reports currently prepared are not highly valuable and receive attention. PAC reports, in particular, do often lead to change in Whitehall, and can often attract considerable press attention. Fraud uncovered by the NAO and investigated by the PAC can result in people going to prison. Within Parliament, there are sometimes Commons’ debates focused on a PAC report and its lessons.

Nevertheless, there remains a case for a more strategic follow-up, to ensure that lessons have been learnt, that the Executive has answered PAC criticisms fully and that Ministers have engaged in the issues raised, and not simply left ex post scrutiny issues to the civil servants.

Once again, borrowing ideas from the Liaison Committee, the PAC should develop further its own systems of auditing progress on its recommendations. To assist in this, Departments should be required not just to answer a PAC report, but also to publish at least one progress report perhaps one year later that the NAO can review. At least one further day should be made available for Parliament to look at PAC reports, including its annual report on progress achieved on its recommendations.

This proposal should be coupled with a responsibility on Government to produce an audited set of aggregate accounts, for each department and for the whole of government, so the actual spending outcomes can be considered by the PAC against the original proposed budget. It is, for example, noticeable how Government is not spending what it proposed to spend, and such developments should be considered by the PAC.

Government has indeed promised to produce a set of "Whole of Government Accounts". This innovation will assist the analysis of overall performance of Government spending, against projections and the past. Yet it is, therefore, even more vital that parliamentary committees, in particular the PAC, build into their work schedules time to review such high level, strategic information.
63 Reforming the Scrutiny of Taxation

Proposal Nine: Reform of the Finance Bill process, including:

- Separation of technical tax from political and revenue issues, with 2 types of tax Bills – Finance Bills and Tax Technicalities Bills (the latter published in draft & subject to consultation);
- A statutory requirement that tax bills must be backed by a compliance costs report, including the methodology used.

Technical tax legislation must be separated from the more political tax proposals and the more urgent tax proposals, such as those that provide statutory cover for tax collection purposes. This would enable much greater consultation with the private sector on actual drafts of technical tax legislation, in a non-partisan, non-urgent way.

This separation would work in practice through having two separate parliamentary bills. A first bill could be published soon after the budget, with the details of the few tax measures yielding large sums – the Finance Bill – and proceed through Parliament quickly to ensure taxes for the coming year had statutory sanction. Later on, a draft bill containing details of technical proposals could be published, for consultation – the Tax Technicalities Bill. Measures in the Tax Technicalities Bill could be restricted to tax changes for future tax years, so that consultation and Parliamentary progress was much less time pressured. There could be public hearings with evidence from the major interested parties, perhaps held by the Treasury Select Committee, or some other permanent body. Offax would itself produce briefings on the Bill.

Any such separation would be criticised for being arbitrary: there is no tax yield which can be objectively said to make a specific proposal 'significant' in revenue terms. Indeed, it would be too inflexible to set a figure that always determined which bill a tax proposal had to go in. However, the presumption would be that the main Finance Bill would be short.

Another major problem that has partly been caused by the current system of tax scrutiny is the unnecessary complexity of the UK tax system, with the heavy compliance costs this imposes on business and individuals. While Government itself is the prime cause of this, Parliament allows itself to be denuded of any detailed information on this area. Estimates of the cost of compliance are provided, but these tend to lack detail and no methodology is provided by the Inland Revenue to explain how they reach their compliance cost estimates.

Proposal Ten: A new Lords Select Committee for Tax Simplification to:

- Undertake continual and systematic review of all Acts of Parliament and EU Directives relating to tax, with the task of recommending simplifications of the tax system.

We need a system for ex post review of tax legislation focused on simplification. Although there are already important initiatives such as the Tax Law Rewrite Project, Parliament itself must play a more dynamic role in seeking to simplify not just the words,
but also the details. While the House of Lords is normally excluded from financial policy, the task of simplifying the tax laws we already have seems ideally suited to the upper house, and how it is likely to evolve. Recommendations would not be binding, but would help set a non-partisan agenda.

7. CONCLUSION

Reform of budget scrutiny is not an issue they talk of in the proverbial "Dog and Duck". It is rarely mentioned in the bars of Westminster. Yet it is the issue that goes to the heart of Parliament's failings and that links directly to a new political dynamic for improving the performance of all public services.

If Parliament could establish itself, within Britain's modern political system, as the champion of the taxpayer, it could set itself on the road to recovery. If MPs were seen to be actively engaged in seeking better value for money, their collective credibility might yet be improved.

More significantly, there is the strong likelihood that if MPs were to focus on budget scrutiny, they might actually prove quite good at the task. It is likely that ambitious MPs would come up with new ideas for improving our schools, NHS and transport system simply by being engaged in the analysis of how the budget is currently spent. Indeed, if MPs were empowered to engage in budget-setting, there is little doubt that the media and the wider society would react to such a change, bringing more people actively into the debate and search for real improvements.

Such a radical agenda is likely to be fiercely opposed by the Government of the day and, in particular, Whitehall. It involves a major opening up of a hitherto secretive budget-setting process. It involves the Executive giving up many weapons of power, and subjecting itself to regular and detailed challenge.

This, therefore, begs the question, could such reform ever happen in the UK? With no pressure for reform from the customers in "The Dog and Duck" and no looming fiscal crisis to force reform, one might be expected to be quite pessimistic about the probability of reform.

Yet there are signs and developments to give some succour to the optimists. With the Scottish Parliament and Welsh and Northern Irish Assemblies taking on more activist roles in budget scrutiny, the possibility of innovation and experimentation is there. Labour has implemented reforms that make much of this agenda far more practically feasible, whilst the Conservative Party has slowly begun to embrace the cause of Commons' reform.

With many other constitutional reforms well underway, it may prove increasingly difficult for future Governments to continue to ignore more profound reform of the Commons. The challenge to reformers is not to let them ignore "the boring financial bits" if and when a Government gets round to the reform of Parliament.
Acknowledgements

This paper is, in essence, "my first reflections on Parliament". Having studied and thought about the British political system for many years, I was all too aware when I entered Parliament of the long term decline in the power of Parliament, and in particular of the House of Commons. However, what I was completely unprepared for was the total absence of any proper attempt to scrutinise the Government's budget. I am, therefore, grateful to all parliamentary colleagues and staff with whom I have worked since May 1997 for "opening my eyes", if perhaps unknowingly.

So the urge to write this paper grew through this Parliament, encouraged particularly by conversations with fellow Liberal Democrat MPs, Bob Maclennan and Alan Beith. I am grateful to both of them for their support over the years.

I am especially grateful to Karen Kiernan and Michael Bourke who assisted me in the early research and drafting of this paper, and without whom this project would never have happened.

I would also like to thank those who have given advice and comments on earlier drafts, including Alex Brazier of the Hansard Society, Peter Riddell of The Times, Matthew Bishop of The Economist, Michael Ryle, Clerk of Committees, House of Commons and Anthony Rowlands, Director, Centre for Reform.

Of course, all the opinions expressed are mine alone, and I take full responsibility for any errors.
4. PLANNING FRAMEWORK, PURPOSES AND CONTENT OF LEGISLATIVE DECISIONS

by Mr. Augusto Fantozzi, President, Budget Committee, Italian Chamber of Deputies

It is a pleasure and an honour to take part in this meeting, for which I thank the Finance Committee of the French Senate and the OECD. We face a challenging task, one made all the more stimulating by President Violante's opening address, which urges us to reconcile the rules and practices governing budget procedures – our area of expertise – with the general issues that he outlines. In this context, I suggest that the Italian situation offers material for a number of interesting considerations.

I would like to focus on two related aspects: the function and importance of the planning framework and the purposes and content of the legislative decisions taken in approving the budget. For each of these issues I will attempt to highlight the institutional "nodes" of the relationship between the Government and Parliament.

The framework established in the budget legislation of 1978 and subsequent amendments is based on the distinction – in my view still valid – between the planning stage and the implementation of the budget measures and economic policy in general.

The Economic and Financial Planning Document – which the Government must submit by 30 June each year and must be approved in resolutions by both branches of Parliaments – sets out the forecasts for the macroeconomic variables and the baseline scenario for revenue and expenditure flows for the state sector and general government accounts.

This framework comprises the macroeconomic objectives (notably income and employment growth) and the programme projections for the public finances. In recent years, budget balances have taken on special importance. As a result, the objectives established in the Economic and Financial Planning document have been consistent with the external constraints imposed by the Maastricht Treaty for participation in Economic and Monetary Union.

The Planning Document must also specify the actions needed to achieve the objectives contained in the budget measures that the Government submits by 30 September. Under the 1999 reform, which abolished the so-called budget-session accompanying bill, these budget measures include the Budget and Finance Bills: the former specifies the available resources on a current-legislation basis, while the latter modifies this with provisions amending substantive legislation.

Fortunately, compared with the main budget adjustment measures taken to meet the Maastricht criteria, these measures were much more modest, at about 30 trillion Lire, or roughly 4 per cent of final budget expenditure. These limited adjustments have kept the public finances under control, enabling Italy to participate fully in monetary union.
from the outset. This sent a clear signal to the markets, generating expectations of exchange rate stability and lower interest rates.

The correction of budget balances from their baseline trend involved revenue and expenditure measures as well as more specific reforms of entire sectors, such as the tax measures.

The most recent amendment of the budget legislation broadened the content of the Finance Law. In addition to provisions regarding the containment of budget balances, the Finance Law may now contain expansionary measures, i.e. financing for direct intervention to support the economy.

This change has been interpreted in quite a broad manner, covering not only capital expenditure or tax incentives for firms but also measures directed at households and income support measures in general (for example, income tax relief, adjustment of minimum pensions, reduction or elimination of co-payment fees for health services, school support measures, etc.). In addition, recent Finance Laws have included numerous provisions aimed at narrow microsectoral or local interests.

The debate over the extension of the Finance Law's content was accompanied by numerous proposed amendments, some from Parliament but above all from the Government. This complicated efforts to conclude an orderly and thorough discussion of the issues. In some cases, the central focus of the budget process was obscured. Nevertheless, in recent years, both restrictive and expansionary budgets have preserved the substance of the measures submitted by the Government. At the same time, however, there has been a disproportionate increase in the number of "minor" provisions.

I believe that the Finance Law should focus on the major decisions regarding the allocation of resources and provisions with an immediate financial impact, leaving implementing provisions to subsequent legislation.

This is the task of the so-called "non-budget-session" accompanying bills, which can contain provisions of an organisational or regulatory nature, including enabling legislation, and detailed rules. However, given the absence of specific deadlines for their examination and the fact that they tend to be overlooked with secondary provisions, the use of the accompanying bills has strayed from the original function envisaged by Parliament. This has prompted legislators to include all measures considered to be political or technical priorities in the Finance Law itself.

What to do? In Italy, these issues are widely debated across the political spectrum and are probably common to the experience of other Member states.

First, can budget procedures that worked effectively during the effort to readjust the public finances, thanks in part to external constraints, be equally effective in governing a phase of economic expansion?

Second, are budget decisions in the strict sense – meaning those taken within the framework of the budget session – the only forum for taking key decisions on the reallocation of resources?
It is difficult to give detailed responses to these questions. I feel that the most appropriate forum for planning decisions concerning the allocation of resources is during the consideration of the Economic and Financial Planning Document, which must provide a clear indication of the Government's main lines of action. The budget session should focus on defining the legislative framework governing the financial measures proposed by the Government, partly with a view to ensuring compliance with the Stability Pact. Accompanying legislation (which should be drawn up outside the budget session or possibly during other special sessions) should concentrate on specifying the sectoral framework of implementing measures.
IV – ACCOUNTABILITY, AUDITS AND NEW MANAGEMENT TECHNIQUES

1. BUDGETS SHOULD TAKE MORE ACCOUNT OF THE FUTURE

by Mr. Geert Van Maanen,
Secretary-General, Ministry of Finance, the Netherlands
and Chairman, OECD Working Party of Senior Budget officials.

Thank you, Monsieur Lambert, I am extremely happy to be here today and look forward to today's discussion.

The Senior Budget Officials group was formed almost two decades ago to advise and guide the OECD’s work on public finance and budgeting. This group’s history has spanned a period ranging from grave stress in Member countries' budgets to relative fiscal health today. That period of stress has resulted in a transition to a more modern and transparent system, in which many of you were involved.

I was careful to note the relative fiscal health of Member country budgets. Budget deficits are down across the globe and many countries are now running surpluses. The average fiscal deficit for OECD countries as a whole has reduced from almost four percent of GDP in 1995, to less than one percent of GDP in 1999. However, we should caution against any declaration of victory. There are ever-present problems of economic uncertainty an aging population, current high tax levels and existing claims on public sector spending. These problems should prompt us to consider both the medium- and long-term situations.

Because of longer-term problems, the SBO has concluded that it is time to be more ambitious in Member country budget processes. Budgets should take more account of the future. This includes not only recognising major liabilities, but also recognising consequences of current patterns of behaviour, especially in light of the aging population and environmental degradation. Budget institutions should also become better at reallocating resources when national priorities change.

It is in this context of the future that the SBO is interested in today's event. A nation's parliament is an important vehicle in promoting transparency and accountability on the part of the government. The SBO believes that a legislature educated in the latest budget techniques and future budgetary requirements will promote more efficient and coherent government policy. Without the support of a well-informed parliament, many of these reforms will either not take place or will not be effective.

Today, I would like to talk about some of these new budgetary practices. Most of these issues are not new. They are under active consideration or even implementation in many of your countries. Often there is a level of mistrust between the government and the parliament. This mistrust ranges from a healthy skepticism to a full break down in communication. It is my desire to generally address and clarify these topics. Yet I believe
it will take more education and discussion for both government and parliament to understand and embrace these changes.

I. Cautious Starting Points in Budget Policy

The use of accurate economic assumptions is a considerable risk. We have seen the effect in the eighties when in a very short time massive budget cuts had to be implemented. Because of problems with inaccurate assumptions, several Member countries have reformed the way economic forecasts are produced. These changes have taken several forms including: the creation of an independent budget office for formulating or verifying economic assumptions, the reliance on private sector economic forecasts, or the more active role of the legislature in reviewing assumptions. Basing budget policy on cautious starting points is better than employing accurate economic forecasts. Less positive economic developments can be cushioned by careful assumptions without the immediate need of adjustments and new policy priorities. With this, working with cautious starting points results in calm in the budget process and in communications about it between government and parliament.

II. Reallocation of Budgetary Resources

Reallocation is at the heart of budgeting. Effective reallocation ensures that resources flow to where they are most effective. However, there are inherent difficulties. Resistance is great from those who are adversely affected. Support is weak from a larger, diffuse society that benefits from them.

In the past, only external shocks or crises triggered large-scale reallocation exercises. In addition, current improved fiscal conditions lessen the pressure to choose from among scarce resources.

The use of across-the-board cuts is widely applied in Member countries as part of reallocation programmes, particularly for reducing the operating expenditures of government. This serves to reduce deficits, or to create a pool to fund new initiatives. The cuts are justified in terms of capturing productivity gains in the public sector. They also tend to be politically acceptable. When line ministries are given flexibility to achieve the cuts, they have worked well.

However, there are limits to across-the-board cuts. If projections on future spending come to bear, across-the-board cuts will be inadequate to avoid large future deficits. There should be a dialogue between governments and parliaments now to avoid crisis changes in the future.

III. Budgeting for the Future

I realise it is easy to call for dialogue on future needs, yet hard to put it into practice. I would like to talk about several specific changes that could frame this discussion.
Medium term or multi-year budget frameworks

Most OECD Member countries have adopted some form of multi-year budget frameworks to address the inefficiencies of annual budgets. While not making binding multi-year allocations, these frameworks provide a guide or target for spending over the next three to five years. Although the practice is not without limitations, most countries have refined these medium-term plans to overcome difficulties such as:

- the tendency to over-estimate future growth in the economy,
- the view of departments or ministries that the goals were entitlements to funding which made downward revisions difficult.

Effective medium-term frameworks should provide parliaments:

- overall fiscal policy targets with explicit assumptions,
- the cost of counting existing programs, and
- the illumination of current decisions on future year’s budgets.

A strategy clearly directed at more efficiency and control can result in taking a long-term approach to major policy problems in the near future. To gain a sound impression of the long-term problems and to be able to include them in the budget policy, explorations are of critical importance. The Dutch government is currently involved in explorations in the care sector, education and the labour market, among others. In due course, these explorations will be communicated to parliament to facilitate a public debate on the issues concerned.

Long-term budget framework

In contrast to the general agreement on medium-term frameworks, the use of long-term budgets is neither as widespread nor as uniform across Member countries. While the objectives of medium-term frameworks are operational in nature, long-term objectives are more strategic.

The primary objective of long-term frameworks is to identify and expose adverse expenditure trends at an early stage. This will allow decisions to be taken in time to prevent, moderate and/or finance these expenditures. It enables countries to focus on the long-term sustainability of current policies. Otherwise such expenditures may go unnoticed until it is too late to equitably or properly address them.

For those countries that use long-term frameworks, the principal use has been to capture the impact of changing demography on government finances. By far the greatest future budget requirement comes from an aging population. It has effects on pensions, as said yesterday, but also on healthcare, social security and the tax-capacity of a country. Other areas of expenditure are generally not forecast at a detailed level but are assumed to change at set rates. The reasons are twofold:
the level of spending is smaller,

there is suspicion of the applicability and accuracy of long-term forecasts in general.

Some countries seem to reject long-term frameworks as a matter of principle, since long-term frameworks can be characterised as incorporating only known demographic changes. This seems to alleviate suspicion of the projections and make them more acceptable.

To maintain the present budgetary level, I think it is important to explore the developments in the most complex policy sectors and to construct multi-year budgetary arrangements for each of these sectors. As I mentioned before, the Dutch government is currently involved in explorations in the care sector, education and the labour market, for example. By means of well-framed budgetary arrangements, better control over future expenses might be possible. It is necessary to pursue a policy with incentives that regulates the demand for care and education and keep expenses under control. In this way, the long-term funding of a high-standard system of care and education can be guaranteed.

However, even if long-term budgetary arrangements are made for certain sectors, there will still be potential future risks. To identify these risks is a bog challenge, because ignoring them may even threaten long-term stability. Perhaps we could look further into this matter, like the idea of the Swedish delegation for a seminar on pension systems.

**Performance budgeting**

A major theme of budgeting reforms in Member countries has been the shift in focus to results and managerial flexibility and away from detailed inputs and centralised management controls. Moving to this type of budgeting means willingness on the part of parliaments to relinquish some control over individual programmes and ministries in exchange for more efficient service delivery and better performance. To be successful, parliaments need to be confident that goals have been achieved, or more specifically that government data is accurate. This confidence must come from a trusted and independent audit process.

Earlier in this speech, I mentioned returning to developments in budgeting practice and performance budgeting in the Netherlands. These advances arose because of parliament's request for improvements in accountability for policy adopted. The Dutch government acknowledges that well-informed policy objectives in the budget are essential for sound policy accountability. This led the government to draft the policy paper 'From Policy Budget to Policy Accountability" outlining plans for a new budget and new accountability. The new budget focuses not on the resources but on the policy objectives. In the first policy budget, to be presented in September 2001, the government presents three key questions:

1. What do we want to achieve,
2. What steps will we take to achieve it, and
3. What should it cost?
These questions are a new phenomenon. Up to now we used to say: Policy has succeeded when budget is depleted.

An intensive preparatory process preceded drafting the policy budget. All the ministers adjusted their 2000 budget to the policy budget. This was to give parliament an example of how the policy budget will be structured. Then, based on these sample policy budgets, government and parliament debated the policy objectives; the formulation of performance data and means of rendering accountability were also discussed in detail.

In this discussion, parliament expressed concern that the process would reduce its power of the purse. The policy budget contains a smaller number of items with larger budgets. This reduction in budget items is possible because all the resources that contribute to the same policy objective are put together in one item. This facilitates policy control by parliament. The creation of larger budgets caused parliament to fear it would lose sight of expenditure within these budgets, and with it the possibility of setting priorities within them.

The Dutch government, however, is of the opinion that parliament's power of the purse has not been reduced. Parliament can make its wishes clear in the debate with the government. In addition, parliament has the option of submitting motions or amendments to the budget. Parliament is able to reduce or increase expenses on the different budget items and is able to set priorities by moving resources from one budget item to another when the budgets are under discussion. Parliamentarians have the essential information to do so, because the policy budget provides insight into the way the resources are spread among the more detailed operational objectives. In this way, parliament's ability to exert influence, even in the era of the policy budget, is assured.

Parliament approves the policy budget and spreads the resources over certain policy objectives. In the policy budget, performance indicators are stated for each objective. This enables parliament to judge the policy set out in the policy account. This account is the subject of discussion between parliament and government.

