

# Committee structures for budget approval and oversight

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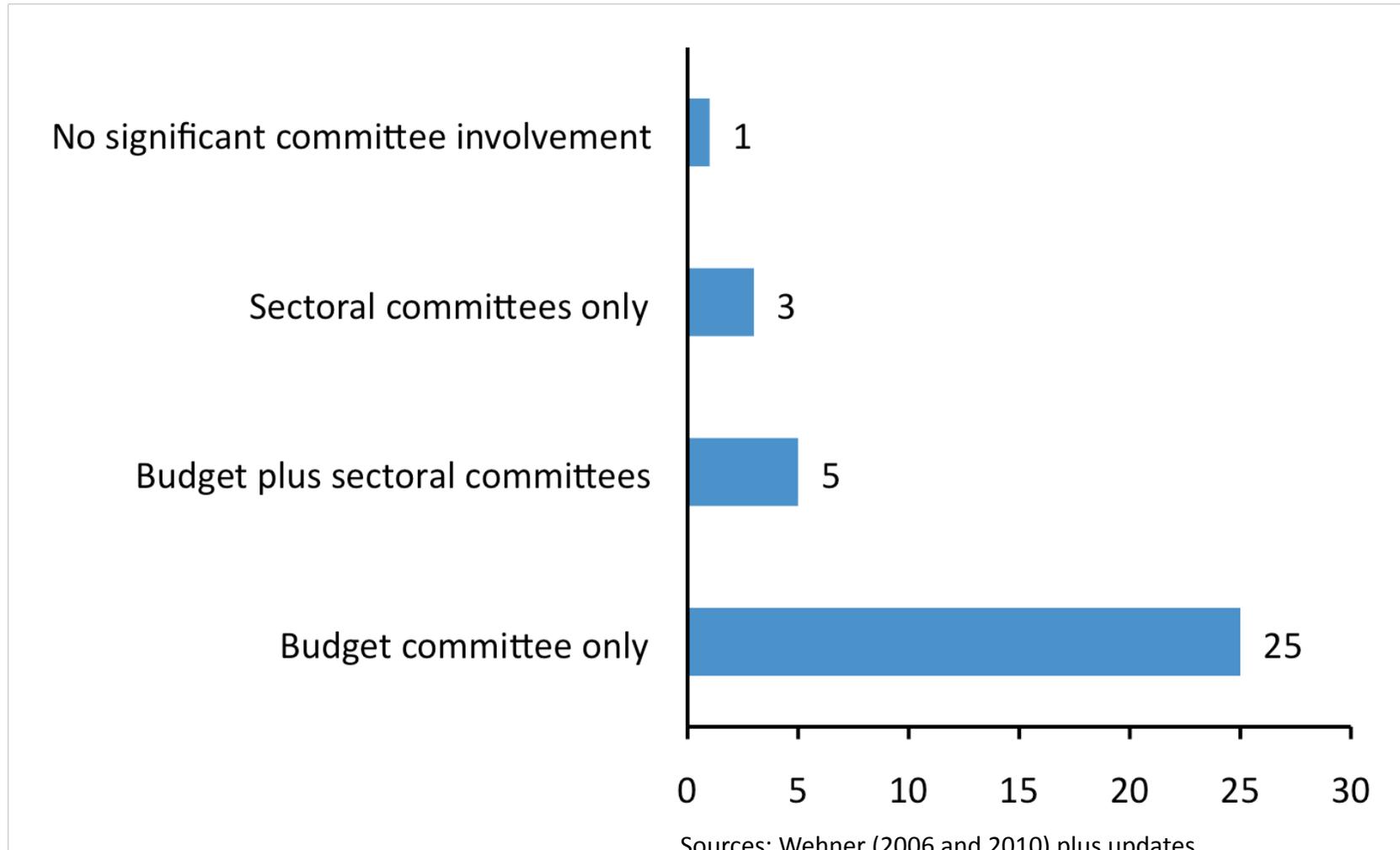


the London School of **Economics**  
and **Political Science**

# Fundamental rationales for legislative committees

- Specialisation and the formation of expertise yield information gains that can benefit the broader legislative body
- Division of labour boosts productivity/throughput and limits the opportunity costs of scrutinising the budget
- Committee assignments can enable members to pursue distributive objectives and address high-priority constituency demands
- Effective oversight through committees can mitigate principal-agent problems during budget execution
- See Mattson & Strøm (1995) for an overview.

## Committee structures for budget approval (national legislatures of 34 OECD countries)



## Budget approval without effective committees

- Very rare – mostly limited to the UK and some of its former colonies
- No specialised budget or appropriations committee in the UK House of Commons, only an ad hoc Standing Committee on the Finance Bill
- Departmental select committees are supposed to scrutinise the estimates of "their" departments, but this practice is underdeveloped
- Treasury Select Committee looks at some macro and tax issues in more detail, but most spending measures pass without detailed scrutiny

# The centralised model

- The dominant model across the OECD (in 25 out of 34 parliaments)
- Centralises scrutiny in a powerful budget/finance committee, sometimes with a rapporteur structure
- Some parliaments allow the budget/finance committee to receive amendment recommendations from sectoral committees
- Has proven effective at containing the common pool resource problem (Crain & Muris 1995), but at the expense of broader involvement