Performance indicators are stated with the parliament's involvement. A parliamentary working group established two policy priorities per budget that will be given extra parliamentary attention during the debate on the accounts. With these priorities, the working group formulated several performance indicators for the 1999 accounts. For example, the priorities established for the Ministry of Defense budget are the standing fighting strength and peace operations. The minister of Defense was requested to enter in his account the cost of standing fighting strength due to the reduction of the Defense budget. Parliament was also interested in regular costs of peace missions and the number of staff involved in them. On the basis of these performance indicators, parliament discussed the policy pursued during the debate on the accounts.

It is hardly possible to formulate annual performance indicators for every aspect of government policy. Parliament often depends on periodic policy evaluations to obtain the right policy information. The introduction of a policy budget creates a growing need for periodic evaluations. The regulations for policy surveys and performance indicators have therefore been updated in the last year. These regulations call for policy results to be evaluated at least once every five years. This assures parliament of periodic insight into the results of government policy for which annual performance indicators are not
available. But then it is very important to use the results of evaluations to set political priorities and for public debate on future government policies.

**Accrual accounting**

The Dutch government has decided to follow the development of a policy budget by the statewide introduction of accrual accounting, which serves as a tool supporting result-oriented public management. With this, the government is following a development under way in various other countries.

Currently, half of OECD Member countries use some form of accrual accounting, although only a few use accruals in their budget process. Only New Zealand and Australia exclusively use accruals. The United Kingdom, Canada and France have plans for more extensive use of accruals in the near future. Accrual accounting is the private sector accounting standard that has several implications for dealing with long-term budget horizons. First, expenses are recognised when they are incurred rather than when they are paid as under traditional cash accounting. Thus, expenditures that build over time but do not become payable until later are reported as expenditures for the current period (and as liabilities on the balance sheet). Second, all assets are valued, depreciated and reported in the balance sheet. For example, New Zealand recognises its highway and other infrastructures as assets, which has led to paying greater attention to the management and maintenance of their values. Third, all liabilities are recorded in the balance sheet. Several countries report unfunded civil service pension as long-term liabilities.

Accrual accounting is not without controversy. Some of that controversy arises from parliaments. Before contemplating this change, a significant amount of time needs to be invested in educating and consulting with government managers and parliamentarians. In those countries that have adopted accruals, the change has been linked to other public management reforms. For parliamentarians, accrual accounting places a premium on confidence in audits and a willingness to accept fluctuations in valuations. However, in practice in Australia and New Zealand, accrual accounting had led to a better realisation of future unfunded liabilities, better infrastructure management and a more efficient budget reallocation process.

**Conclusion**

Despite the reality of low deficits or surpluses in Member countries, significant future risks remain. Now is the time to contemplate changes in the budget process. These changes include better realisation of future costs, better information resources to meet new priorities. To aid this process, many governments are considering a move to accrual accounting and performance budgeting. These changes will require parallel changes in parliamentary process and control. To bring this to a good end, scenario 4 of Prof. Schick is very helpful in my view: this means working in partnership. The budget as a “contract of performance” between government and parliament. So I very much support the view of the chairman of the Korean Budget Committee to promote exchanges of views and for that I have some practical points to conclude:

- The OECD is about to launch a regular Journal on Budgeting. In fact, a forthcoming edition will be devoted to the papers presented at this
meeting. I -- as the chairman of the Journal's advisory board -- would like to invite you to submit papers and opinions to the Journal so that it can become a primary forum for discussion and debate in this important area.

The OECD also has an Internet-based Electronic Discussion Group on budgeting issues. I will ask the secretariat to provide all of you with the access information to participate in this Electronic discussion Group. Again, I hope this will become a very informal manner for us to communicate.

2. AUDIT AGENCIES AND THEIR RELATIONS TO LEGISLATURES

by Ms. Maria Kaisa Aula,
Chair, Committee of Finance,
Finnish Parliament

Governments have been implementing new budget and management techniques like, for example accrual accounting and results-oriented budgeting. Parliaments are not equipped to provide effective review of this new data. This session will explore the relative merits of these new procedures and discuss the implications to parliamentary procedures. The session will look at audit agencies and their relationship to Parliament.

1. The Effect of Public Management Reforms and EU Membership on Parliamentary Budget Powers

Over the past ten years we have implemented in the Finnish public administration several structural improvements and necessary public management reforms. Such changes have been introduced in many other OECD member countries, too.

The Finnish public management and budgeting reforms beginning from the late 1980’s include:

- change from input oriented to performance- and result targeted management and budgeting;

- number of budget items were combined into larger appropriation items, the consequence being less detailed and ex-ante information on planned spending for the parliament. The time period of the appropriations was partially lengthened, too;

- a sizable part of the state economy has been shifted outside the budget economy (for ex. Housing Fund);
reform of local government subsidies from a cost-based system of transfers to a lump sum subsidy;

- a broad range of corporatisation and privatization measures (for example telephone and postal services, state real estate maintenance, the State railways). Many state agencies have been turned into business enterprises, too.

These measures have had many positive impacts. They have improved efficiency and brought savings. They have increased flexibility. Decision making powers have been decentralized to the local or regional authorities. Hopefully, reforms have also improved responsiveness of the administration to the needs of citizens.

At the same time these reforms have had profound effects on the parliamentary budget powers. Parliamentary budget powers have weakened and narrowed. It has become more difficult for the parliament to effectively oversee the government's budget and its execution. On the other hand the reforms have added stress to the longer term structural objectives and strategies and to the legislation that accompanies the budget bill. However, there are not many such (long term objectives, strategic decisions) elements in the budgeting process so far.

In addition to these management reforms, the Finnish membership to the European Union has complicated budgeting procedures. It is difficult to keep track of the flow of funds between the national budget and EU structural or agricultural funds. Whether use of these means is effective or not should also be studied. The Finnish parliament has also put efforts to guide and oversee our governments positions at the European Union Budget Council.

2. Discussion in the Parliament About the Means to Strengthen the Oversight Mechanisms

There is a discrepancy between new management and budgeting procedures and parliamentary budget powers. This tension has been under discussion during the past years the parliament. Concerns about the weakening budget powers of the parliament have been voiced in various memoranda by the Committee on Finance and also by the Future Committee.

MPs appreciate the positive aspects of public management and budget reforms. But at the same time they call for more effective and adequate means as well as improved information updates to effectively oversee and control governments financial management and budget implementation.

The Committee on Finance has drawn attention to the role of the external audit institutions. In our opinion the developments in public management and budgeting have underlined the importance of independent and effective external auditing of state finances. The flow and exchange of information between the external audit offices and the parliament should be bettered. That would help the parliament to implement its budget powers.

In addition the Future Committee has called for measures to define longer term strategic objectives in addition to the one-year-budget-appropriations.
The truth is that both parliament and the government shoulder the responsibility for the current state of affairs. During the last ten years both government and parliament have been overwhelmingly preoccupied with balancing the budget after the severe financial recession of early 1990’s. The government resources were too scarce at that time to improve significantly the quality and adequacy of the ex-post performance based information for the parliament.

By and large, the implementation of performance based budgeting requires some development. For example: administrative units often define their targeted goals in too broad terms that it is difficult to report the progress. Quality of reporting varies a lot from agency to agency.

On the other hand, the Members of Parliament have shown little interest in studying the existing audit or financial reports. We fight fiercely over the budget when it is decided upon but lack assiduity in following its implementation. The Government Report on State Finances (Year N-1) and The Report of Parliamentary State Auditors (Year N-1) have seldom raised any noteworthy debates in the parliament. Besides parliamentary procedure of giving a consultation document on them takes such a long time that they are not debated until the following year (N-2).

However, one reason for the lack of debate may be the quality of the reports. The statements and evaluations in these reports and audits are generally not current and through enough. On the other hand they do not include enough evaluation of (long term) strategies or discuss difficult choices.

3. Initial Steps to Balance the New Management and Budgeting Methods with Effective Parliamentary Oversight Mechanisms

a) New judicial status and broadened tasks of the State Audit Office

However, the initial steps to improve the state of affairs have been taken both in parliament and in the government. These include firstly the new judicial status and broadened duties of the State Audit Office (SAO). Secondly they include increasing efforts to ameliorate the adequacy and quality of the Governments Report on State Finances to the parliament.

Firstly, the Parliament has decided to tighten the exchange of information between the external auditing institution and the parliament. By a constitutional amendment it reformed the judicial status of the State Audit Office. Reform was motivated especially by two arguments: firstly, the strengthening of the budgetary oversight powers of parliament and secondly, the strengthening of the independence of the SAO according to the international (INTOSAI=International Organization of Supreme Audit Institutions) standards.

The State Audit Office -- although formally independent -- used to be situated within the the Ministry of Finance. From the 1st of January this year the State Audit Office is an independent body in connection to the Parliament.

The Auditor General is appointed by the Parliament but the office decides upon its auditing activities independently. SAO will submit its first annual report to the Parliament in September 2002. That will include both SAO statements on the state's
annual accounts and key audit observations concluded from the performance reports. Other special audit reports may be delivered to the parliament, too. The Committee on Finance will submit to SAO a consultation document on its report, including possible feedback to the office. The State Audit Office will have a statutory advisory committee, where the parliament is also represented among other cooperation bodies.

Interestingly, the amendment stemmed from the parliament itself. The Ministry of Finance had thoroughly opposed the idea after it was first introduced in the early 1960's. The Ministry argued that the reform would oblige government to build a new institution for its own external auditing needs. It also feared the possibility that SAO might become subordinate to the Parliament.

However, the reform was designed so that SAO's tasks in relation to the government and its administration were not diluted. Besides its new annual report to the Parliament, SAO will continue to deliver its reports to the Ministry of Finance and to audited bodies, too. The government agencies shall also offer their response against the comments and findings that are included in the auditing or performance reports of the SAO. That will strengthen the principle of accountability. All in all, that the external audit should be effective and useful both to the government and parliament.

In preliminary drafts it was thought that SAO would be subordinated to the supervision of the Parliamentary State Auditors. There was also another idea that SAO and PSA would be combined to form a new state audit institution under the parliamentary supervision. Those ideas were never implemented.

Tasks of the SAO and tasks of the Parliamentary State Auditors remain separate. SAO concentrates on auditing and PSA's concentrate on supervising. SAO is independent but can take initiatives to its audits from the Parliament. PSA's function is especially to provide reports in response to the needs of the Parliament. PSA's are elected among the Members of Parliament. SAO employs only professional public economy auditors that are guided by international auditing standards.

b) Lessons to be learnt -- probable impacts

Actual lessons to be learnt from our progress are still scarce, because we are just in the beginning of the process. I would warmly welcome any advise from those parliaments that have implemented similar reforms.

Surely, the overall awareness of the work done in SAO will be increased in the Parliament. Parliamentarians may have more interest to be educated about the benefits that effective, modern external auditing can provide to parliamentary oversight. The visibility and status of the SAO will be heightened. That may in due course increase the very few resources of the external auditing of state finances. It remains to be seen, whether the reform will eventually bring the work of SAO and PSA's closer together.

It is worth mentioning that the resources of the SAO are divided rather evenly among the annual auditing of accounts and the performance auditing (Performance auditing is ad-hoc by nature but based on an auditing plan). Emphasis on the performance auditing adds value to the parliamentary budget process, where comparison between the expected and actual performance of the agencies is needed.
On the other hand, procedures on State Financial Statement in the parliament have been rather cursory. State Financial Statement is not approved by the Parliament. They are confirmed by the State Treasury and distributed to MP’s as background information. Report of SAO to the Parliament will certainly add value to that process, too.

Admittedly, the parliament has concentrated heavily on the struggle about the judicial status of the SAO but less effort has been given yet to the evaluation of the procedures of the parliamentary control and audit in the parliament. The Committee on Finance intends to evaluate its own role during the coming spring.

At the moment the handling of various reports [PSA report, Government report (N-1)] is done jointly but they are not properly integrated in order to give input to the yearly budget process (N+1). Timetables are problematic. The Government report is submitted to us in September and the PSA report in November-December. They are discussed together during spring session. The reasons are practical. The Committee is so busy with the budget itself during the autumn session. Naturally, we have to accommodate the process to include the third one - the new SAO annual report - too.

c) Ameliorating the quality of Government's Financial Report to Parliament

As I mentioned earlier, in addition to the reform of the SAO judicial status other measures have been implemented to improve the budgetary oversight capacities of the Parliament. The government has put efforts on ameliorating the quality and adequacy of financial and performance reporting both from agencies to the government and from government to the parliament. (There is also a new accountancy system that is based upon accruals and it is run alongside the traditional cash flow based monitoring.) Ex-post reporting is essential to improve the accountability of government and administration.

According to the constitution the government shall submit to Parliament Annual Report on State Finances. It is presented every September together with the coming years budget proposal. It is designed to offer additional, historical background material for the budget process in the parliament.

There has been regular consultations between the Ministry of Finance and the Committee of Finance to develop the contents of the report that in order to better serve expectations and needs of parliament. At the moment the report consists of three major parts and appendices. The first part of the report covers economic development, economic policy and central government finances. The second part, included since 1998, is a report on administrative effectiveness (productivity, quality and profitability). The third part of the report also is the governments report on the objections to accounts.

The report on administrative effectiveness is at the moment compiled by each ministry by using the annual reports of its own and its agencies. For that reason the information is on rather general level and lacks consistency.

There should be more studies that analyze the relations between goals and actual results from year to year. However, the performance based management and budget process has been brought to the focus of systematic development in the government. The role of internal and external auditing is also to be studied in this respect.
In monitoring and overseeing the public services we need more emphasis on evaluation and indicators based on evaluation results.

Many ideas have been put forward to develop the contents of the Government Report on Finances. From the parliamentary point of view it would be useful that the Report would sum up issues not only ministry by ministry but also function by function. There are issues like research & development, regional development and flow of European Union funds that need to be analyzed across the ministries. It would also be of interest to have at least ex-post information on the regional allocation of the state expenditures. The Report could also cover the facts how the local authorities have actually allocated their transfers between education, health, social work or other fields and what is the effectivity of those services.

The parliament has also proposed that its explicit statements on yearly budget could be best followed up by the government in its Report on Finances. At the moment all parliamentary statements are followed in an another separate government report.

4. To Sum Up

Until now the external auditing of state finances, performance reports and government reports on finances have played only a marginal role when the Finnish parliament has exercised its budget powers. They have been perceived more as a tedious routine when compared with the more exciting decision making on yearly appropriations.

However, there has been recently more interest in the parliament to consider oversight and auditing - mechanisms as a part of active budgetary powers of the parliament. This is necessary if we wish to accommodate the parliamentary oversight of the budget to meet the needs of the new public management principles.

3. THE CASE OF HUNGARY

by Mr. Zmre Szekeres,
Chair, Finance Committee, Hungarian Parliament

In regard to our topic, Hungary is in a specific situation since the institutions and mechanisms necessitating or at least enabling the transparency of the state budget did not exist before the political changes. Furthermore the Parliament had no real control over the state budget or any other activity of the government. The legal framework and institutions necessary for the control of the state budget were established in the period between 1989-1996. The same period saw the transformation of the economy, as well The decreased GDP, which was the consequence of the above, called for crisis management of state finances. However, the situation fundamentally changed by the end of 1996. The economy started to grow at a rate of 4-6 per cent which trend has been maintained ever since. This fact has opened up new prospects in the economic policy of the government. It gave a chance to replace the rather radical austerity measures taken in
the early phase of the transition by more consolidated and perhaps more considerate policy. It has become possible to introduce large scale reforms like the one in the field of pensions. In the end, there has been enough experience accumulated to adjust and refine the systems of institutions and legislation.

Just to illustrate the main developments on the budgetary area I have to mention that at the very beginning of the transition to a market economy, one of the main tasks of the Parliament has been to set up the legal and institutional background for the public finance. Let me speak about only two elements of the package with special emphasis on accountability and audit:

- Firstly -- the bill of the State Audit Office was adopted in 1989.
- Secondly -- a new bill on public finance was enacted in 1992, where the new rules and responsibilities of different governmental and budgetary institutions were defined. As a consequence of these developments, the role of the Parliament increased significantly, a modern cash management has been just in place with creation of the Treasury.

As I mentioned, in 1989, the Hungarian Parliament passed a bill on the establishment of the State Audit Office. The State Audit Office is an organisation controlling the Parliament, whose work is only regulated by acts of law, it will not accept orders. Even the Parliament can only request the State Audit Office to carry out an audit by taking a resolution to this end. The chairman and vice-chairmen of the State Audit Office will be elected by the Parliament for a 12 years' term. This fact gives significant personal independence, since most players in the political field have their assignment for a term of 4 or 5 years. The most important tasks and authorities of the State Audit Office are as follows:

- To control the operation of the state budget institutions and inspect the lawfulness and practicality on the economic management;
- The chairman will countersign the loans taken out by the state;
- To control the operation of the state property management agency and report to the Parliament;
- To give preliminary assessment on the drafts concerning budget planning and closing balances, and to render this available for MPs before the bill goes through to be debated in Parliament.

The State Audit Office carried out its audits in accordance with an annual work schedule, and the arising documentation is made public. In order to maintain the co-operation between the two institutions and to draw the necessary legal or political conclusions based on the reports there is a specific standing committee in the Parliament called the Board of Auditors Committee.

Experience gained in the past few years has shown that the role of the State Audit Office has to be strengthened in two other fields, namely the financial management of the local governments and the control over the activity of the National Bank, in view of the fact that the Parliament has no adequate overview of these areas.
The Second important step on the reform process was that the Parliament passed a bill on public finance in 1992, which has been amended several times since then. This act was the basis of regulation of the financial and asset management of the government institutions, local governments and the social insurance organisation. Setting up the State Treasury was an important step in the way to achieve transparency and exclude corruption, which step put an end to cash payments in this budgetary circle as well. We have managed to establish the chance to have political and disciplinary debates in public by stipulating a strict timetable concerning the different phases of preparing the draft on the state budget. For example in accordance with the regulations effective until not long ago the government had to present the main directives of the state budget to the Parliament before 15 May. The Parliament will have a debate over this, and then the budget deficit and the main proportions of the expenditures will be decided on before 15 June. The government has to submit the draft of the planned budget before 30 September, whereas the draft on the balance drawn concerning the previous year was supposed to be presented before 31 August.

The Standing Order of the Parliament also contains important authorities concerning control. The Chairman of the Budget Committee is always an MP belonging to the opposition. The members of the government will, at least once a year, submit a report on their activities to the parliamentary committee in charge. An extraordinary hearing has to be held if 2/5 of the members initiates so. It there is an initiative concerning any issue supported by 1/5 of the Parliament temporary inquiry committee has to be set up. Although it has only indirect effect on the financial management I think it is important to mention that once a year the Budget Committee will interview the Chairman of the National Bank and also each member of the Central Bank Council before they are actually appointed.

Since 1996 there has been dynamic growth in the economy, and it has become possible to plan and foresee budgetary processes. Furthermore significant steps have been taken in the following fields:

- The pay -- as you go type state pension system has been replaced by a 3 pillar arrangement, by which it was possible to withdraw a significant part of the long term savings from the direct scope of the government's economic policy;

- The National Bank has been cleared of state debts remaining from the earlier period, which makes the economic activity of the bank and its relationship with the state budget transparent;

- The management of state debts was gradually placed into a market context and so was its financing;

- There was a bill on public procurement passed, which stipulates that tendering is compulsory if the project budget exceeds a certain limit;

- In the end, since 1997 it has been compulsory to indicate further biannual data, for information, in both the budget directives and the draft of the budget estimates, which go through the Parliament.

In spite of the fact that the system of institutions has been established there are still several factors standing in the way of democratic control over the state budget.
Concerning the Parliament itself, it has been impossible so far to find a solution to get an overview of state investments and government guarantees. Although these are shown in separate charts in the budget planning and losing balance drafts, it is practically impossible to obtain adequate factual information on these issues.

Most problems reconnected with the property of the state as an entrepreneur. Some of these problems arise from the fact that the property management and privatisation organisations operate outside the framework of the state budget. On the one hand it makes the operation less transparent, on the other hand the indices of their financial activities are not manifested in the balances of the state. Besides this fact will also motivate every government to realise certain economic policy measures through this organisation. The other problem connected with property is rooted in the circumstance that at the time of the privatisation act it was important to privatise as soon as possible. We did not think of the possibility that state property can also grow after the economy has been stabilised, and the state can set up or buy new companies in the period of growth. Therefore the legislation might not be effective on the new elements of state property. The fact that the parties represented in the parliament participate in the supervisory board of the privatisation agency does not solve the problem either.

Making the financial management of the institutions financed from the state budget public provokes a lot of disputes. In 1996 there was also a data protection ombudsman appointed when other parliamentary commissioners were given their assignments. In the past few years the ombudsman has disclosed several cases when a government agency declared some documents confidential without the proper legal grounds for it. There were also cases when such organisations were ordered to render financial data available for the public. However, the ombudsman's platform taken in a certain matter does not involve any sanctions, very much like the reports of the Board of Auditors. Therefore neglecting them does not involve any direct consequences. However any citizen can take a legal action objecting to keeping data of public interest in secret, and the provision of the law-court will be operative.

In the end let me tell you a few words on what is happening now and about the tasks ahead in the years to come. The Hungarian Parliament agreed to the biannual budget planning initiated by the government. The government reasoned this proposal by the argument that this way more stability can be granted and things can be foreseen better. The future of this initiative, however, is rather uncertain at the moment, as the parties in opposition do not support this approach, and they have both political and disciplinary arguments against it. As I have mentioned, the introduction of the biannual budget planning also involved the eradication of drawing up annual directives.

If I should summarise the ten years development in a EU accession context, I would say that Hungary has reached a relatively high standard for EU membership in the public finance area.

The recent assessments of the Hungarian case showed that a considerable progress has been made in bringing the fiscal deficit under control and introducing tighter budgetary procedures.

We can say that "the buildings blocks" of a modern and effective budgetary system have been put in place in recent years.
At the same time we have also to say that there are further tasks to be solved in the near future. Let me mention just for illustration several areas, where significant changes are necessary:

- On the one hand it is necessary to go on with the reform of state financing, in the field of health care in the first place.

- On the other hand it is necessary to strengthen the mechanisms which are connected with financing organisations independent of the central budget, e.g. municipalities, civil organisations.

- Besides it is also necessary to set up a new type of source distribution system between the government and the regions, which should be in compliance with EU requirements. As the EU budget funds are not yet fully integrated with the budget process, therefore a further work is needed to include EU budget flows in a transparent way. It goes without saying that this will affect transparency and the control system.

- Last but not least it would be useful to unify the costs connected with identical activities of different institutions or their financing. If we succeed, it will facilitate having an overview of the operation of government financing both for the Parliament and the public.

Finally I think that we have to make further deliberations on how to improve the administrative capacity in the budgetary work in order to meet the challenges I referred to in a very summarised way.

4. THE EU CONSTRAINTS IMPACTS

by Mr. Giorgio Benvenuto,
President, Finance Committee,
Italian Chamber of Deputies

I would first like to thank the organisers of the conference, an event of great interest in view of the issues it is addressing – common to all participating countries – and their importance within the debate on governance in democratic systems. As regards the issue we are dealing with in this session, I will limit myself to a number of brief comments, drawing on the Italian experience. In general, I believe that adopting precise parameters within which national budget policies must operate, accompanied by appropriate supranational monitoring and control arrangements, does not necessarily impinge for progress by increasing awareness in policy-making, helping to raise the level of parliamentary action.

A fine example of this is the constraints that the EU Member states imposed on themselves with the Stability and Growth Pact. In Italy's case, the introduction of
specific quantitative constraints forced the government and Parliament to implement far-reaching reforms, which have had a positive impact on the budget process in recent years. Of special importance are the tax reforms undertaken in the last five years. One of their objectives has been to attain a more balanced distribution of the tax burden by adopting more effective tax assessment tools. These have made it possible to curb tax evasion significantly and have generated a structural rather temporary increase in revenues.

The process of tax reform has also been marked by its federalist orientation, gradually strengthening the financial independence of local authorities. Here too the constraints imposed by the Stability and Growth Pact had a major role in underscoring the need for close coordination between the various authorities responsible at different levels for the public finances. This is testified to by the fact that the Community agreement was followed in Italy by the drafting of an internal stability pact aimed at transferring real responsibility to local authorities in order to ensure that budgetary policies at all levels are compatible with Italy's commitments as a participant in monetary union.

For Parliament, accepting the challenge of the Maastricht criteria prompted legislators to increase the effectiveness of the instruments and procedures used during the budget session, especially as regards compliance with projected balances and careful assessment of Government forecasts concerning the financial effects of budget measures.

More recently, the opportunities opened up by the success of the efforts to readjust the public finances have prompted hopes that future budgets will have room for measures to support development. While this possibility has further increased the scope of budgetary policy action, it has also engendered new problems in managing the budget session in Parliament. In any case, tax measures are an increasingly important part of the substantive core of the budget. This holds not only for past budgets, which were aimed at redressing the public finances, but also more recent ones, which, as in other European countries, have been drafted with an eye to the real opportunities available for tax reduction. This raises sensitive issues concerning not so much the room for action as deciding what specific measures to adopt. National parliaments find themselves forced to decide which sectors to favour all within the framework of the constraints imposed by heightened competition on the one hand and the impossibility of infringing Community rules governing state aid on the other.

The difficulty of reconciling these constraints is clear. We run the risk of taking decisions that Community authorities subsequently rule illegal, and at the same time have to decide whether to spread the available resources widely or to concentrate on specific sectors, as was the case with unearned income, to the detriment of the majority of taxpayers. In this regard, I would like to underscore the need to forge ahead with the international effort to eliminate, or at least limit, harmful tax competition by reaching detailed agreements such as those – not without difficulty – at the Community level. The constant efforts of the OECD have played a key role in this area. This could become a decisive factor in enabling individual countries to safeguard their own budgetary policy "sphere". In particular, it could protect the role of parliaments, which without significant progress would find themselves having to abandon efforts to adopt more comprehensive tax reforms under the pressure of having to compete. Here too, then, the introduction of international constraints could paradoxically increase Parliament's room for manoeuvre.
1. INTERNATIONAL MULTILATERAL SURVEILLANCE OF PUBLIC
FINANCE AND POLITICAL POWER

by Mr. Michel Bouvier,
University of Paris I – Panthéon Sorbonne

‘History has, on a number of occasions, shown public finance to play a major role
in the far-reaching changes, revolutions even, that societies have undergone. It is at such
times that it is most obvious that public finance is not only an essential factor in such
changes, but that it also provides an excellent key to interpreting them.

Nowadays, too, public finance continues to shape the necessary changes in
central government.

In this connection, careful observation of developments in public finance
systems worldwide, and more especially in public financial practice, which is moving
closer to private financial practice, clearly demonstrates the sweeping changes that are
taking place. The latter are reflected in a desire - shared throughout much of the
world - to rationalise, appraise and control the management of public money, in other
words to incorporate an essentially political budget process in a management rationale.

What has gradually come into being, therefore, via the transformations in public
financial systems, is a new State and, more than that, a new meaning for democracy.

As will be seen, close examination of the changes taking place in multilateral
surveillance of fiscal and monetary policies, which are moreover indissociable,
constitutes an excellent key to understanding the changes in public financial systems and,
consequently, in the structures of national and international political systems.

Public finance is thus at the heart of the question occupying the minds of all our
contemporaries, namely that of the governance of complex societies and of the new
regulations that need to be introduced.

This is no mean challenge since it means preventing the heterogeneity and
unstable equilibrium of the international political, economic and financial system
resulting in crises or even on a general collapse. The object, therefore, is to think and
order a universe that is in constant movement and perpetually being reorganised, but
without causing it to seize up. It is a world of which the rationale is the liberalisation that
gives it the momentum essential to its development. The fact that this responsibility
means having a method capable of understanding complex mechanisms and proposing the

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1 Director of the Groupement Européen de Recherches en Finances Publiques (http://www.gerfip.org), Editor of: Revue Française de Finances Publiques
appropriate techniques is not everything, for it is also a question of deciding on and giving a direction to the new world that is coming into being.

In other words, a new alliance has to be worked out between the technical expert and the political world, and this could well be built around the quest for new forms of multilateral surveillance of the public finance policies pursued by the different countries in the world.

Over and above economic and financial risk prevention, therefore, it is the question of reorganising public finance systems and of the reform of the state that is at the back of thinking about surveillance procedures.

It is these aspects that we now propose to develop. Part 1 looks at "international multilateral surveillance of public finance as a major imperative for a complex world", while Part 2 discusses "the future challenges facing multilateral surveillance of public finance in the context of complex societies".

1. International Multilateral Surveillance of Public Finance: A Major Imperative for a Complex World

The foundations of multilateral surveillance will be presented in an initial section, and the traditional forms of this surveillance will be described in a second section.

The Foundations of Multilateral Surveillance of Public Finance

Multilateral surveillance in the field of public finance, as in many other fields, is based on a systemic approach to understanding societies, an approach that is often intuitive and, although sometimes clearly stated, is in that case always based on ordinary common sense.

The idea that there must be institutions responsible for monitoring and analysing the budgetary and monetary policies of the world's countries in order to try to detect the problems that these policies might pose for other countries and to prevent their consequences is, in fact, simply a response to the need to take into account the openness of trade between countries, which has grown considerably in recent decades.

International society, which is made up of sovereign states with very different economic, financial, legal and political characteristics, is gradually taking the form of a network, a system that is relatively open to trade. As a result of this globalisation of trade, which has intensified sharply in recent years with the unprecedented development of the liberal economy, this system can rightly be considered as a system at risk. Chain reactions can occur, which, if they are not brought under control soon enough, may have harmful consequences and lead to more or less serious crises, although the opposite is also true and this systemic cause and effect can also bring very significant benefits.

Consequently, these complex and open systems\(^1\), which are made up of a variety of more or less interdependent institutions since they have mutual trade relations, make it necessary to set up monitoring and regulatory systems that will make it possible to

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identify problems and act rapidly in order to prevent them from spreading, or at least limit their impact. These regulatory systems do in fact exist; they consist in particular of the policy surveillance systems established by States, and their function is, as said above, to evaluate the risks that these policies may pose for others and to propose ways of preventing them. This is one of the most traditional forms that systemic monitoring can take.

The Traditional Forms of Multilateral Surveillance of Public Finance

Many international institutions conduct multilateral economic and financial surveillance, but relatively few focus on public finance policies. Furthermore, in this latter field, systems for the surveillance of budgetary policy have been established only quite recently. However, monetary and exchange rate policies are monitored closely, for example by States that have ratified the IMF Articles of Agreement, Article IV of which makes the IMF responsible for surveillance of developments in the international monetary system aimed at ensuring that it is functioning properly. In this capacity, it consults annually with political, economic and social actors in member countries (127 consultations during the 1999-2000 period). These consultations focus on exchange rate, monetary and budgetary policies with a view to detecting any signs of vulnerability in the economy.

In connection with this form of surveillance, which can be characterised as bilateral, reports are produced in the Spring and Autumn presenting the "World Economic Outlook". These reports present not only two-year forecasts (of growth rates, for example), but also the IMF’s positions on countries' economic policies, pointing out the weakest and strongest aspects and proposing recommendations.

There is also regional surveillance; for example, reports are prepared on the monetary policy of the euro area that focus on a number of difficulties such as population ageing, tax pressure and indebtedness. This kind of surveillance is also found within the franc area, for example, in the West-African Economic and Monetary Union (eight countries), which is modelled closely on that of the EU’s Economic and Monetary Union.

It should be pointed out that the effectiveness of this type of system is obviously dependent on the quality of the data gathered and their processing and the frequency of consultations. It also depends on the scope of the reviews conducted and more specifically on the method of analysis used; this means that the systemic approach applied in a spatial framework -- in which worldwide chain reactions may occur as was shown earlier -- should also naturally be applied to the analysis and not only include economic and financial aspects, but also more qualitative elements, for example of an institutional nature.

It should also be pointed out that, in addition to methodological obstacles, this type of surveillance inevitably comes up against difficulties stemming from countries' independence and the diversity of the environment in which it is applied, which means that it can never be entirely satisfactory.

Nevertheless, this difficulty can be overcome, for systemic thinking itself leads to a more ambitious approach that, rather than being limited to setting up regulatory bodies outside the State, is aimed at enabling the system to be self-regulating and self-
monitoring, in other words, to be able to comply on its own accord with certain basic rules designed to limit financial risks.

This approach has been taking shape for several years and is even tending to spread, and might engender a new form of government and a new organisation of international society. It will also determine the nature of the process of political decision-making in the future.

2. International Multilateral Surveillance of Public Finance in the Context of Complex Societies: Future Challenges

Basically, the issues involved in the international multilateral surveillance of public finance are much the same as those encountered in the monitoring of national finances and, in particular, the finances of local authorities. As we know, local authorities have also come to be considered as risk systems, especially since they began to rely widely on borrowing, and warning systems exist at this level. This should come as no surprise. In any society run in a decentralised manner, there is often concern about the systemic risks posed by the more or less financially independent institutions that make it up and how these risks can be prevented. However, opinions differ as to the means of regulation, as some people favour monitoring external to the system, while others think that the decentralised bodies themselves should monitor their own management so as to come as close as possible to zero risk, while all agree that transparency of public finance is vitally important.

It is for this reason that, however the situation is viewed, careful analysis shows that we seem to be moving towards various kinds of self-organised expert systems, which may also have the advantage of not sending warning signals that may give rise to expectations on the economic and financial markets.

Towards Self-Organised Experts Systems?

A number of approaches are being used or developed to create self-monitoring and self-regulating systems.

In this regard, it may be said that a sort of “financial cybernetics” is being gradually implemented, or in any case a system in which technical aspects and expertise play a key role. In our view, two concepts seem to underlie the solutions being envisaged or already implemented, one based more on a universalist approach, while the other focuses more on the specific characteristics of individual States.

1) Ensuring greater legislative and regulatory uniformity by applying universal standards

A basic requirement for managing a complex system is not only that all actors use a common language, but that they have a common operating approach and common standards. In other words, they must share the same legal and management approach, which must be fully internalised and integrated into their method of operating for a self-regulating system to become possible.

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This is the path that international multilateral surveillance has taken in recent years, with States being asked to adopt codes of good conduct or preferably rules applicable within a regional framework by which they undertake to incorporate certain requirements in their national legalisation and to comply with them under pain of sanctions.

\textit{a. Codes and charters of good financial conduct and practice}

International multilateral surveillance, like the new public management\(^{1}\) for that matter, is increasingly tending to be based on the need to make financial institutions accountable and to define a certain number of universal rules and international references, all of which are more or less specifically aimed at ensuring the necessary transparency of public finance. This shows clearly that one factor -- perhaps the key factor -- necessary to reorganise the international financial system and prevent risks is the reorganisation of national systems for managing public finance, in other words, the introduction of effective internal monitoring enabling States to control their finances.

It is to this end that the OECD and IMF propose codes on budgetary, monetary and financial transparency. As we know, many other international institutions, such as the IFAC and FATF, are doing the same thing by recommending standards in more or less closely related sectors. Moreover, it is likely that there will in the future be increasing cooperation between institutions proposing standards.

The aspects most often focused on concern the need for clear operating systems, the evaluation of budgetary and financial polices, the quality and reliability of information and the dissemination of information to a broad public, including policy-makers, economic actors and in fact citizens in general (which should be considerably facilitated by Internet).

An example that can be mentioned in this regard is the experience developed by the IMF, in which France is participating, and in particular the Report on the Observance of Standards and Codes produced by this organisation on the basis of information collected in the course of its consultations. Mention may also be made of the Special Data Dissemination Standard established in 1996 by this organisation, which is aimed at increasing the frequency and level of detail of the information gathered (general government account, government debt, balance of payments, wages, prices, etc.), bearing in mind that although this initiative enables the IMF to conduct an evaluation, the latter is based on the information produced by the countries that were willing to let themselves be evaluated.

Obviously, inasmuch as these procedures are voluntary, it remains to be seen whether countries that have agreed to these international standards will actually apply them.

Admittedly, although peer pressure is important and certainly effective in promoting the development of a mutual incentive among the world's countries to consolidate their finances and make them more transparent, it is not, of course, enough to establish a sufficiently reliable monitoring system. This is why some countries, organised

\footnotesize{\textsuperscript{1} Cf. Bernard Abate, \textit{La nouvelle gestion publique}, LGDJ, 2000.}
on a regional basis, have appreciably stepped up multilateral surveillance of their finances, as is the case in the EU.

\textit{b. Reinforced multilateral surveillance in a regional framework}

The EU, in particular in the framework of Economic and Monetary Union, provides an excellent example of a surveillance system combining compliance with common budgetary and financial standards with an external control body whose conclusions may be enforced by imposing sanctions.

In this regard, Article 99 of the treaty establishing the European Community specifies that "in order to ensure closer co-ordination of economic policies and sustained convergence of the economic performances of the Member States, the Council shall, on the basis of reports submitted by the Commission, monitor economic developments in each of the Member States", and further adds that "for the purpose of this multilateral surveillance, Member States shall forward information to the Commission about important measures taken by them in the field of their economic policy". Article 104 also states that "the Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States... It shall examine compliance with budgetary discipline", i.e., whether the convergence criteria are being respected.

Furthermore, since 1997 a "Stability and Growth Pact" has also been implemented, under which Member States submit a medium-term programme in two parts; one is preventive and concerns multilateral surveillance per se, while the other is punitive or dissuasive and provides for the imposition of pecuniary sanctions if a country fails to take the measures necessary to reverse the situation.

Within this system, the Council and Commission are assisted by two committees, the Economic and Finance Committee, the statutes of which were adopted by the Decision of the Council of 31 December 1998, and the Economic Policy Committee (Decision of the Council of 29 September 2000). This makes it possible to ensure closer surveillance of Member countries' macroeconomic situations and structural policies.

It should be borne in mind that EU legislation on EMU is directly applicable under domestic law since it is contained in the treaties, appended protocols and, as is the case for the Stability and Growth Pact, in regulatory provisions.

Consequently, this is a particularly sophisticated surveillance system based on the requirement that all Members comply with the same convergence criteria, which leaves States with limited room for manoeuvre. Even though the provisions do not impose a common budgetary policy, which remains the responsibility of States, the fact is that the strengthening of multilateral surveillance limits their financial autonomy while reinforcing the co-ordination of their policies.

The question that this system raises is whether it would be feasible to establish a more flexible system that could react to market fluctuations. This is the view taken by those who support a system of independent institutions that would establish budgetary and fiscal standards. Other approaches to surveillance might also be used, such as a collegial system.
2) A new interplay between actors is possible

a) *Legislative and regulatory harmonisation through the application of common standards defined by independent authorities: the end of the political sphere?*

Existing surveillance systems can be criticised both on the count that their effectiveness is limited by the fact that they are largely dependent on the good will of countries, and that strengthening them is synonymous with a certain rigidity.

These two difficulties are not found in other models that have been proposed, such as that consisting of entrusting the production of budgetary standards to independent authorities (proposal made by the Business Council of Australia, that country's main employers' organisation).

This kind of system or model, although it may still appear to be far removed from the most likely developments in the near future, is nevertheless symptomatic of an approach found in much of the thinking on these subjects, which springs from the new regulation systems implemented in recent years.

Basically, this approach would involve extending the procedure of controlling monetary policy through the creation of independent central banks to budgetary and tax policies. In the same way, institutions could be established to monitor, respectively, tax and budgetary policy.

This kind of approach is not a total break with the approaches presented earlier; in any case, it involves relying on automatic stabilisation systems, which are composed of mandatory standards specific to each State, defined by the independent authority and with which policy-makers must comply.

It should be pointed out that this type of system is characterised by the fact that it reflects a twofold concern: firstly, to isolate the system from the political sphere and its contingencies, and even to exclude this sphere from decision-making and, secondly, to reassure the market by ensuring that key budgetary policies are drawn up by independent experts.

b) *Mutual and collegial surveillance*

Another approach is also possible, i.e. mutual surveillance, or the self-organisation of surveillance through procedures that are also largely dominated by professionals. For example, somewhat along the lines of the recent experiment by the French Audit Office, which had itself audited by its Dutch opposite number, a team of supervisors from different countries, possibly assisted by international experts, might be made responsible for carrying out an audit of the situation of a particular State. This system could also be combined with the progressive adoption of codes of good conduct by countries.
What Changes in Political Decision-Making?

As has become apparent from this analysis, all the existing or proposed surveillance systems rely heavily on experts. However, one may well wonder whether an area as crucial to the future as public finance should be left solely to national or international professionals, which would mean that the approach in this field can and should remain purely technical.

If we consider that what basically lies at the heart of these discussions of multilateral surveillance is the system of national and international governance, then it is obvious that the issues raised are not merely technical but are also fundamentally political and institutional in nature.

Since public finance is part of a democratic tradition in which the power to create standards in this field is vested in Parliaments--also known as "normative" power--the subject under discussion touches upon an essential area, namely the legitimacy of the institutions that set standards, which again raises the recurrent question of the relations between experts and the political sphere.

Debate is already under way on this subject. As (French) Senator Philippe Marini has already pointed in his excellent report "For A New Financial World Order", national Parliaments must debate these subjects, which "are essential to the construction of the international economy of tomorrow", a process that, he adds, "contains obvious political challenges".

One of these challenges is the difficulty of reconciling the power of elected officials with the modernisation of public management--in other words, the difficulty of combining two approaches that have been in conflict in recent years in public financial systems, i.e. the political approach, which is derived from the democratic tradition and in which elected officials are pre-eminent, and the prudential and managerial approach, which is based on economic imperatives and therefore gives priority to technical expertise.

In general, there can be no doubt that there is today a certain fascination with management techniques, and that at times management is all too readily equated with policy-making, creating a risk that management techniques will ultimately acquire the same importance as the political sphere.

What is more, it is not inconceivable that, taken to the extreme, this fascination might result in a desire to replace political decision-making with various kinds of automatic budgetary mechanisms, with the "constitutionalisation" of financial standards leaving policy-makers very little room for manoeuvre.

Be that as it may, it is now clear that the reinforcement of the multilateral surveillance of public finance will necessitate a restructuring of the international financial system, which will in turn require a reorganisation of national financial institutions'. This process is already under way and the underlying trend is towards a

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situation in which the choices available to policy-makers in the field of finance are more often than not limited to technical, legal or managerial aspects, since they are governed by rules that cannot easily be changed.

Ultimately, both the globalisation of trade and the changes occurring in the political sphere will be decisive factors in shaping the future of public finance policies. More specifically, what is gradually emerging is not only the end of a certain way of practising public management, but perhaps even more of a certain way of perceiving the political sphere.

2. THE EUROPEAN BUDGET
THE ROLE OF THE EUROPEAN PARLIAMENT

by Mr. Terence Wynn,
Chair, Committee on Budgets
European Union Parliament

First of all I want to add my thanks to the OECD and French Senate for their organisation of this gathering. I also want to give a personal thank you for your invitation, which gives me the opportunity to be here and to have the honour of representing the European Parliament, and, in a sense, the European Institutions.

All of us come from different political environments and traditions, but we all should have a common approach for the better use of public funds as the representatives of the taxpayers. Quality of expenditure should be a priority and this becomes even more important when we recognise that there is a general tendency to reduce public spending.

In the EU budgetary process, there are three main Institutions, the Parliament and Council of Ministers together being the budgetary authority and the Commission being the Executive. The best analogy is with the USA where the Executive needs the House of Representatives, which represent the people, and the Senate, which represents the different States, to agree its budget. In our example, the Parliament represents the people and the Council of Ministers represents the Member states, the Commission being the Executive but lacking the charisma of George W. Bush.

Let me just say as a politician, if you are in politics, you are in it for power. Power to do things for the people you represent and power to change for the better. In the European Parliament, the real power lies within the budgetary procedure.
During my intervention here, I would like to touch in three issues:

- the role and the competence of each Institution in the budgetary procedure,

- the effect of parliamentary control on the Commission along with the improvement of the management of the Commission, and

- the relationships between the Parliament and National governments.

**The budgetary procedure**

In most of the countries represented here, parliaments have often struggled against the "King" for its rights. Very little was freely given to the representatives of the people. Rights:

- to determine the budget of the state;

- to decide on the revenue collected from the citizens; and

- to decide or influence the public actions financed by the budget.

Throughout the history of democracy of Europe, the determination of a country's budget was one of the first rights that parliaments achieved. The right to determine the budget was the lever to expand parliamentary influence into the political areas: legislation, internal politics, external politics, and in the end, even on the question of war and peace.

The process of European Integration, in some respects, has shown similar features to those of individual European countries. The EP has had to fight to get its rights. The one right we don't yet have is the right to decide on the revenue to be collected. In that sense, it's not a matter of "no taxation without representation" but "representation without taxation". The revenue side remains within the domain of the Council, but we are working on it.

The EEC was created in the 1950s as a political system clearly dominated by the Council of Ministries and the European Commission without the political control and the legislative guidance of a directly elected Parliament, only accompanied by a consultative Parliamentary Assembly, with Members seconded by the national Parliaments.

The first direct elections in 1979 marked a step on the road towards a fully developed democratic system. In a democratically organised Europe, it is the role of the parliament – as it was the case in history and is the case in democratic national systems – to guarantee the proper administration of taxpayers' money and the democratic control of the governance of the European Union.
According to the Treaty, the European Parliament has, in budgetary terms, three relevant powers:

- the final decision on the so-called ‘non-compulsory expenditure’, which represents more than 50 per cent of the total budget (about 95 billion Euros),
- the agreement on the total budget, and
- the discharge on the implementation, i.e., discharging the Commission of its responsibilities.

Beyond the strict definition of the Treaties, at least in the last ten years, the European budgetary procedure has certainly changed by the growing co-operation between the Institutions, notably between the two arms of the budgetary authority – the Council and the Parliament.

Drawing up the EU’s annual budget formally begins with the publication of the preliminary draft budget (PDB) by the Commission at the end of April or the beginning of May.

It then goes for its first reading in Council and the draft budget is adopted by the Council in July, decided on the basis of the Commission’s PDB.

This forms the basis for the first reading of the Parliament. In September and October, the members of the Committee on Budgets discuss the political priorities that the specialist committees have expressed in their draft amendments to the Council’s draft budget. These draft amendments are drawn up by the committees in July and September.

The Budgets Committee submits its opinion to the plenary for the first reading of Parliament in October.

Back to the Council for its second reading where the Council decides over the so-called “compulsory expenditure” (mainly agriculture). The procedure is concluded in December, following the second reading in the EP’s plenary, with the signature of the President of the European Parliament, and hopefully the budget should reflect Parliament’s priorities.

That is a brief outline of the formal framework but the reality is more complex and the relationships and influences between the Institutions are much greater than foreseen in the Treaties.

In fact, an International Agreement on budgetary matters, outside the Treaties, which includes also the financial framework for a multi-annual period, guides this co-operation.

The final perspective

The political and institutional balance of the Community’s system of finance began to change in the 1980s as the newly elected MEPs began to flex their muscles. Increasing tension caused more and more difficulties in the annual budgetary procedure and resources were increasingly unable to meet requirements.
A succession of budget crises at this time prompted the Community institutions to agree on a method designed to ensure budgetary discipline and to improve the budgetary procedure. In concluding an inter-institutional agreement, Parliament, the Council and the Commission agree in advance on the main budgetary priorities for the following periods and establish a framework for Community expenditure in the shape of a financial perspective. This financial perspective shows the maximum amount and the composition of foreseeable Community expenditure.

The first Inter-institutional Agreement was concluded in 1988 for the application of the 1988 to 1992 financial perspective (Delors I package) which was intended to provide the resources needed for the budgetary implementation of the Single Act. As the application of the Inter-institutional Agreement and the financial perspective proved a success, the institutions again adopted this approach and on 29 October 1993 concluded a new Inter-institutional Agreement. This agreement included the 1993 to 1999 financial perspective, financing the so-called Delors II package, and a Financial Perspective for the period 2000-2006 has been agreed between Parliament and Council allowing the financing of the Agenda 2000 package.

So what is the financial perspective?

The main categories of Community expenditure are divided into headings: these being agriculture, structural operations, internal expenditure, administration, research, pre-accession aid (enlargement), reserves. Each of these headings carried an annual expenditure ceiling in commitment appropriations. However, in the case of structural operations (Structural Funds and Cohesion Fund), the amount entered in the financial perspective also constitutes an expenditure target.

Under the Inter-institutional Agreement, the three institutions undertake to respect the various ceilings set in the financial perspective.

The financial perspective differs from the indicative financial programming in that the ceilings are binding on the parties to the Inter-institutional Agreement. However, the financial perspective cannot be regarded as a multi-annual budget, as the annual budgetary procedure is still essential for determining the actual level of expenditure under the ceilings and, above all, for dividing appropriations between the various budget headings.

So that's the procedure.

The parliamentary control over the Executive

Now, I would like to give some idea of Parliamentary control over the management of the Commission.

I don't need to remind you that the Santer Commission resigned following Parliament's refusal to give parliamentary discharge to the Commission for the 1996 budget, the third power given by the Treaties mentioned earlier. The new Prodi Commission has now launched a vast plan of reforms (driven by Vice President Neil Kinnock). These still have to be fully implemented.
The resignation of the Commission is not expected to be an annual event but that resignation represents the effects of a Parliament that is maturing. The European Parliament is only 21 years old and, as it flexed its muscles as a child in the early 1980s, so then it discovered its real strength when it was in its late teens. Parliamentary control has a direct and concrete effect on the day-to-day work of the Commission, where the responsible persons within the Commission are called daily by the Parliament for assessment of their activity and Parliament won’t settle for bland responses.

Among the concrete measures that the Commission has taken – independently, but under the constant pressure from the Parliament – the following spring to mind:

- The implementation of actions initiated by the Parliament in the budgetary procedure (e.g. Aid for South Africa, the KONVER programme following the fall of the Berlin Wall, the LIFE programme for the environment, pilot projects and preparatory actions).
- Significant changes in the administration of European funds in the Balkans, reducing the influence of National governments in the direct management.
- The set up of special procedures to determine the appropriations needed for the Common Foreign and Security Policy.
- Significant changes in the management of the external aid programme in order to reduce the backlog.
- The presentation by the Commission of performance targets for each major programme.
- A stricter control over the use of human resources.

Before closing this point on the parliamentary control over the executive, I would like to draw the attention of the EU National Parliaments’ representatives to the fact that quite often, the Commission is not the only responsible institution for the management of European Funds. This responsibility is often shared with Member states' administrations and/or regional and local authorities. It should be recalled that about 80% of European Funds are managed at the Member state level.

Every year, the Court of Auditors publishes its annual report, which is usually followed by newspaper headlines of fraud in Europe – last year amounting to around 3 billion Euro. The reality is, the word "fraud" seldom appears. What the Court invariably talks about is "mis-management" and "abuses of the Financial Regulation". The other reality is that the responsibility usually rests in the Member states.

Where is the responsibility of the Member states' administrations? Is there the same accuracy of control in Member states where European money is concerned? When we read most of the European press, responsibility is always given to the Commission; I am sure if you read with care the report of the Court of Auditors, you might find a different answer.

The Parliament, in a number of cases, acknowledges that the responsibilities are more at the National level than at the European level.

I think that more exchanges between the European and National Parliaments could be of mutual benefit for the common aim that we all have for the better use of
public money. In this respect I want to inform you that next June, the Committee on Budgets of the European Parliament will organise a hearing on this subject with the participation of national and local Authorities.

**Relations between the European Parliament and national governments**

The last point that I want to raise is the relationships between the European Parliament and national governments.

Whilst one political grouping may be in power in several Member States, that power does not necessarily reflect itself into the EP - as is the present case. So the governments of Member States cannot easily influence the EP. We need a qualified majority to get the budget agreed which means no political grouping ever has a majority on its own. We have to seek consensus otherwise we end up with the budget of the Council. It would be a great achievement if EP and Council could entirely agree and therefore complete the process in one reading, but we haven't yet reached that state of Nirvana.

That's why the majority to adopt the budget has to be found each time. In those circumstances it is absolutely normal that during the procedure a number of contacts are made with most governments, at different levels.

The fact is, even though it is through the Presidency of the Council that all official contacts and most of the negotiations take place, the key moments of the budgetary procedure are the Conciliation meetings (two per year organised between a delegation of the EP and the 15 Ministers of budgets. The preparation of these meetings requires regular contacts with national governments. But it is a system with weaknesses.

National Finance ministers are so tied up with their own domestic budgetary concerns that their knowledge of the EU budget tends to rely on advice from their Permanent Representatives in Brussels. So when we meet in conciliation, they are invariably disadvantaged when faced with 15 **PEMs** who are experts in the EU budget. I would prefer a more level playing field with national politicians taking the political decisions and not the civil servants. Therefore, we need better and more regular contacts with national politicians to allow us to work better together.

After all, European and national affairs are often linked. There are a number of common objectives either in terms of a general approach to "the better use of taxpayers money" or in more specific terms "coherence in European and national priorities".

This leads me towards the conclusion that a regular contact between Chairmen and Budgetary Rapporteurs in view of the preparation of the budget for the following year is extremely useful. If this view is shared by representatives of nation EU governments here today, then contacts can be made to find the most adequate moment in the year to have such meetings that should remain pragmatic but concretely linked to the preparation of the budget of the following year.

A Parliament's budget should reflect its political priorities. We want to ensure that the priorities of the European Parliament reflect the wished of Europe's citizens. That could be better done working with Member States' politicians to ensure we are all aiming for the same goals. I hope, in the future, we can begin to move in that direction.
VI - CAN PARLIAMENT IMPROVE THEIR BUDGETARY OVERSIGHT? - RECENT CHANGES

1. HOLDING THE EXECUTIVE ACCOUNTABLE

by Mr. Alain Lambert,
President, Finance Commission,
French Senate

Oversight of the government is one of Parliament's key missions, together with proposing and voting legislation. This oversight is based on the Declaration of the Rights of Man and the Citizen of 1789, which in Article 14 lays down that "All the citizens have the right to decide, either personally or by their representatives, as to the necessity of the public contribution, to grant this freely, to know to what uses it is put, and to fix the proportion, the mode of assessment and collection and the duration of the taxes".

The basis for parliamentary oversight is therefore longstanding and is focused on the financial aspect, for as representatives of the people our first task is to determine to what extent the public contribution is necessary and whether it is being used effectively and in the manner authorised by Parliament. Surveillance of the state budget is therefore a longstanding tradition, but one that has nevertheless changed considerably over time.

In all countries, the methods of parliamentary surveillance and oversight derive from specific traditions and are the outcome of their own political and institutional history. I would like briefly to describe French parliamentary practice as regards budgetary oversight and, more particularly, recent developments in this field and prospects for the future.

Finance committees have a role of ongoing monitoring of the execution of the budget and have specific prerogatives and powers in this regard such, in particular, as the power to summon any person that they deem it useful to hear.

However, in point of fact these prerogatives belong first and foremost to individual committee members, who are specialised and report on the budget of a specific ministry and are known as "special rapporteurs". This function is in line with the Order of 30 November 1958, which specifies that "the Members of Parliament responsible for presenting, on behalf of the relevant committee, the report on the budget of a ministerial department, shall monitor and control the use of the budget appropriations granted to this department on an ongoing basis, and may verify documents and make on-site inspections. All financial and administrative information likely to facilitate their mission shall be provided to them."

Every year, in the context of the discussion of the Finance Bill, the special rapporteurs draft a report on the budget of the ministry for which they are responsible. During the year they also monitor the central government departments that fall within the scope of their responsibility. In connection with this monitoring, they may send their comments to the government or prepare confidential or public information reports.
Furthermore, under Article 47 of the Constitution, the finance committees receive the assistance of the Audit Office in monitoring the implementation of the Finance Act. The Audit Office is responsible for monitoring the government, the administration and public bodies, but from a legal and accounting standpoint, while parliamentary oversight is essentially of a political nature, involving value judgements. These two types of monitoring are therefore complementary. The finance committees can call on the assistance of the Audit Office by asking it to conduct investigations or to send them its confidential reports on the execution of the Finance Act and on public bodies.

In recent years, many measures have been taken to develop the means of surveillance, monitoring and evaluation.

These developments stemmed from the realisation that Parliament did not really have the capacity to evaluate public policies.

Firstly, in 1996, a parliamentary public policy assessment office was established, which was a joint body of both houses. The experiment was inconclusive, for the National Assembly decided to terminate the project in 2000, considering that its bicameral functioning was not satisfactory. Nonetheless, both houses were still concerned that Parliament should be able to exercise independent oversight of public policies. To this end, the National Assembly created within its Finance Committee the Evaluation and Monitoring Mission (MEC) which receives considerable assistance from the Audit Office. For its part, the Senate established a Public Policy Evaluation Committee, which is attached to the Finance Committee, but is open to senators from other committees. The committee has its own budget, but does not have its own human resources. This system enables Parliament to focus on a specific public policy and conduct an evaluation thereof with the help of outside experts if need be, but always under the responsibility of Members of Parliament.

Next, the Law of 14 June 1996 extended the powers of Parliament by introducing new provisions such as the authority to impose sanctions if someone refuses to appear when summoned by a committee, and also the possibility of being given the same powers as a committee of enquiry.

Lastly, a number of articles concerning the monitoring powers of finance committees were voted last year in the first amending finance act for 2000.

These new measures extended the scope of the monitoring conducted by the special rapporteurs to encompass the oversight of public bodies carried out by the Audit Office on the one hand, and hypothecated government revenues on the other. These measures also limited the constraints that the government could place on the monitoring powers of finance committees by recognising that the general rapporteur and committee chairs of both houses have the power to monitor expenditure and revenues, which had been left out of the previous legislation. It is now possible to lift professional secrecy and levy sanctions in the event of the missions of the special rapporteurs being obstructed.

The Senate Finance Committee is strongly in favour of increasing the prerogatives of its members as regards monitoring the execution of the Finance Act, as it
has demonstrated on a number of occasions in recent months. In connection, particularly, with the case of the budgetary “kitty” -- when the Finance Committee criticised the fact that the government was seeking to conceal the surplus tax revenues received in 1999 -- on 29 April 2000, the Senate empowered the Finance Committee to set up committees of enquiry for a period of six months. This procedure enabled the Committee to hear many individuals under oath, with penal sanctions for perjury, and to verify documents on-site at the Ministry for Economic and Financial Affairs. During a check of this type, administrations are required to provide Members of Parliament with any documents that they request. Following the enquiry, a public report was issued citing the persons heard and the documents obtained during the on-site checks. The report was widely covered by the media, since it sought to raise for the first time a corner of the often criticised "veil of secrecy" that governments maintain over budgetary matters.

At present there is no need to modify the scope, nature and object of the oversight exercised by Parliament, as it has shown that it can conduct effective monitoring.

Nevertheless, there are still many shortcomings in this respect.

The first of these stems from the fact that institutional relations do not always allow Parliament to make full use of its legal prerogatives. This is the case, in particular, of the assistance provided by the Audit Office. Although Parliament is developing closer ties with the Audit Office, further improvements must be made, for the needs of parliamentary oversight are not always in line with the services that the Court can provide. The Court’s work is long term, while policy-making bodies often act in the here and now. Members of Parliament do admittedly have their own effective but limited resources, consisting of the relatively small staff of both houses and of outside experts for specific studies, in particular from bodies carrying out economic analysis.

Next, the oversight exercised by Parliament has too little impact. This is the whole problem of moving from diagnosis to action, for there is no point in diagnosis if no remedy is forthcoming. Oversight is an activity with low public visibility and that seldom receives significant media coverage. What is more, the observations made by Members of Parliament as the result of their oversight are rarely taken into account by governments. For this reason our colleagues in the National Assembly have been critical of the lack of follow-up to its evaluation and monitoring work.

Oversight must therefore be made more visible, for example by holding more regular public hearings using adversarial procedures, as is done in some of France's neighbouring countries, so that parliamentary monitoring can play its full role within our institutional balance of powers.

Lastly, there must be a greater effort to make oversight a more integral part of the normal relations between Parliament and the government. Although Members of Parliament find it natural to express their views in their activity as legislators, all too often they still fail to do so in the field of oversight, and do not use the prerogatives at their disposal as much as they should. Similarly, oversight is often perceived as an attack by administrations, although it is specifically guaranteed by Declarations of the Rights of Man.
This means that both parliamentarians and government administrations must undergo a veritable cultural revolution.

The reform of the Organic Order of 1959, which is the real “Financial Constitution” of France, has provided us with an opportunity to promote this process in formal legislation. In particular, it would be advisable to broaden the range of information available to Parliament by having government provide it on a multi-year basis. Steps must also be taken to ensure that the government cannot obstruct the exercise of oversight, either by contesting the procedures used or by deliberately ignoring the conclusions reached. Facilitating access to administrative documents, stepping up the provisions on deadlines for forwarding documents, requiring governments to respond to the commentaries by special rapporteurs and recognising the procedures of parliamentary oversight might be some of the elements included in this reform.

Budgeting by objectives, which is one of the key innovations of this reform, should facilitate a more detailed evaluation of the performance of government administrations; it will require ministers to set objectives and to compare them with the results obtained at the end of the year, thereby reporting to Parliament on the effectiveness of departments. I hope that this in-depth change in the way the State budget is put together and voted will give new impetus to monitoring and surveillance of the State's finances. After this reform, oversight procedures will no doubt change again, in terms of legislation or parliamentary practice. Recurring questions about the creation of a specialised oversight body exclusively under the control of Parliament, for example, show that expectations remain high in this regard.

"Beyond legislative reform, I would like to see a new culture of monitoring promoted among parliamentarians and government administrations”, said the general rapporteur of the National Assembly's evaluation and monitoring mission for 2000. For although the means of oversight exist, what is often lacking is the political will to use them fully and improve the use of public funds on behalf of the citizens that we represent.

Today's meeting is ample proof that there is a growing determination to make parliamentary oversight a reality in France.
2. PARLIAMENTARY PROCEDURES FOR BUDGET APPROVAL AND CONTROL IN SPAIN

by Mr. Joaquin Almunia, President, Committee on Budget,
Spanish Chamber of Deputies

1. Preparation And Content of the General State Budget

The Spanish Budget can be described as a systematic unified estimate of the expenditure plans and revenues of Central Government and its Autonomous Bodies (article 48 of the General Budget Act). Included with it is the Social Security Budget, which also gives an estimate of Social Security liabilities and resources, together with estimates of the expenditure and income of State Companies and other Public Sector bodies.

Actually, it is truer to speak of several "budgets" rather than just one. A literal translation of the Spanish phrase would be "General State Budgets", since Spain's is in fact a consolidated budget that incorporates all of the budgets mentioned above.

However, as Spain is a decentralised state, it should be pointed out that, in addition to the State budget, each territorial entity -- each Autonomous Community and Local Authority -- has its own separate budget. Of the latter, the Municipal Authorities are the most important and I will therefore confine myself to these when addressing local authority budgets.

Each of the Autonomous Communities has its own budget, approved by their own parliament as provided for in its Statute of Autonomy and the procedures are practically the same as those I will be describing for the approval of the General State Budget by the national Parliament, since the parliamentary standing orders of each of the Autonomous Communities are modelled on the Standing Orders applicable to the Congress of Deputies.

The Municipal Authorities also approve their own budgets under the provisions of the Local Finance Act (Ley Reguladora de las Haciendas Locales) in the framework of their own governing bodies.

The fact that there are separate budgets does not mean that there is no overlap between them. On the contrary, the General State Budget annually provides for the appropriations that will be needed to finance the expenditures of both the Autonomous Communities and the Municipal Authorities. Obviously, what appears as a debit in the General State Budgets is shown as a credit available to the Autonomous Communities.

In this connection, the legislation regulating the financing of the Autonomous Communities and the financial relationships between the latter and the State (Ley Orgánica de Financiación de las Comunidades Autónomas) provides for two means of funding through the General State Budget without prejudice to the Communities' own revenues. They can receive allocations from State tax revenues (article 14 LOFCA) or from the Inter-territorial Clearing Fund (Fondo de Compensación Interterritorial,
Article 16 LOFCA and 158 of the Constitution) which was set up in order to correct regional disparities.

The General State Budget Bill is presented to Parliament every year and is accompanied by the Fiscal, Administrative and Social Measures Bill which contains amendments that are related to the Budget provision to a greater or lesser extent or are considered expedient. These Bills are now presented for approval separately since the Spanish Constitutional Court has ruled that Budget Acts covering subjects other than those strictly related to the budget are unconstitutional, thus opposing a practice that Spain had followed up until 1992. The practice had been to include certain legislative amendments relating to the Budget, or simply necessary for other reasons, in the Budget Act itself.

Incidentally, I should also point out that the opposition in Parliament and other schools of thought, consider that too much use is being made of the Measures Acts referred to above (the Measures Act 2001 involved the amendment of more than 40 Acts on a range of subjects). As a result, the whole issue of restricting the legislative amendments that can be made by any single legal instrument, be it the Budget Act or accompanying legislation, has again been brought before the Constitutional Court. We are currently awaiting the Court's ruling.

2. Approval of the Budget by Parliament

The rules for parliamentary approval of the Spanish budget strengthen the Government's hand and curb the powers of Parliament. There are two reasons for this: the first is that, in the words of some sources (Alesina and Perotti), the regulations governing the voting procedures are closer to the hierarchical model (which gives more power to the Executive than to Parliament) than to the collegial model which would give wider powers to Parliament. As well as this, there is the role that the parliamentary majority plays in supporting the Government which, while not preventing the opposition tabling and discussing numerous amendments, makes final approval and any real participation by the minority in budget decisions difficult.

Be that as it may, the budget approval procedure in Spain is as follows.

a) Tabling of the Bill and Committee Hearings

Once the General State Budget Bill has been presented to the Congress of Deputies -- never later than 1 October of the year prior to that to which the budget relates in accordance with the provisions of Article 134 of the Constitution -- Ministry officials (at sub-ministerial level) are asked to attend hearings at which they give information on the budget estimates for the management centre for which they are responsible.

The hearings are decentralised, i.e. each of the officials appears before whichever Committee of the Congress of Deputies has responsibilities relating to the Ministry concerned (Agriculture, Defence, Education, etc.).

These hearings are a procedural development not provided for under the Standing Orders, as such, but have become standard practice over the last few years. However, contrary to what one might think, this is not so much a means of obtaining more information from the Executive (the information obtained by each of the
Committees is not formally passed on to the Budget Committee) as a means of exerting control that compels each of the officials called before the Committee to explain the basis for the estimates in the Budget Bill and, sometimes, to account for the allocation of budget appropriations in the previous year.

b) Debate on the budget overall

The hearings are followed by a first debate on the Government's budget as a whole in a Plenary Sitting of the Chamber, the purpose being to debate amendments that propose sending the Bill back to the Government. Except on rare occasions (although it has been known to happen in Spain), these amendments are usually unsuccessful as the majority opposes them. This being the case, the amendments serve as a basis for a general debate on economic, fiscal and budget policy, making the Government explain its choices in these areas and enabling the opposition to express its own views on them.

c) Debate in Committee

Once the Bill has passed this first stage, it is then discussed in the Budget Committee of which I am Chairman. The detailed discussions -- in a sitting that lasts two to three full days -- are based on a report on the Bill drafted by the reporting sub-committee, a group of 10 committee Members. The committee discusses the Bill clause by clause and Section by Section, as we call them in Spain, i.e. it dissects the budget by management centre, in order to be able to relate each Section to a specific Ministry, even though the Spanish Budget is essentially a Programme Budget.

In the course of this debate, between 1,500 and 2,000 amendments are usually discussed, despite the fact that the Committee's Standing Orders restrict the amendments that can be tabled: amendments that would increase appropriations in any Section may be tabled only if they also propose an equivalent reduction in the same Section. Any amendments to the bill that propose a reduction in revenue require Government consent (article 134 of the Standing Orders of Congress).

Strict compliance with these provisions would so restrict the opposition's right of amendment that in practice the Government does not oppose the tabling of amendments to reduce revenues and the bodies of the Congress responsible for assessing amendments to increase appropriations and checking that they propose a reduction in the same Section have wide discretion that is invariably exercised in favour of the right of amendment. All of this is done in full confidence that the majority will oppose the adoption of any amendments tabled for discussion when the majority itself and the Government are opposed to them.

d) Second plenary debate

Once the Committee has debated the Bill, the Committee's report is returned for consideration by the Plenary Sitting, this time for in-depth rather than overall discussion. During the debate in Plenary each Section is again taken clause by clause and all of those amendments that have not been approved by the Committee but have not been withdrawn by their proposers are discussed.

The return of the Bill to the Plenary Sitting of the Chamber and the re-run of a debate which has already taken place in Committee is one of the most heavily criticised
aspects of the parliamentary procedure for passing legislation in Spain and in particular for passing the Budget Act.

In this connection it should be borne in mind that when passing other legislation it is possible to avoid a second reading in Plenary since the Spanish Constitution provides for Bills to be passed by Committees with full legislative powers (article 75). This is not possible for the Budget Bill as the Constitution itself expressly requires that the latter be passed in a Plenary Sitting held after the Committee sittings. This explains why one of the ways to reform the procedure for passing budget legislation, which I will go into later, would involve changing this second plenary debate into a wider ranging, more political discussion than it is at present.

e) Approval by the Senate

Once the proceedings in the Congress of Deputies have been finalised, the Budget Bill goes to the Senate where, because of Spain's bicameral system and its Constitution's provisions on passing legislation, the procedure again begins with Deputies and Parliamentary Groups restating any amendments that have been rejected by Congress, thus initiating a debate that goes over some of the same ground that has already been considered by the Congress of Deputies.

f) Adoption or rejection of Senate amendments

Finally, the Senate submits the Bill with any amendments that have been inserted by the Upper House to the Congress, which then either adopts or rejects the amendments. Congress has the final say as provided in the Spanish Constitution (article 90).

g) Measures Act procedures

At the same time and in parallel with the Budget procedures in Parliament, the Economics and Finance Committee deals with the Fiscal, Administrative and Social Measures Act accompanying the Budget Act in much the same way as described above for the budget.

3. Parliamentary Oversight of the Implementation of the Budget

Oversight of the implementation of the budget involves two stages: oversight during the period to which the Budget relates and oversight after implementation.

a) Parliamentary oversight during the Budget implementation period

During the Budget implementation period, it should be pointed out that control is essentially administrative and exercised by the Intervención General de la Administración del Estado of the Ministry of Finance and its delegations in the various management centres, which can conduct reviews and a priori audits of transactions or records likely to give rise to financial obligations or entitlements.

At this stage, Parliament only has the means to exercise what could be called indirect control and consequently, the usual information and control instruments are used with the specific aim of obtaining information and exerting some form of control over the
Budget. In that sense, questioning, queries and appearances before Committees can clearly be used for the purposes referred to, enabling Parliament to determine the extent of implementation or the purpose for which certain appropriations are used.

With reference to Committee hearings as a means of control, I should point out that the appearance of the Secretary of State for Budget and Public Spending is particularly important. The Secretary usually appears before the Budget Committee of the Congress of Deputies on a regular basis every quarter, enabling it to gain a general overview of the extent of implementation and compliance with budget estimates. Prior to these hearings a written report on the implementation of the budget is usually submitted, again on a regular basis, by the Ministry of Finance.

In short, this aspect in which lack of control over the Executive is most apparent, since the instruments mentioned above do not ensure on-going direct control of the implementation of the Budget as and when it is being implemented. This aspect is therefore one of the issues that the reform procedure, which I will also be touching on later, will have to resolve.

**b) Approval of the General Government Accounts**

In Spain, post-Budget control, or what is known as the final discharge of the Executive, is traditionally by approval of the General Government Accounts. These Accounts are prepared by the Ministry of Finance in the same consolidated format as for the presentation of the General State Budget with a separate account for each if the budget mentioned above. Together these separate accounts are known as the General Government Accounts.

The Accounts thus presented are submitted before 31 October of the year following that to which they relate to the national audit office, the Tribunal de Cuentas (article 136 of the General Budget Act), a body accountable to the Parliament and responsible for auditing the General Government Accounts.

Once this agency's report is received, a Mixed Committee of Senate and Congress examines it and refers its conclusions to a Plenary Sitting of both Chambers proposing either that it approve the report or return it to the Tribunal de Cuentas. It is in the course of this debate that the Deputies and Parliamentary Groups have an opportunity to voice their opinions on the management of the Budget, although to limited effect as the Budget has already been implemented by this stage.

Clearly, this is not a very satisfactory control procedure, principally because it applies to a Budget exercise that is long since over. To give an illustration, the report on the General Government Accounts for 1998, was submitted to both Chambers on 12 December 2000, which gives an idea of the time scales involved and of the lack of interest and political relevance that this long intervening period engenders.
4. Future Proposals

In conclusion, it can be said that the parliamentary approval and control procedure for the Spanish budget should be reformed in order to eliminate some of its most serious shortcomings and to facilitate greater Parliamentary input in the course of Budget implementation and at the same time remove some obstacles relating to discussion and approval of the Budget.

On this last point, it has already been stated that some of the difficulties that the Standing Orders have created in tableing of amendments can be obviated in practice. Reform of the approvals stage is therefore more pressing because of the need to structure the procedure to avoid repeated readings in Plenary Sittings of the Chamber, so that the second reading does not have to go through the same discussions that have already been covered in Committee. To this end and as the Constitution prevents does not allow approval of the Budget by a Committee with full legislative powers, the solution will have to be a second, less detailed and less pedantic reading in Plenary that would focus more on the overall aspects of the Budget and the Sections of which it is composed.

In order to improve control, plans to set up a Budget Office in the Congress of Deputies would have to go ahead. This is an issue that has been discussed in the Chamber since the beginning of the 1990s, but it has never yet been implemented.

The Office would be in part based on the models provided by Comparative Law (the Italian State Budget Office and the French Parliamentary Office for Public Policy Evaluation, set up in 1996) and in addition to other functions would, of course, monitor the implementation and compliance of budget programmes and forecasts during the budget implementation stage.

This would doubtless help to achieve effective parliamentary control over the budget implementation stage, which has to be regarded as one of the crucial aspects of broader parliamentary control over Government.

Postscriptum (March, 2002)

The Budgetary Stability Act that was recently passed in Spain has made some changes to the parliamentary procedures for approving the General Budgets of the State. Particularly interesting from this point of view is the introduction of a pre-budget stage, which consists in setting the objectives for budgetary stability. To this end, the Government presents a ceiling estimate within which the budgets for the next year have to be planned, requesting Congress and Senate to approve the proposed figure. A debate is then held in April or May of the year preceding that to which the budget will relate.

The Government formulates the General State Budget Bill in line with the ceiling given and submits it to the Congress of Deputies before the 1 October the same year, i.e. the year preceding that to which the Budget relates. From that point on, the procedures described in the previous pages apply.
As well as this, the General Budget Stability Act provides for a further debate that will take place only if the Budget Bill presents a deficit, in which case the Government is required to present a plan to balance the budget. This plan would be subject to a debate, in much the same way that the approval of budget stability objectives were debated, although the purpose of the debate this time would be to evaluate the corrective measures proposed by the Government to balance the budget over a period of not more than three years.
CONCLUSIONS

A - CONFERENCE STATEMENT
ADOPTED UNANIMOUSLY

The chairpersons of the Parliamentary Budget Committees of OECD Member countries met on 24-25 January 2001 under the chairmanship of the Honourable Mr. Alain Lambert, Chairman, the Finance Committee of the French Senate. The meeting consisted of presentations from Member countries of the OECD, invited experts, remarks by Mr. Christian Poncelet, President of the French Senate, Mr. Donald Johnston, Secretary General of the OECD, as well as a keynote address by Mr. Luciano Violante, President of the Italian Chamber of Deputies.

Delegates agreed that in modern conditions, good governance requires capacity and effectiveness in both the executive and legislative branches of government. Most crucially, this requires an active partnership around the budget -- the major vehicle of both government policy and democratic control. To be effective, parliaments require timely, coherent and credible information from the executive on resources and performance. Several parliaments of OECD Member countries are re-examining their internal organisation and processes for the discussion of the budget. Parliamentary budget processes and policies support sound governance when they promote fiscal responsibility, transparency, a future-orientation, as well as all the financial commitments which are not included in the budget, and when they demand credible information on the nature, cost and impact of public policies.

Delegates commended the OECD and the French Senate for this event and encouraged the OECD to strengthen its work with parliaments. Delegates suggested a parliamentary budget information network, bilateral and multilateral exchanges of parliamentary staff, and regular meetings of the chairpersons of parliamentary budget committees of OECD Member countries.

I would like to say how pleased I was that we were able to adopt a final statement together.

This statement is admittedly very general and begs the question. We could not go into greater detail, given the differences in legislation and practices across our countries.

Yet these broad principles are fundamental. As Professor Schick reminded us yesterday, the ultimate object of our discussions is not so much public finance as politics and democracy.

This is why I wanted us to adopt a final statement.

We are the representatives of our peoples within their democratic institutions that guarantee freedom, justice, progress and peace, and our main role is to make decisions. On a symbolic level, I thought that during this conference we should take a decision, adopt a resolution.

I wish to thank you for making this conference a success.

Thanks to you it was well attended, and in these two days you have accomplished the equivalent of the work of a standing committee of the French Parliament.

I believe that this is promising for the future, and I hope that we will constitute a genuine international network of budget committees, as we resolved in our statement, and that this conference will be just the first of a series of regular meetings, perhaps on an annual basis, during which we will have an opportunity to compare our experiences.

Lastly, I would like to express the hope that our work will inspire and encourage the process of reform under way in France. The contributions that you have all made have provided invaluable information from which we French can learn much.

What struck me during our discussions was the fact that, over and above institutional models and differing systems of apportionment of powers between Parliaments and executives, the key factor is a political one, namely, whether or not the government has a majority in Parliament. Where this is not the case, the government has to co-operate with Parliament. It can only do as it wants if it is supported by a majority that will always support rather than criticise it.

In France, the government currently has such a majority. However, to reform French budgetary rules, the agreement of both the National Assembly (where the left has
a majority and supports the government) and the Senate (which is on the right) is required. The right and left must reach agreement, and consequently Parliament will play a key role in this reform.

In my view, the reform has to achieve two objectives:

- to modernise the management of central government, and create the conditions for the reform of central government;

- and to affirm Parliament's budgetary role.

These two objectives are complementary, since Members of Parliament are the representatives of the people. If this reform succeeds, it can reasonably be hoped that taxes will be used in the best interest of taxpayers.

The ultimate goal of reform, and of all our work, is to promote the general interest, as we all agree.

I am looking forward to seeing you again at next year's meeting, if I am still in office, and I will report to you then on the progress of reform in France.
MINUTES OF THE CONFERENCE

I. CALL TO ORDER AND INTRODUCTORY REMARKS (9:30 – 10:00)

The Chairman, Mr. Alain Lambert, President of the French Senate Finance Committee, welcomed the participants.

Mr. Christian Poncelet, President of the French Senate, welcomed the participants. He noted that Upper Parliamentary Houses, like the Sénat, play an important in the oversight of a government's budget since Lower Chambers must often support the government's plan. Budgetary oversight in an upper house is less oversight of budget details and more about budgetary opportunity, or verifying the adequacy of budget resources for the needs of the country. He noted that France is currently engaged in a reform of the finance law that has been in place since 1958. Experience in OECD member countries has shown that there is link between a strong parliamentary budget process and better function of the country.

Mr. Donald Johnston, Secretary General of the OECD, introduced the OECD and discussed the organisation's work on governance and importance of including parliaments in the work of the OECD. The symposium is the start of systematically involving parliaments in the OECD's work.

II. KEYNOTE ADDRESS: PARLIAMENT, DEMOCRACY AND THE ROLE OF THE BUDGET PROCESS (10:00 – 10:30)

The chair recognised Mr. Luciano Violante, President of the Italian Chamber of Deputies.

Mr. Violante stated that the original function of parliaments was linked to consensus on taxation and control over the budget which in turn was the exercise of control over implementation of policies. The top political priority became the reduction of the deficit through the 1990's and the budget became the main instrument for control and policy-setting.

Now, because of economic growth and globalisation a new phase is beginning that is manifest in a shift to decision-makers outside the parliament-government circuit. The regulation and allocation of public resources are the core of negotiations between both supranational levels and within countries among various levels of government. These relationships, beyond the control of the usual parliament-government circuit, are a potential threat to democracy. However it is neither desirable nor possible to return all decision-making to traditional democratic governance arrangements.

Nevertheless, there are essential prerequisites of democracy that must flow from bodies of general representation: parliaments and governments. These prerequisites are a public debate on choices of governance, accountability of actions and assessment of public policy outcomes. Only the budget process pieces together the three essential elements of democracy.
The Chair recognised Mr. Allen Schick, professor from the University of Maryland in the United States.

The legislature's new role in budgeting cannot come from government weakness. If the government is weak in managing the nation's finances, the legislature will also be weak. Government is too big and the problems it faces too great for parliament to build itself up at the expense of government.

Instead of control and restriction, a legislature's new role must be defined in terms of policy, accountability and performance rather than in terms of control and restriction.

While parliaments were created to control spending by the government, contemporary parliaments often approve the budget as submitted by the government or make minor changes. Parliaments though tied their own hands. Parliaments felt they could not be responsible for managing public finance because of the politics of parliament.

The emergence of strong political parties was crucial to the weakening of parliamentary influence: to amend the budget was to break ranks with its own party.

The complexity of the budget increased as the size of government grew. The 1960s coincided with the appearance of automatic mandatory spending – legal rights to money. Government spending relative to the size of GDP grew by more than 1 percentage point per year from 1960 to 1980. First step in parliamentary budgeting is to set aside entitlement spending – to define what parliament can not do.

Interest groups grab hold and shaped budget and parliament was left to approve only government's request. As parliamentary control is weakened, the volume of amendments has increased. In pluralist societies legislators must deal with minor budget matters. In corporatist societies, legislatures are beholden to government's social partners. The source of most amendments is the government itself.

There is a distinction between budget and appropriations. Appropriations are what parliaments do, budget are what governments do. Appropriations predate budgets by hundreds of year. Budget are statements of policy and appropriations are instruments of control. The more complete the budget, the greater the government power versus parliament. Government budgets are comprehensive and complete, and parliaments had nothing to do but accept the budget.

Legislatures are striving for a greater role. This greater role is manifest in several developments: Most Parliaments now vote the totals. To vote the totals is to take responsibility for the budget. There are new budget committees as well as some new legislative budget staff so they are free from dependence on the ministry of finance for information. Parliaments recognise that information is power. There is an increase in activities by legislative auditors; some countries have made supreme audit institution a legislative agency. Some parliaments create their own budgets, comprehensive plans.
Why now, what is different now that legislators want to take a larger role. There are many reasons; as many reasons as countries.

- Maastricht rules;
- Political consensus to stabilize or reduce spending;
- Pressure for transparency. Where parliament has a weak role, its transparency is impaired (with possible exception in Westminster countries);
- Improved performance by government encourages legislature to specify targets and review results;
- Decline in trust in government encourages parliament to take independent role. At the time that Democracy is triumphant, but trust at all time low. Citizens are schizophrenic: they like the benefits of government, but they don't like the government that provides the benefits. Relationship is that the more government feeds its citizens, the more citizens bite the hand that feeds it.

When speaking of role of parliament in budget, we are speaking of relationship between parliament and government. The budget spreads to all sectors of economy and budget relationship is where parliaments fit in.

Emerging relationship for parliaments and government

- The legislature makes budget policy: taking responsibility for totals, input into fiscal policy, provide guidance on course of economy.
- Parliaments will amend government's budget. Scope of power of amendment will be different between countries. In some countries, power to amend is legally unrestricted by politically restricted, in others it is legally or constitutionally restricted.
- Parliament specifies performance target for government. Parliamentary decisions can not be on money alone, but what is accomplished with that money. Future of parliament will depend on whether Parliament is a partner with government on defining the purpose and performance of government.
- Legislature will review performance. This is an additional role beyond propriety and legality of expenditure (old role) but questioning the accomplishments. Budget in the future will become a contract between government and parliament on performance. Government, in turn, will have to have a capacity to define performance and outcomes. If government does not know what it is doing with the money, neither will the parliament. Thus parliament must be a partner with government.

Independence in budgeting inevitably means more conflict and tension between parliament and government. Budgeting marries conflict, though, with resolution.

How legislature may establish a role in budgeting:

- Votes the budget totals, possibly with provisional sectoral distributions, before it acts on specific revenues. So parliament is both a budgeting institution and an appropriating institution. It need not sacrifice its traditional role for a new role.
The totals are binding for year ahead and indicative for the years ahead – framework for the years ahead.

Should budget power be concentrated in a single committee or spread through sectoral committees. With second option there must be a strong co-ordinating process either through leadership of parliament or a strong budget committee. There must be capacity for resolution of conflict with government and that typically lies with leadership.

Specific revenue and spending decisions must be consistent with the budget.

Questions for that Parliament must ask itself in designing their role:

- Should it have its own budget office or should it rely on government data and analysis? A full budget office means independence.

- Should parliament be restricted in action on the budget? This is a constitutional question, but sometimes it is an informal practice where the constitution is silent.

- Should the legislature vote on aggregates or only deal with particular revenue and spending decision. The fundamental question: should the legislature only be a tax and spending institution or a budgeting institution as well? Should they consider the medium term plans for budgets?

- Should the legislature establish procedures for linking budget and legislative decisions or should these be separate? For example, many parliaments can not change permanent law in the appropriations process. This effectively walls off the reallocation process and there is no way to budget.

- Should the legislature specify performance targets for government agencies, or should targets be the responsibility of government. This is a division of labor question; conventionally performance statements have not been trusted to government.

Scenarios for the Future

- Legislature is better informed but has no real power to alter the budget, more staff, more information but no power to

- Legislative efforts to make budget policy which generates strong conflict with government, but there is no way to contain conflict. There will be either a breakdown or parliament will back down. Parliament will have to think in advance about how to achieve peace when you open the door to conflict.

- Legislatures use new budget resources to hold government accountable for results. May involve legislative audit offices, parliamentary oversight and review – but it requires that parliamentarians themselves take an interest in performance and results.

- Legislature participates in making budgetary policy in partnership with government which is the most involved role. Partnership is the "ideal" but it will not fit every country, and properly some legislatures should take other scenarios.
Discussion and Questions during the discussion of Mr. Schick's presentation

- Mr. Ferrera, Portugal: At what level discipline among parliament groups can make the process easier for discussing the government's budget, or is a freer approach within parliamentary groups make it more difficult, could lower discipline increase the influence of interest groups in debate?

- Mr. Davey, England: Regarding conflict resolution with government, is there a balance between legislative anarchy and increased legislative independence. In New Zealand, individual members can put forward amendments, but the crown retains a limited veto over what can be considered. Are there other methods to strike a balance?

- Mr. Fantozzi, Italy: Most countries were facing huge deficits with inflation, but countries were asked to make structural changes, so the process became not only appropriations but budget policy. Are there future problems that will require structural changes.

Mr. Dutoft, Denmark: There is a high level of cooperation among parties in Denmark because of minority government; it forces government to work with parliament. Difference between budget of government and budget of opposition is very small, 1% in Denmark, limits fight. Old fashioned to mention battle between government and parliament, consensus society is hallmark of stability and thus scenario 4 is only way to go. In Danish Finance committee, every member is loyal to committee and not to party.

- Mr. Odell, Swedish: The talk was focused around Government and Parliament, but many parliaments are made up of many parties. Can Mr. Schick comment on the role of political party in the budget debate. In Sweden, each party must offer complete substitute budget, is this close to ideal model?

Mr. Schick’s Response

- When discussing how governments prepare budgets the differences are very small, but the differences among parliaments are larger. There is evidence that with minority governments spending is typically higher, like Denmark and Sweden. This evidence comes from a EU commission report and was the reason behind some of the reforms in Sweden, of which Mr. Schick thinks are good examples for parliaments considering budgetary reform, although they have not been tested in a weak economy. Sweden took the decision to reform both the government and parliamentary budget systems when the deficit was 13% of GDP – both government and parliamentary action were reformed together. The New Zealand model – proposition is do you want Parliament to be more active to take a large number of small changes, or do you want parliament to take responsibility for the full framework of the budget? In Sweden and New Zealand the reforms are poles apart: Sweden you can't propose a small change unless it is framed within the total budget, while in New Zealand the totals are left to the government and they can make small changes.

- Most changes made by parliaments to the budgets are very small but there is a large volume of amendments. Regarding questions by Portugal and the UK on discipline for political parties and legislative anarchy: if the role of the legislative is to make tiny changes, party discipline does not matter, but if
legislature takes responsibility for budgetary framework it is essential you have party discipline. Without party discipline, you will not have disciplined political systems.

- Referring to the Danish statement on the differences between parties being very small. First that may change in the future. Also in Nordic countries, there is extraordinary consensus on the role of the state, therefore to use the budget to challenge the consensus is absurd. Where there is overwhelming consensus, the voters do not want conflict. Where there is more polarization, then that will be expressed in greater scope for parliamentary action and greater chance for conflict between parliament and government.

- An anomaly, while not every country has achieved consensus like that in the Nordic countries, the plain fact is there is much more consensus on the role of government in all countries than 30 years ago. Why should it be that at the time there is less to do, parliaments want more independence? When the big questions have been answered, why do we want to give parliaments more ability to ask big questions? We are at the end of debates about what government should do; is this consensus temporary or not? Social security type-programs will be a leading indicator if there is a reinvigoration of the debate about what government should be.

IV. WHAT DO PARLIAMENTS NEED FOR EFFECTIVE OVERSIGHT? (14:30 – 17:00)

The Chairman, Mr. Marini, Rapporteur Général of the French Senate Finance Committee, recognised Mr. Odell, Vice President, Finance Committee, Swedish Parliament.

Mr. Odell started by noting that Otto von Bismark remarked that, like with sausages, it is not good to know how a national budgets has been prepared.

Two conditions prompted Sweden to make the reforms. First the political situation: the Riksdag has a large role and there is a history of minority governments. It has worked well, but has drawbacks. For example, the government was unable to cool down the economy in 1990, but was unable to get changes through parliament because of opposition on both the right and left. Moreover, internal party politics have been divisive and governments did not know results ahead of time. Secondly, the economy which featured both a spectacular deterioration then recovery of the budget balance. From largest surplus in late 1980's of any OECD country to the largest deficit in the 1990's. In five years, the level of debt doubled. But many believed the budget process itself was an impediment.

Problems: No institutional binding co-ordination; the appropriations bill were considered separately. Budget totals were the sum of all the hundreds of small decisions in each appropriation.

Key features: Multi year framework and a top down budget process where totals are decided first. Spring finance bill decides total budget first and off budget items were brought back on budget. All open ended spending items were abolished. A new organic budget was created to codify process and practices.
Multi year budget framework serves as a basis for the annual budget, and it is the link between the macroeconomy and the annual budget. There are three cascading levels. The first is the articulation of the government's fiscal policy in macroeconomic terms. In the second level the objectives are translated into maximum level of total spending based on certain assumptions which are themselves voted on. The third level is where the totals are operationalised by giving indicative funding levels for each of the 27 expenditure areas.

The starting point is to update the framework for the third year out (e.g. 2003 in the year 2000.) The Spring finance bill will propose central government expenditure ceilings for three years into the future. Then the government's spring bill will outline spending levels for the three years of the budget cycle. There is a ceiling on total spending for all 27 spending areas in the central government budget, with the exception of interest on the government debt and the supplementary pension scheme (ATP). The ceiling level is set slightly above the estimates for the three years of the budget – so called budget buffer. It provides for further decisions, however to use the buffer there must be matching increases in revenue to maintain balance.

The government presents both ceilings and detailed expenditures to parliament shortly after the Riksdag goes back into session. Budget bill must be complete because no further budget proposals may be submitted during autumn. The central government must also cover all central government spending. The budget bill contains proposals on how the programs will be run, and there are 500 detailed appropriations in the government budget. Revenue estimates are part of the budget bill, including estimates of all fees.

For two weeks, each individual member and each party has the possibility to make proposal under any issue falling within the jurisdiction of the Riksdag. There were 2,800 motions, with 8,000 to 10,000 proposals. Most proposals are very small and they are very difficult to get passed by parliament. Opposition parties, however, typically present new total expenditure plans and ceilings in special motions, as well as different proposals for total revenues and fees. All opposition plans have been historically made up of lower expenditure ceilings than the government.

The Riksdag budget office, which is much smaller than the US Congressional Budget Office, supports the opposition's preparation of budget alternatives. It uses the same norms as the Ministry of Finance for how estimates are constructed. Thus the figures are completely comparable between the government and opposition budgets.

The budget is a two stage process (the framework process) which parliament first votes on the ceiling then on the detailed expenditures. Taxes and charges are also voted on in total. Revenues and Expenditures are treated in a single package. Because of this, alternative opposition plans are very difficult to construct and small changes exceedingly difficult to pass through parliament. In effect a majority coalition must form around a complete alternative. Individual opposition parties have their alternatives voted on first, then the government coalition (often a minority government) have their plans voted on last.

Sectoral committees then consider individual appropriations bearing in mind the totals that were agreed. There is strong oversight by the sectoral committees. The government must provide reports through the year on budget implementation and keeping to budget restrictions. Following up and evaluating earlier decisions is a weak point in parliament; parliament is always looking forward.
The Parliamentary auditors are very important to parliament oversight. There is a new agreement that a new auditing apparatus will be established in Spring 2003. It will be more powerful and have a better ability to control or oversee expenditures.

Conclusions: Sweden has a history of minority governments, so governments must seek support of opposition parties to win sufficient support in parliament. As a result, the Swedish parliament has a more significant role in the budget process than in many other countries. The budget reforms generally have had a very positive effect. The changes allow the Riksdag to take a more general and coordinated approach to the budget focusing on both aggregates and in detail. The multi year framework enables a better comparison between government economic policy and opposition economic policy. Budget discipline has been vastly improved. There are disadvantages. First, the process is too long, it is an all year round process and the Autumn phase is an echo of the Spring phase. While the theory is that the Spring talks about general policy, the reality is that the debate is on budget details. Then the arguments are repeated. Second, the budget buffer is too small to fill its mission which leads to a bitter situation when the government must intervene in short term measures. Inefficient short term budget solutions are undertaken to adhere to spending cap. (However expenditure ceilings have been maintained.) These shortcomings are up for debate. Overall it is a good process which is generally recognised in the Riksdag.

The Chair, Mr. Lambert recognised Dr. Chang of Korea. Mr. Chang thanked the French Sénat and the OECD for hosting the event.

Historically, the parliament came in to being because the rulers need popular consent for taxation. However, parliaments seem to lack effective oversight of the executive. From Korea’s point of view, parliamentary power should be at least comparable in power to the executive.

One of the most important innovations in Korea to increase the power and control of the parliament is the audit and investigation exercise. While this is a normal parliamentary function, it is an institutionalised requirement for the beginning of each parliamentary session in autumn. Parliament can require the government to provide any necessary information, either in paper or in person. This enables parliament to make a preliminary investigation ahead of the budget submission and budget process.

The second innovation is that there is a strong accounting and audit of the previous year’s implementation of the budget. It provides the base for assessment of budget proposals.

Third, the role of audit and inspection, which is a presidential institution, submits its accounts of governmental or executive spending departments which again forms the basis of parliamentary scrutiny of the budget. After the presentation from audit and inspection, parliament can request any information behind the report. For example the special budget committee requests about 5000 pages of documents each year.

Fourth, parliaments need expert knowledge. The Korean parliament has a substantial capability for budget analysis. There is a dedicated budget policy bureau with forty staff. The special committee on budget is supported by budget analysts and legal advisors. Each MP has his or her own policy aides whose salaries are aid by parliament. Political parties are given funds to do policy analysis. In addition to staff resources,
parliament may tap other special advisors through hearings or on an ad hoc basis. All budget plans by the President must be subjected to cost/benefit analysis before the plans are concluded. This is an independent assessment. There are plans to make this cost benefit analysis more comprehensive.

Korea is implementing a performance based budget system. Budget performance will be linked with appropriations. Each government agency will have enhanced responsibility and flexibility to meet promised goals. In the performance structure, evaluation will be based on outputs of the planned budget. The hope with a results oriented budget is that MP's will have greater incentive to be more future oriented and less sensitive to the short term needs of their constituency. The current system encourages MP's to press for benefits for their constituency regardless of the impact on the overall society.

The Korean delegate endorsed further work of the OECD particularly in creating an information network to standardize key budgetary indicators to facilitate international comparison and to make it easier to learn lessons from each other. Secondly, the Member countries should promote bilateral and multilateral exchanges of personnel, to deepen mutual understanding and also allow sharing of knowledge.

The chair welcomed Mr. Chang's suggestion to deepen the work of the network and share information. The Chair recognised Mr. Edward Davey from the United Kingdom.

Mr Davey stated that there are many good aspects to the budgeting system in the UK, but in general there were some problems with the Westminster model and that he would treat these in turn in his intervention. The British model is a majoritarian system where if the party has a majority, their budget is passed easily. Having a majoritarian does not necessarily mean effective budget discipline. There is, however, relatively little parliamentary scrutiny.

As an example of budgetary weakness, the last time British MP's said no to a government's request for money was in 1919. The request was for a second bathroom for the then-Lord Chancellor. Ever since then, every single request by the government has been rubber stamped.

In Britain, there is a separation between taxation and spending, there are two separate documents. There is also a highly centralised government system and local governments are told by the centre what to spend. There is a clear distinction between not analysing budget proposals (ex-ante scrutiny) and how the money was spent (ex-post scrutiny.) The British parliament performs very well in tax legislation, even making amendments. On the expenditure side there is an effective ex-post scrutiny through audits. The National Audit Office which is a servant of Parliament, specifically the Public Accounts Committee. The government often listens.

The weak area is the failure of the British government to scrutinise the budget plan, ex-ante expenditure. In theory, the British parliament has control of spending through the estimates process. However, government in effect makes all the spending decision. These are sent to by the parliament by the Chancellor of the Exchequer normally all on one day. There is now a three year budget passed, and it is typically one aggregate number.
What is required? There are four necessary conditions. The first is information on the budget – prompt, accessible and rich in content and easily understandable. In particular, information needs to be linked between expenditures and objectives. Second, Parliament needs the resources to review the budget including competent, well resourced and independent staff. It would be in Britain a mirror image of the National Audit Office, and the US CBO is a good example. MP's and their staff need training in budget matter. Third, there need to be procedures to be able to amend and debate the budget bill. There are only three days of formal debate currently in Britain on the budget bill and the process is not taken seriously. Indeed, Parliament has tied their own hands to make amendments and only government can propose spending. It is now in practice a motion of no-confidence. Finally, a necessary condition is to have diligent MP's, who work in effective ways. They need to have incentives as well as requirements to look at the budget.

The UK is really not moving toward this model, although there is a growing debate. Information is much better, especially in "resource accounting and budgeting" which links expenditure with outcomes or objectives. There is a long way to go. There is a balance between letting MP's be responsible for oversight and budget anarchy. There is a dynamic effect over time of making Ministers actually understand what is in their budgets. MP's are held in very low regard because they are not seen to add much value to the process of good government. Part of this is being hemmed in by party discipline and parliamentary procedures.

The chair recognised Mr. Fantozzi, from the Chamber of Deputies in Italy. Mr. Fantozzi expressed his pleasure at being invited to the meeting and thanked Mr. Lambert for his leadership as well as Mr. Schick and Mr. Violante for their presentations.

Mr. Fantozzi noted that the situation in Italy is quite near to that of the Swedish system. He will focus on two related concepts: the function and importance of the planning framework and the purposes and content of the legislative decisions. The system is based on a recent, post world war II constitution where the need for Democracy was very strong. There are two parliamentary chambers of substantially equal powers. The budget passes in each house, and in each standing committee. Each article is voted on, point by point in each committee and each chamber.

Italy is trying to make budget policy both in parliament and in partnership with government. The economic and financial planning document is the first step where macro decisions are made (in June.) It sets out a three year economic plan that highlights the main economic variables and objectives, as well as a baseline for spending. Further it now reflects the requirement of the EMU stability pact. The planning document also spells out the objectives the budget must achieve to attain the economic plan.

The frame for revenues and expenditures is presented together. There is also a submission for proposals to exchange existing programs to meet the overall framework. This law is rooted in a history of high inflation and deficits. The law was modified in 1999 to simplify the budget session. Compared to the changes in response to Maastricht, these changes in 1999 were much more modest. A small adjustment in expenditures has kept budget deficits under control. It was more a clear signal to markets for exchange rate and interest rate stability. However the programs and tax system that underlie the budget have gone through extensive reforms.
The Finance law now allows for expansionary measures of government services, which means that the government can intervene directly to support the economy. This has allowed for the reintroduction of the old inconveniences: the wide interpretation of measures financing direct investments to the support the economy – and every government program is now consider a support to the economy, for example capital expenditure, tax incentives, tax relief, reduction of co-payments and household income supports. This includes even micro-interventions like a road in a certain district. Thus the good intentions of the legislation have been wiped out by the broad interpretation.

The new finance law was a government initiative and the debate produced many amendments, most coming from the government. This contributes to the problem of working on the budget during the whole year, including a long three month session dealing exclusively with the budget. The government then has much time to continuing adding new amendment. It complicates efforts to conduct an orderly or thorough review. All budgets however, whether contractionary or expansionary have maintained most of the original government request. Though the number of amendments might be quite high, the percentage of modification of the original budget is quite small.

The third step of the new finance law sets out a process for non-budget session accompanying bills. Thus the steps are now, macro decisions in June, budget bill in November and now accompanying legislation without specific deadlines. Yet, the budget bill must support many non-budget measures since it is the vehicle for quicker action.

A few observations on the Italian budget process. The budget session should link expenditures with government achievements for expenditure areas. The budget session should focus on the framework, and try to eliminate a too large and too detailed discussion of the details. Finally, accompanying legislation should concentrate on specifying the sectoral framework of implementing measures. In Italy, the parliament has all the instruments to improve the budget process: an independent budget office, thorough review of budget implementation and results, and the ability to fully amend any legislation.

According to parliamentary regulations, the budget is discussed and voted on in five consecutive sessions. The budget is distributed to every member of parliament, the competent committees and then each party is granted a special rapporteur. The discussion is completed in three sessions by the committee of finance. The rapporteurs submit their report three days before discussions begin.

There are sessions to change the parliament’s role in the budget process, but no conclusions have been reached. First, the central budget office could change to focus more on efficiency and results of expenditures rather than command and control. Managers will
be given more discretion to achieve results. The core role of the budget is focused around reallocation of budget resources, and not on control of expenditures. However, there are discussions about better control over entitlement expenditures. There are also discussions of how to strengthen the role of parliament in the budget process. The entry into the European Economic Union is the framework and background for many of the discussions of reform.

The chairman, Mr. Marini opened the floor for discussion. He set out three observations and questions to begin with: 1) What are the needs for expertise in the parliamentary budget committees, what are the relations with the government that creates the budget? 2) Above the normal functioning of the committee, what is needed for better oversight of the government? For example in France, the parliament was able to convene a special investigations committee that went to the ministries of the government to take statements and depositions of government officials. 3) For European countries, should there be co-ordination between those countries that are outside the zone and those that are in.

V. QUESTIONS AND DISCUSSION

- Mr. Duetoft of Denmark noted that based on the presentations, it seems that the systems are going to make changes and decisions, not the politicians. Politicians are not administrators or technocrats, but people who represent voters. He asked how will Euro zone countries and their parliaments co-ordinate economic policy, and what role will parliaments play; will all economic discussions be left to Ministers?
- The chair responded that this was dealt with, for the most part, in the treaties underlying the Euro zone. Individual countries could set their own economic course within certain macro economic parameters.
- Mrs. Ferreire-Leite of Portugal noted the amount of public expenditures that do not appear in the budget, like Defence and Highway construction. Parliament has no control over these expenditures. These expenditures make the budget deficit figures misleading.
- Mr. Tavernier of Belgium worried the debates were becoming technical rather than political debates on public expenditures. The political debate on macro-economics and the role of government, especially for Euro zone countries, takes place elsewhere, not in Parliament. Is it possible to have a political debate when power is ceded to another authority and macro-economics is circumscribed within aggregate certain limits?
- Mr. Van Walsem of the Netherlands asked Mr Davey of the UK about the low standards of the MP’s. Do the Public Service Agreements – a government/citizen agreement – cause the lower standards of the MP?
- Ms. Aula of Finland noted the similarities in the Finnish system of history of high debt situation into a surplus with the Swedish system. However, Finland did not have such strict budget procedures as Sweden. While there are merits, is the system rather inflexible and restricts parliament budget powers? Also the multi-year process seems too long in the future to reflect reality and too conservative; it is very difficult to reallocate money. The programs that are allocated funds three years into the future will resist changes or reforms.
Mr. Epinay from Switzerland thought that Switzerland was approaching the fourth scenario outlined by Mr. Schick, that of a partnership between government and parliament. He outlined the budget process in Switzerland which featured a coalition government and solid parliamentary oversight both before the budget was created and after the budget is implemented. From a constitutional basis, Switzerland must maintain a balanced budget. There is a strong referendum requirement that expresses civil society's desires.

Mr. Bergland of Norway thought there are connections between the electoral system and the power of parliament. For example with the Westminster system of winner takes all, a strong party discipline and strong majorities government, the government will always push through the budget. In the US where party discipline is weaker and the government plays a smaller role. A parliament in a minority government tends to be fairly influential. How does parliament construct fair and complete long term budgets, particularly in relation to pensions? Is there a role for fiscal politics in the economy when many interventions come too late that may be worse for the economy?

Mr. Davey concurred that electoral systems do have a role in legislative power and that in presidential systems where powers are separated are far more powerful because of constitutional protection of their power. Most OECD countries seem content with their constitutional arrangements. Since there are different arrangements, Mr. Davey reiterated his theoretical model that good parliamentary scrutiny requires full information, well resourced parliaments, decent procedures and committed MP's. These conditions are necessary but not sufficient. In the UK context while they are not ready to get rid of first past the post, there are those that want more independent MP's where the Whip system does not carry the day. Why there should be a political debate, the system, at least in the UK, needs to be changed. It is not that MP's are not committed, it is rather the ability to affect the budget process is limited. Thus there are other outlets for an individual MP's energies. If there were a systemic change, MP's would be more involved in the budget process what the public expects.

Regarding public service agreements, they are agreements between the treasury and the ministries, not between the government and the people. Parliament has no role in the PSA. Regarding off-balance expenditures, there is an issue there and there needs to be international public sector accounting standards. The OECD could play a role in establishing these standards. Intergenerational accounting needs to be addressed as well.

The chair observed that accounting standards was a question of transparency and full information for parliaments.

Mr. Odell noted that Sweden already has the highest taxes and expenditures in the world and a ceiling on expenditures has little effect on an MP's ability to influence the budget. Any politician or party can propose increases or decreases of expenditures. However the change must be a complete proposal of both increases and offsets. The government also has to present a full budget in autumn that can not be changed. The 27 expenditure areas are only binding for one year, subsequent years are preliminary. They can be changed up to six times before they are binding. As for pensions, there is a totally
autonomous pension system in Sweden which features investment in private ownership shares. A seminar could be organised on the linkage between pensions and the state budget.

The Danish colleague asked the Swedish colleague, whether using a keynesian model, if a politician could propose expenditures in excess of taxes to support the economy.

The Chairman, Mr. Marini closed the first days session.

VI. MODERN BUDGETING PRACTICES IN OECD MEMBER COUNTRIES
(9:30 – 10:00)

The Chairman, Mr. Lambert underlined the importance of the days' session and the importance of parliamentary oversight when governments are moving towards using accrual accounting and budgeting for performances. The Chairman, Mr. Lambert recognised Mr. Geert Van Maanen Secretary-General, Ministry of Finance, The Netherlands and Chairman, OECD Working Party of Senior Budget Officials.

Mr. Van Maanen explained the role of the Senior Budget Officials (SBO) network in the work of OECD. The SBO, which was formed over 20 years ago, oversees and directs the work of the OECD. While the fiscal health is relatively good, there are problems in the future including: ageing populations, health expenditures, and environmental degradation. The SBO has decided that budgets should take more account of the future, not only future liabilities but recognising the effects of current policies on future spending. The SBO believes that legislatures should be a full partner in the policies to address these problems both current and future.

Most of the issues surrounding modern budget techniques are not new. They are under consideration or even implementation in many countries. First there are several points of near unanimity within OECD countries for improving the budget process.

First there needs to be cautious starting points to how economic forecasts are created. Most countries have taken steps to make better economic and budget process including independent forecasts, the use of private sector assumptions and a larger role of parliaments in reviewing assumptions,

Reallocation of budgets to emerging priorities is a great need as well as problem of governance systems. The groups sharing the pain of budget changes are readily identifiable, but the wider public that gains is often more diffuse. That is partly why reallocation exercises have largely been left to across-the-board cuts. There are limits to across the board cuts, especially if future spending projections come to bear.

Multi year budget frameworks have been adopted by most OECD countries. Effective medium-term frameworks should provide parliaments: overall fiscal policy targets with explicit assumptions, the cost of continuing existing programs, and the illumination of current decisions on future year's budgets.

Long term budget frameworks are not as widespread nor uniformly implemented. The primary objective of long-term frameworks is to identify and expose adverse expenditure trends at an early stage. This will allow decisions to be taken in time to prevent,
moderate and/or finance these expenditures. It enables countries to focus on the long-term sustainability of current policies. Otherwise such expenditures may go unnoticed until it is too late to equitably or properly address them.

The Dutch government is currently involved in explorations in the care sector, education and the labour market, for example. By means of well-earned budgetary arrangements, better control over future expenses might be possible. It is necessary to pursue a policy with incentives that reduce the demand for care and education and keep expenses under control. In this way, the long-term funding of a high-standard system of care and education can be guaranteed.

However, even if long-term budgetary arrangements are made for certain sectors, there will still be potential future risks. To identify these risks is a big challenge, because ignoring them may even threaten long-term stability. It is up to our parliaments, the great democratic forums for investigation and debate, to accept this challenge.

A major theme of budgeting reforms in Member Countries has been the shift in focus to results and managerial flexibility. Moving to this type of budgeting means willingness on the part of parliaments to relinquish some control over individual programs and ministries in exchange for more efficient service delivery and better performance. To be successful, parliaments need to be confident that goals have been achieved, or more specifically that government data is accurate. This confidence must come from a trusted and independent audit process.

For example, the new Dutch budget focuses not on the resources but on the policy objectives. In the first policy budget, to be presented in September 2001, the government presents three key questions: What do we want to achieve, What steps will we take to achieve it, and What should it cost?

These questions are a new phenomenon. Up to now we used to say: Policy has succeeded when budget is depleted. In this discussion, parliament expressed concern that the process would reduce its power of the purse. The policy budget contains a smaller number of items with larger budgets. This reduction in budget items is possible because all the resources that contribute to the same policy objective are put together in one item. This facilitates policy control by parliament. The creation of larger budgets caused parliament to fear it would lose sight of expenditure within these budgets, and with it the possibility of setting priorities within them.

Parliament approves the policy budget and spreads the resources over certain policy objectives. In the policy budget, performance indicators are stated for each objective. This enables parliament to judge the policy set out in the policy account. This account is the subject of discussion between parliament and government. Performance indicators are stated with parliament's involvement. A parliamentary working group chaired by parliamentarian Van Zijl has established two policy priorities per budget that will be given extra parliamentary attention during the debate on the accounts. With these priorities, the working group formulated several performance indicators for the 1999 accounts.

The Dutch government has decided to follow the development of a policy budget by the state-wide introduction of accrual accounting, which serves as a tool supporting result-oriented public management. With this, the government is following a development
under way in various other countries. Currently, half of OECD member countries use some form of accrual accounting, although only a few use accruals in their budget process. Only New Zealand and Australia exclusively use accruals. The United Kingdom, Canada and France have plans for more extensive use of accruals in the near future. Accrual accounting is the private sector accounting standard that has several implications for dealing with long-term budget horizons.

Accrual accounting is not without controversy. Some of that controversy arises from parliaments. Before contemplating this change, a significant amount of time needs to be invested in educating and consulting with government managers and parliamentarians. In those countries that have adopted accruals, the change has been linked to other public management reforms. For parliamentarians, accrual accounting places a premium on confidence in audits and a willingness to accept fluctuations in valuations. However in practice in Australia and New Zealand, accrual accounting has lead to a better realisation of future unfunded liabilities, better infrastructure management and a more efficient budget reallocation process.

Despite the reality of low deficits or surpluses in Member Countries, significant future risks remain. Now is the time to contemplate changes in the budget process. These changes include better realisation of future costs, better information resources available to parliaments and a more efficient process to reallocate resources to meet new priorities. To aid this process, many governments are considering a move to accrual accounting and performance budgeting. These changes will require parallel changes in parliamentary process and control. So far, there has been partial acceptance in parliaments of these changes. However, there has also been a great deal of scepticism, in some cases hostility and in other cases rejection, of these changes on the part of parliament.

VII. ACCOUNTABILITY, AUDITS AND NEW MANAGEMENT TECHNIQUES
(10:00 – 12:00)

The Chairman thanked Mr. Van Maanen for his presentation and recognised Ms. Maria Kaisa Aula of Finland.

Ms. Aula focussed on audit and ex-post evaluation of reports. Finland has made reforms along the lines of many other OECD countries: focusing on results, grouping together into larger appropriations, time periods for spending were lengthened, state economy institutions were put outside the budget process and local government transfers were taken off a cost basis and made into lump sum subsidies. They have embraced the corporatisation of public programs and spun off many state enterprises.

The reforms have weakened and narrowed parliamentary powers. The reforms have added stress to longer term structural objectives and to the legislation accompanying the budget bill. Also, the entrance into the European Union has complicated matters further.

The Finnish parliament has tried to improve reporting by the government to the parliament. There are three major parts to the government’s finance report: 1) major economic developments, economic policies and central government finances, 2) since 1998
a report on administrative effectiveness, and 3) a report on possible parliament objections to accounts.

By and large, the implementation of performance based budgeting requires some development. For example: administrative units often define their targeted goals in too broad terms that it is difficult to report the progress. Quality of reporting varies a lot from agency to agency. However, the Members of Parliament have shown little interest in studying the existing audit or financial reports. We fight fiercely over the budget when it is decided upon but lack assiduity in following its implementation.

One reason for the lack of debate may be the quality of the reports. The statements and evaluations in these reports and audits are generally not current and through enough. On the other hand they do not include enough evaluation of (long term) strategies or discuss difficult choices.

The parliament has set up a futures committee to address the long term situation. The budget reforms has increased the need for independent assessment of budget execution. Both government and parliament have been pre-occupied with balancing the budget, but now performance based budgeting requires a new relationship. There is a great amount of attention to the funding debate and less on implementation of the budget.

There are steps now being taken to increase the duties of the national audit office. There are two audit offices, parliamentary auditors and the state audit office which is more detailed and better staffed. The state audit office was reorganised under a constitutional amendment so it was under the parliament's control instead of the Ministry of Finance, but it maintains an independent nature. The Auditor-General is now appointed by the Parliament and will report to parliament. However, it still must be responsive and useful to the government. The Committee of Finance is responsible for feedback with the audit office. The change was a parliamentary initiative, which was thoroughly opposed by the Ministry of Finance since it was first proposed in the 1960's.

Tasks of the SAO and tasks of the Parliamentary State Auditors remain separate. SAO concentrates on auditing and PSA's concentrate on supervising. SAO is independent but can take initiatives to its audits from the Parliament. PSA's function is especially to provide reports in response to the needs of the Parliament. PSA's are elected among the Members of Parliament. SAO employs only professional public economy auditors that are guided by international auditing standards.

This is a brand new requirement and there are many questions as to how it will work. Among the questions are how parliament will use this entity, how parliamentary auditors and the state audit office will work together and how parliament will change its procedures and process to effectively use the audit office. This is a key question as the parliament needs to reconcile expected performance with actual performance. Reports are not properly integrated with the annual budget process; the timing is not useful for the following year's discussion.

Many ideas have been put forward to develop the contents of the Government Report on Finances. From the parliamentary point of view it would be useful that the Report would sum up issues not only ministry by ministry but also function by function. There are issues like research & development, regional development and flow of European Union
funds that need to be analyzed across the ministries. It would also be of interest to have at least ex-post information on the regional allocation of the state expenditures. The Report could also cover the facts how the local authorities have actually allocated their transfers between education, health, social work or other fields and what is the effectiveness of those services.

To sum up, until now the external auditing of state finances, performance reports and government reports on finances have played only a marginal role when the Finnish parliament has exercised its budget powers. They have been perceived more as a tedious routine when compared with the more exciting decision making on yearly appropriations.

However, there has been recently more interest in the parliament to consider oversight and auditing mechanisms as a part of active budgetary powers of the parliament. This is necessary if we wish to accommodate the parliamentary oversight of the budget to meet the needs of the new public management principles.

The chairman recognised Mr. Joaquin Almunia of Spain.

Mr. Almunia observed that while others were proud of their country's budget process, he is not. The parliament has little ability in his judgement to oversee and participate in the process. Even when he was a Minister, his ability to influence the debate was highly constrained by the Ministry of Finance. All data and reports were held by the government and Finance Ministry. In the end there is little if any debate and input on the budget.

Speaking on oversight, there is a little larger role for the parliament. In theory, the parliament has broad oversight powers over public expenditure. However there the reality is more limited than theory may indicate. The government generally has the majority, thus parliament can not change the budget particularly in the face of strong party discipline. The Minister of Finance directs the budget process and discussion. Also, the European Union standards circumscribe the debate and, in Spain, the majority of spending is done by the local and regional government. Parliament does not have the ability to touch entitlements, particularly retirement benefits. Spain is now creating more decentralised and autonomous agencies that spend central government resources. All these factors limit the ability of parliament to act.

There is a consensus to have balanced budgets and to be part of the European Union limits. Despite the consensus, there are many factors for the short and long term that could or will push the budget out of balance. These include lower growth over the short term and obligations of the ageing society that are not currently accounted for in the budget.

The government of Spain is in the midst of creating a law on budgetary stability both for the central government as well as local governments. However, in a lower growth period and the longer term, the law will not be sustainable.

While macro-economic control and oversight is difficult, micro-economic control is possible. There must be an attempt to have a collaboration with the government. Parliamentarians have to find the incentives and the reasons to achieve this collaboration. It is not easy. How do majorities and opposition find the correct balance especially in a majority parliamentary system. The collaboration must be based on results and accountability. Audits are fine, but studies of effectiveness and efficiency are needed for oversight.
The chairman recognised Mr. Imre Szekeres of Hungary.

From the very beginning of the transition to a market economy, one of the main tasks of parliament was to set up the legal and institutional background for public finance. Two elements are particularly relevant: 1) the creation of the State Audit Office in 1989, and 2) the basic law on public finance in 1992.

The State Audit Office (SAO) is a parliamentary sponsored but independent agency, whose works are regulated by act of law. Parliament may only request an audit. The tasks of the audit office include, the control the operation of state budget institutions, the lawfulness and practicality of management; countersignature of loans taken out by state, control state property management and assess draft concerning budget planning and closing balances. There are two areas in the SAO that must be strengthened: financial management of local governments and control over activity of the National Bank.

The second step of reform was the passage of the bill on public finance in 1992. This legislation sets out strict timetables for the different phases of preparing the state budget. The government must submit main directives to parliament by May 15, the deficit and main expenditures must be decided before June 15 and the final budget must be delivered before September 30. The legislation also contains important rules for parliamentary oversight. For example, the chairman of the budget committee is always a member of the opposition. 1/5 of the parliament can request an inquiry into a subject and the Budget committee statutorily receives testimony from the chairman of the national bank.

Despite the fact there are many rights for parliament to control the budget, there are a number of factors standing in the way of democratic control. There is no way to gain factual information on state investments and government guarantees. This is important since there are many problem with the property of the state as an entrepreneur since they operate outside the framework of the state budget. The privatisation was implemented very quickly and state enterprises often did well after privatisation. This lead to state enterprises setting up or buying new companies in the period of growth, which may not be covered by legislation.

In 1996, parliament created a data protection ombudsman. The ombudsman has disclosed several cases when a government agency declared some documents confidential without proper legal grounds. However, like the Board of Auditors, the ombudsman actions do not involve sanctions. Parliament has also recently agreed to a biannual budget although the opposition is opposed to its final adoption.

In conclusion there has been considerable progress in bringing the deficit under control and there are the building blocks of a modern and effective budgetary system. There need to be changes however including: a thorough reform of state financing especially in the health sector; a strengthening of mechanisms connected with financing organisations independent of the central budget (municipalities and civil organisations); a new source distribution system between central government and regions which is in compliance with EU requirements; and unifying costs connected with identical activities of different institutions or their financing.

The Chairman thanked Mr. Szekeres and invited questions.
Mr. Davey asked Mr. Van Maanen about more prudent economic forecasting and whether it is an international trend to forecast below trend growth. Second he asked about external validation of data in output data in performance budgeting. He then commended Ms. Aula about the new audits changes and he offered the following lessons on audits: full access to government papers, special committee to look only at audited reports, and the need to look at best practice and value for money audits.

Mr. Van Maanen responded that forecasting is varied across the OECD but is certainly a large topic and they are typically more conservative. In the Dutch situation, they have found it important to build in reserves particularly as budget horizons are longer. It has helped to bring down the deficit like in France and Germany. As for performance budgets, it is a difficult item even in SBO and should be an item of discussion in itself.

Ms. Aula noted that in Finland it is the opposite of the UK in that ex-post review is not done well if at all. The State audit and parliament audit office have a constitutional right to all documents, of course though, it is important to ask the right questions. They can also make on site investigations. However, there is a high level of trust in the government.

Mr. Epinay of Switzerland noted that the Finnish and Swiss parliament are quite similar and the audit bureau has total independence. It is integrated into the federal government but it is totally independent. Also as in Spain there are constitutional limits on spending except in period of crisis. However there is an anti-cyclical program in place even within this limit on spending. Reserves build up in good times and are spent during difficult fiscal times.

Mr. Van Maanen responding to the question from the Spanish delegate, how do you plan for an unknown future. This is a very good question, the tendency of countries is to make transparent several different scenarios of the future, particularly 10 year projections. One of the instruments in budget memoranda is to clarify current trends for political debate, rather than for government to lay out explicit decisions that must be made in the current year.

Mr. Duetof of Denmark disagreed with notion of making longer term decisions. In Denmark 60 percent of all spending is made through the future which is good from the management point of view of making solid, informed decisions. But from the political point of view, this multi year budget is a problem if there are problems in the national economy only a small part of the budget 30-40 percent is available to make a change in the country’s fiscal policy. Secondly while decentralisation is good, in Denmark the reaction is to move government functions into semi-private companies that are mixed with the State. Thus parliament – through the political process – can not assign responsibility to Ministers when the agency is independent from any control.

VIII. MULTILATERAL SURVEILLANCE OF PUBLIC FINANCE AND POLITICAL POWER (12:00 – 13:00)

The Chairman Mr. Lambert recognised Mr. Benvenuto of Italy. Mr. Benvenuto said that adopting precise budget parameters accompanied by supranational monitoring and control, does not affect national sovereignty. In fact, it can serve to increase policy making awareness and raise the level of parliamentary action. The EU Stability and Growth pact is
an excellent case for how specific quantitative constraints forced the government and parliament to improve the budget process. It has helped make the tax arrangements more coherent from a national standpoint. The Maastricht treaty forced legislators to increase the effectiveness of instruments and procedures of the budget session.

However while the discipline on government and parliament is good, it has also engendered new problems in a managing the budget. For example, tax measures now are an increasingly important part of the substantive core of the budget. National parliaments find themselves forced to decide among sectors to favour with the framework of constraints imposed by heightened competition and EC rules. Thus there is the need to forge ahead with the international effort to eliminate harmful tax competition, an effort that is spearheaded by the OECD. This effort could enable individual countries to safeguard their own budgetary sphere. In particular, it could paradoxically protect the role of parliament to make ward off larger tax reforms made under the pressure to compete.

Mr. Michel Bouvier, Professor, University of Paris I – Panthéon-Sorbonne, Editor-in-Chief, Revue française des finances publiques, le Groupement européen de recherches en finances publiques. The radical changes in public finance are forming a new State and a new meaning for democracy. The desire to move public finance closer to private finance means a move to incorporate an essentially political budget process in a management rationale. An examination of the changes in multilateral surveillance of fiscal and monetary policy give an understanding of changes in the public financial system and in the structures of national and international political systems. This signals a new alliance between technical experts and the political world. Over and above economic and financial risk prevention is the question of reorganising public finance systems and other reform of the state.

An international multilateral framework is a major imperative in a complex world so that the complexity does not overwhelm the international financial system. There is a synergy between international and national public finance oversight. The multilateral oversight does exist and is a fact. The are a number of international organisations practice this oversight in economic affairs, especially monetary policy. But there exists very few that perform this task in public finance and those that do have only relatively recently come into existence.

It is only the IMF that brings together all elements of private and public finance and monetary policy. This form of surveillance typically while global in scope is really a bilateral negotiation. The Euro zone is an example of regional oversight. The effectiveness of oversight depends on the quality information and the quality of the process. The main difficulty with improving effectiveness is the autonomy of the State and the heterogeneity of the individual country practices. The mechanism will never be completely satisfactory in the current context. A big challenge is effective surveillance of lower levels of government, and in many ways there are greater risks with these governmental units.

One of the most effective recent changes has been to invite countries to adhere to certain good practices. Like the new public administration systems, the public finance authorities are being made responsible for implementing these norms and practices. The most important among these new rules are the transparency, diffusion and quality of data and financial reports. The internet will be very important in this phenomena. How the success depends on whether countries implement these mechanisms willingly.
The European community is an excellent example of multilateral surveillance. However there can be other ways of forming regional or international standards or mechanisms not in the style of the EU. The goal of these norms is to reassure private financial markets through independent technical experts. It could be practised in a collegial manner or a self-operating, auto-organisation. For example the Dutch audit office has evaluated the French *Cour des Comptes* (audit bureau.) A team of national experts aided by international organisations could be charged with auditing individual states.

However is it legitimate to give these functions to technical experts when this is a fundamentally political need? Is it possible to create these norms? Multilateral monitoring presupposes a re-creation of the international public finance system. This, in the end, is a question of politics about whether these norms can be instituted.

The Chairman, Mr. Lambert thanked Professor Bouvier and recognised Mr. Terence Wynn of the European Parliament.

Mr. Wynn gave an overview of how the European Parliament budgets common funds. There are three institutions in the EU budget process: the Parliament, the Council of Ministers and the European Commission, which is the executive. The EU parliament was originally given little power, but budget determination was one of the first rights achieved. However, parliament does not have the right to decide on the revenue to be collected.

The European Parliament has three relevant powers: the final decision on non-compulsory expenditures, the agreement of the total budget, and the discharge on the implementation. While there is a straightforward budget framework, the reality is more complex. The relationships and influences between the institutions are much greater than foreseen in the treaty. An Inter-institutional agreement outside the treaty which includes a multi-annual framework guides the co-operation.

A succession of budget crises prompted the Community institutions to agree on a method to ensure budget discipline which includes an advance agreement on main budget priorities and maximum expenditure amount. This is known as a financial perspective and they represent 6 year agreements. The financial perspective carries an annual expenditure ceiling in commitment appropriations for several headings.

Parliament is starting to exercise its power and has direct and concrete effect on day to day work of the Commission. There are other actors beyond the Commission that are responsible for management of European funds. This responsibility is often shared with Member State's administrations and or regional and local authorities. In fact most mismanagement of European funds happens at the Member State level. Thus better exchange between European and National Parliaments would be of mutual benefit for the common aim of the better use of public money.

Finally regarding the European Parliament and National governments, while one political party may be in power in the Member state, that power is not necessarily reflected identically in the European parliament. In addition a qualified majority is needed to have the budget approved. The key moments of budgetary procedure are the Conciliation meetings organised between the Parliament and the 15 Ministers of Budget. The National Ministers often are not well briefed on the EU budget. There needs to be a more level playing field of
information. There needs to be better contact with National politicians and EU Members of Parliament to level this playing field.

The Chairman thanked Mr. Wynn for his intervention and recognised Ms. Aula of Finland. Ms. Aula laid out how Finland is overseeing how its government relates to the European Union. National parliaments need a larger say with their national government in policies affecting the European Union.

**IX. CAN PARLIAMENTS IMPROVE THEIR BUDGETARY OVERSIGHT?**

**RECENT CHANGES (15:00 – 16:30)**

Mr. Lambert the Chairman began the session with a speech on the evolving role of Parliament in the budget process and its reinforcement of control over the executive in France. The Finance Committee's permanent role is to ensure control over the budget, for which it is granted special powers and prerogatives. Each year, its "special reporter" parliamentarians, in charge of particular ministry departments, produce reports on the ministry budgets for which they are responsible. In order to fulfil their mission, they have the right to access any financial or administrative information that they deem important. The Committee of Finance is supported and assisted by the *Cour des comptes* in its control and execution of financial laws. The Committee can, for instance, request the *Cour des comptes* to perform inquiries or to provide them with confidential reports on the execution of financial laws or on public organisations. Over the past few years, new measures have been put in place to improve methods of surveillance, control and evaluation over the executive. The National Assembly has created the Task Force of Evaluation and Control (MEC), (within the Finance Committee), and the Senate has created its own Committee of Political Policy Evaluation. Parliament has the power to sanction those who refuse to co-operate with Financial Committee requests or decisions. It also has the power to commission investigations when necessary. The Committee's powers of effective control have been expanded this year, thereby limiting the power of Parliament to hinder its work. The Financial Committee of the Senate has consistently demonstrated its desire and ability to increase control over the execution of financial laws, thereby making public 'the secret culture' of government budget processes. The control exercised by Parliament has made greatly improved. However, insufficient Parliamentary controls continue to exist. This is due to institutional relations which do not always allow Parliament to make full use of its powers as given to it by law. Also, to its relations with the *Cour des comptes*, since Parliamentary needs re: control do not always correspond to services that the *Cour des comptes* can render. Parliament also suffers from lack of visibility, as the media covers very little of its work and the government does not often take its findings/conclusions seriously into consideration. Finally, Parliamentarians themselves must exercise greater control, as they often do not make full use of their powers. A cultural revolution is thus necessary at both Parliamentary and ministerial levels. The reform of the Financial Constitution of France (1959) will give Parliament the opportunity to reinforce its role of control over the executive. Budgeting by objectives, one of the central innovations of the reform, should help in evaluating performances of administrations as ministers will be obliged to clearly fix objectives and to compare results obtained.

The chairman recognised Mr. Andersen of Norway. Mr. Andersen said that the chair of the finance committee is from the same group as the group that forms the
government. The Norwegian parliament has a strong role in the budget with formal and complete freedom in both revenues and expenditures. Most of the 20th century, Norway has been lead by minority governments which thus means that opposition parties must be involved in negotiations. Negotiations take place after the budget has been presented to government. The budget negotiations take place between October and December and during this time the standing committees send hundreds of questions to the government. Answers are made public and on internet.

The budget committee now co-ordinates the budget process and establishes a recommendation by the end of November. The following debates are concluded with a vote on the proposals in the recommendation. The amounts set for 24 programs and are binding for consideration in the other standing committees. Final resolution must be made by December 15. This process is under consideration for reform.

The process has been generally successful. There is great concern that a positive result to the budget may not happen – that all alternatives will be rejected. In Sweden, a final result is guaranteed. Finally no matter how perfect rules are, there is no substitute for responsible politicians.

Mr. Kristjansson from Iceland briefly presented the system in Iceland. A summary document is submitted and voted on after the government presents it to the parliament. The Budget committee then opens up detailed discussion. Generally though the parliament makes no major change to the government’s budget. In the last two years there have been amendments to change between 10 and 15 percent of the budget.

Mr. Tavernier of Belgium stated at the outset that he is from the green party. He asked Mr. Schick if he sees a difference in the power of parliament in a traditionally majoritarian versus a system with a proportional representation? Secondly are the discussions to technical, especially considering factors like the growth and stability pact or should parliamentarians have the ability to have political or societal discussions? There does not seem to be large debates anymore, only on small microeconomic decisions. The audit offices are increasingly important but little used. How can the audit offices be better used and have real influence? Finally how can parliament provide better control over state enterprises or independent bodies like the national rail system?

Mr. Lambert responded to Mr. Tavernier that marginalising of parliamentary debate is not the fault of government because it is parliaments that create the debate. When looking at what debate exists it is generally on small matters while larger debates like that of intergenerational relations should be posed. Secondly, parliaments want to have a role from the first day of the year in the budget process but does that lead to a dilution of responsibility. Is it more reasonable that government is responsible of the propositions so that parliament would be permitted to exercise oversight and evaluation in total independence?

Mr. Van Walsem asked Mr. Lambert about how to better handle the media to get more attention for budget issues. Mr. Lambert thought that the French, in this case, need a strong executive and that parliament should provide more oversight and evaluation than direction. Media worries more about the today and the next day rather than the future of society; we are wrong as parliamentarians to follow this path. The parliament is the place where the future needs a hearing. It is up to parliaments to survive and to take up where the media leaves off.
The Chair, Mr. Hutton, recognised Mr. Odell from Sweden. There is a risk that we take too much of a technocratic approach. The budget is the main instrument of the government to fulfill their agenda; if they make a majority this is their right otherwise there is no effective process. The strengthening of the parliamentary budget process, as Dr. Schick says, must not be at the expense of the strength of the government. In Sweden the budget process is made to make the government's budget work but also to allow real alternatives that could be put in place.

Mr. Davey stressed that it is a highly political decision. For those parliaments that are more active in between elections, there is a view that technical changes may take politics out of the budget setting. It is possible, but it is up to parliamentarians to find new ways at accountability. Some of the new methodologies actually aid the process of finding new accountability; for example with multi-year budgets and performance it is easier for parliamentarians to figure out what is going on and influence them more strategically. Focussing on outputs makes budgets more relevant to constituents. What does it, however, mean to influence macro things when constituents worry about health, education and crime?

Mr. Dueoft of Denmark concurred about the problem of accountability of independent or semi-private entities and cited the example of cost overruns with a construction project.

Mr. Odell of Sweden stressed that the planning of infrastructure must be the role of the state, so that it can make the necessary compromises between environmental/cultural/economic interests. However, maybe the state should not be the entrepreneur to do this. I.e. - In Denmark many liquors (i.e. - absolute vodka) are owed by the Swedish state (The Swedish state also tried to buy the London Stock Exchange). What is the role of the state? There are limitations... the state should not interfere in markets that could be better handled by companies operating on the market. Politicians should decide infrastructure; whereas politicians should handle core issues.

Mr. Davey of the United Kingdom stated we must recognise how politicians influence things in society; NOT just with money; but through the power of law, competition policy, tax policy, trade policy, in creating contract obligations. There are many other ways that we can make sure private sector companies meet their obligations. There are challenges (i.e. - agencies), and lines of accountability have been blurred. It is for Parliament to strengthen these lines of accountability. When Parliament is not strong/effective, Ministries get away with blurring lines of accountability.

Mr. Lambert explains the role of la Cour des Comptes in France: La Cour plays mainly a legal and accounting role, while that of Parliament is political (even if the boundaries are often crossed in practice). What does the power of Parliament include? Parliamentarians often fear the loss of power or not having the means to exercise their powers. In order to achieve the proper balance between the power of the Executive and the power of Parliament, Parliament must use its full range of powers as granted to it in the Constitution. He stresses how important it is for Parliamentarians to control the Executive; it is their duty. Mr. Lambert puts forth a conference statement (recognising that it is in very general terms), and asks for communal acceptance/suggestions/comments.
Portugal: Suggests changing a certain phrase of a paragraph in the proposed text...

Declaration adopted by community (unanimous)

X. SUMMATION OF THE CONFERENCE (16:30 – 16:45)

Allen Shick is given the floor: Mr. Shick would like to address the challenges raised by Denmark. Denmark raised some important questions which affect all countries; not just Sweden and Denmark.

Is the focus of this symposium on how Parliaments are going to change their role in budgeting, or should it be on how budgeting will change Parliament's role?

In "empowering" Parliaments, will we actually take power away from Parliaments? i.e. - Parliaments may find in the future that they have limited their own role in budgeting, while thinking that they were making Parliaments stronger and more independent.

Mr. Schick asks us to reflect on the following questions:

Are Parliaments putting themselves in handcuffs? This question can be divided into 3 issues:

a) Are you imposing limitations on what you may do/may not do? (limitations)

b) Are you expanding the parameters and boundaries of budgeting so that they absorb or swallow up the responsibilities of legislating? (budgetisation of parliament)

c) Whether you will make budgeting such a technocratic exercise that parliaments will find themselves disadvantaged and inept? (technocracy of parliament)

He addresses these 3 issues...

a) Limitations: We must distinguish between constraints external to parliament and those which are self-imposed.

9 External constraints – these were examined earlier (fiscal rules, norms, convergence criteria, the internationalisation of accounting standards, drive towards transparency, multinational institutions i.e. - Brussels).

9 Internal constraints, imposed on self, are a greater concern. Parliaments are imposing both procedural and substantive constraints on themselves. The budget means that you follow a system of rules and procedures. There is a timetable, there is a classification, there is a totality to the budget. All of the claims to the budget must be put within this framework. Parliament must embrace responsibility for budgeting. I.e. - having developed a framework for the budget, all amendments to the budget must be neutral with respect to the framework, and must be measured against the framework. I.e. - the Swedish system takes responsibility for the package of amendments rather than individual amendments ("turn package" means you cannot pick or choose; its all or nothing). I.e. - the Dutch approach is that Parliament must adopt a policy budget. Therefore, the constraints are great. We are no longer controlling
inputs, but responsible for outputs; no longer looking at one year, but framing the budget in terms of multi-years, no longer looking at individual legislation, but 'scoring' legislation in light of whole budget framework.

Question: Why are we moving from externally imposed constraints to internally imposed ones?

Answer: Markets are imposing these constraints, not just Parliament.

(Parliament, in taking responsibility for the budget realises that it must impose constraints on itself- markets are becoming interdependent/ global, therefore we cannot isolate what is happening in your own country from what is happening elsewhere).

We are entering a world of self-imposed limits; these limits allow you to do things only within the framework of the budget.

b) Budgetisation of the Calendar

If Parliament enlarges its role in budgeting, if much more time is allocated to the budget, the distinction between legislating and budgeting will break down somewhat. The Budget is an umbrella that includes both appropriations and legislation. In the future (in the new world of legislative budgeting), legislative proposals will be measured and sized in terms of the budget.

c) Technocratisation of Parliament's work:

Should more budgeting staff be added to Parliament? Measuring legislation in light of the budget is a highly technical exercise; it depends on analysis, evaluation, econometric models, assumptions, etc. Dependence on technology will result. Other developments are underway that add to the complexity of the budget. Ie- Parliaments should focus on outputs and performance and results rather than inputs. However, it is more difficult to gauge outputs than inputs. Also, dealing with accruals is more difficult for parliamentarians than dealing with cash.

Therefore, Parliaments are moving towards this new world. Whether or not Parliaments are prepared for this world, it is coming...Inevitable... .Ask yourselves:

- Are there more limits today than there were 20 years ago? (yes - not because Parliaments have enlarged their budgetary capacities, but for other reasons)
- Does the budget sprawl across the parliamentary debate more now than it did 20 years ago? (yes - because budgets are more important)
- Are there more technical aspects to the budget today than there were in past? (yes)

The three risks in enlarging Parliament's role is that: a) you will impose controls on yourself  b) that you will break down walls between other legislative functions and the budget, and  c) that you will make yourselves vulnerable to technology and specialisation expertise. These can either be resisted or embraced/controlled by Parliamentarians.
Closing remarks from Mr. Lambert: Mr. Lambert expresses his pleasure to have adopted this final communal declaration- which serves as a message to our governments and to our people. As predicted by Mr. Shick at the beginning of the conference, we have indeed spoken less about public finances than we have about politics and democracy. He hopes that this conference will continue to be organised annually in the future.

Closing remarks from the Deputy Secretary General Ms. Sally Shelton-Colby of the OECD: Points out that the OECD is strengthening its dialogue with Parliaments and work on budgeting through PUMA.
Wednesday, 24 January 2001

9:30  Call to Order
  - Mr. Alain Lambert, President, Finance Committee, French Senate

9:35  Welcome and Introductory Remarks
  - Mr. Christian Poncelet, President, French Senate
  - Mr. Donald Johnston, Secretary-General, OECD

10:00 Keynote Address: Parliament, Democracy and the Role of the Budget Process
  - Mr. Luciano Violante, President, Italian Chamber of Deputies

11:00 The Role of Parliament in the Budget Process in Member countries
  - Mr. Allen Schick, Professor, University of Maryland, United States

12:30 Luncheon for Parliamentarians
  - Senate Dining Room, Salon “Pourpre”

14:30 What Do Parliaments Need for Effective Oversight?
  - Mr. Mats Odell, Vice Chair, Finance Committee, Swedish Parliament
  - Dr. Che Shik Chang, Chair, Special Committee on Budget and Accounts, Korean National Assembly
  - Mr. Edward Davey, Member, Treasury Select Committee, United Kingdom House of Commons
  - Mr. Augusto Fantozzi, President, Budget Committee, Italian Chamber of Deputies

The trend and desire among Member country parliaments is to be more active, especially in oversight of the budget and budget implementation. However, by definition, parliaments have limited resources and must marshal those resources in the most effective way. The aim of this session is to identify key resource requirements, policies and procedures that enable legislatures to effectively oversee a government’s budget and budget execution. It will also address how to ameliorate the short term horizon of legislative terms with longer term needs of the population.

17:00  End of Day One Sessions
Thursday, 25 January 2001

9:30  Modern Budgeting Practices in OECD Member countries  
Mr. Geert van Maanen, Secretary-General, Ministry of Finance, The Netherlands and Chairman, OECD Working Party of Senior Budget Officials

10:00  Accountability, Audits and New Management Techniques  
- Ms. Maria Kaisa Aula, Chair, Committee on Finance, Finnish Parliament  
- Mr. Imre Szekeres, Chair, Committee on Finance, Hungarian Parliament  
- Mr. Maurizio Bevilacqua, Chair, Committee on Finance, Canadian Parliament  

Governments have been implementing new budget and management techniques like, for example accrual accounting and results-oriented budgeting. Often Parliaments are not equipped to provide effective review of this new data. This session will explore the relative merits of these new procedures and discuss the implications for parliamentary procedures. The session will look at audit agencies and their relationship to Parliament.

12:00  Multilateral Surveillance of Public Finance and Political Power  
- Mr. Michel Bouvier, Professor, University of Paris I – Pantheon-Sorbonne, Editor-in-Chief, Revue française des finances publiques, le Groupement européen de recherches en finances publiques  
- Mr. Terence Wynn, Chair, Committee on Budgets, European Union Parliament

13:00  Luncheon for Parliamentarians  
- Senate Dining Room, Salon "Tournon"

15:00  Can Parliaments Improve Their Budgetary Oversight? Recent Changes  
- Mr. Alain Lambert, President, Finance Commission, French Senate  
- Mr. Joaquin Almunia, President, Committee on Budget, Spanish Chamber of Deputies  
- Mr. Dag Terje Andersen, Chair, Finance Committee, Norwegian Parliament  

The oversight process is continually evolving. Several countries are undertaking key reforms in their budget process. This session will explore those changes, the factors that lead to the changes, the base for the reforms and the decision making process in choosing among reform possibilities.

16:30  Summation of the Conference  
- Dr. Allen Schick

16:45  Agreement on the Conference Statement

17:00  Closing Remarks  
- Mr. Alain Lambert, Chairman, Finance Committee, French Senate  
- Ms. Sally Shelton-Colby, Deputy Secretary-General, OECD

For each session, the Member countries identified will make brief statements on practices in their respective countries. Following their statements, the floor will be opened for a general discussion involving all delegates.