## The dispersed model

- Rare, with only 3 out of 34 OECD parliaments in this category
- Scrutiny of the different parts of the budget (health, defence etc.) is entirely decentralised to the relevant sectoral committees
- Greatly limits parliamentary capacity to scrutinise fiscal policy, and to influence broad allocations and inter-sectoral shifts
- Promotes a programme-orientation that can induce a pro-spending bias if unchecked (Cogan 1994, Schick 2002)
- Has the potential to enable broader legislative involvement

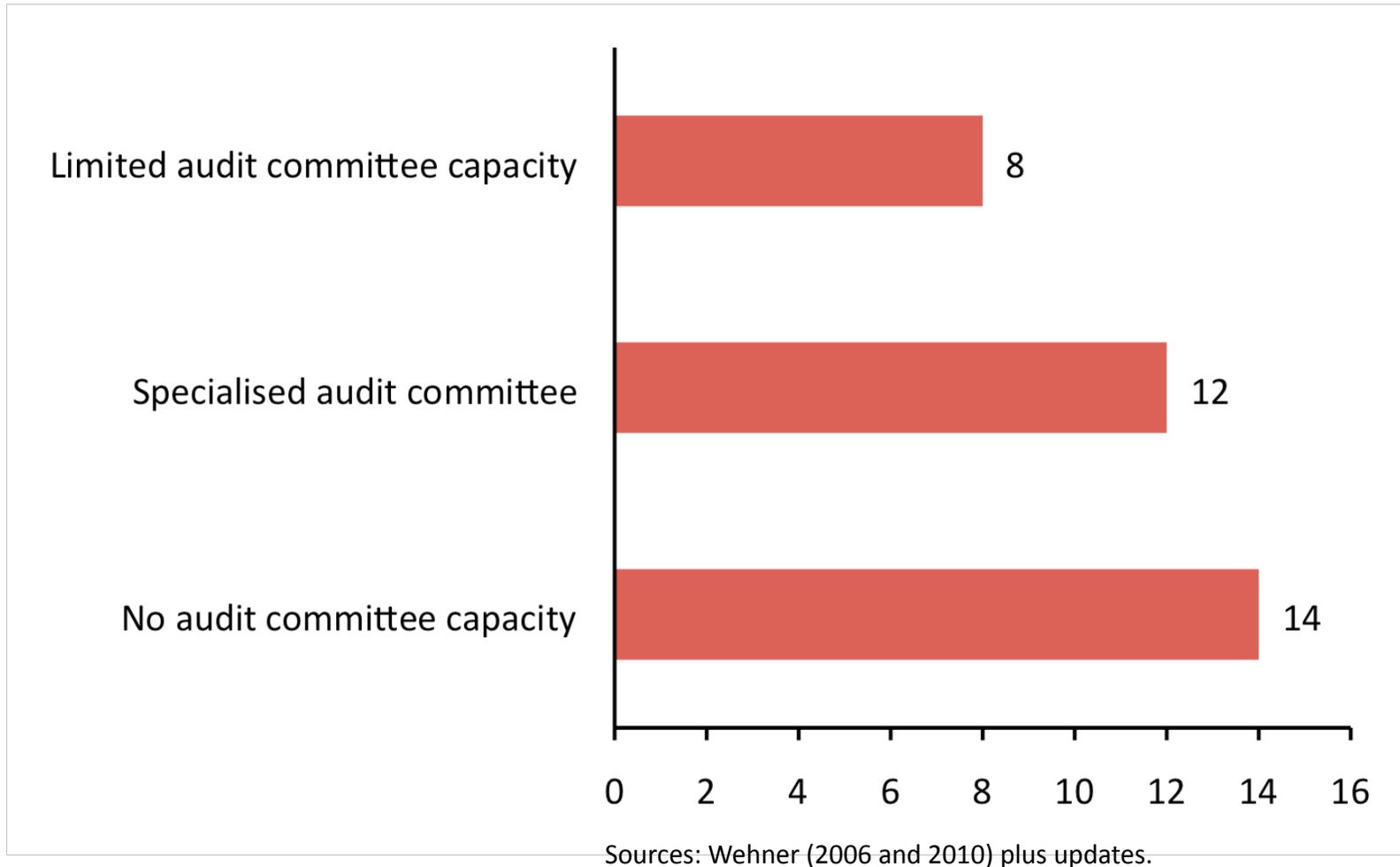
# The hierarchical model

- Now used by 5 out of 34 OECD parliaments, this model involves a budget/finance committee for overall fiscal policy and broad sector allocations, and sectoral committees for allocation within sectors
- Has the potential to combine scrutiny of fiscal policy and broad allocation with scrutiny of individual programmes/items
- In practice, this ideal has proven hard to attain:
  - Swedish reforms greatly improved fiscal discipline, but curtailed the influence of sectoral committees, individual MPs (and parliament as a whole?); see appendix 1
  - US budget process has disintegrated over the past decade, with budget committees unable to set a framework for legislative action; see appendix 2

# The role of parliamentary audit

- Some OECD legislatures do not consider audit findings in detail, but more than half (20 out of 34) use committees to do so
- In some legislatures the budget/finance committee is also tasked with considering audit reports, sometimes via a subcommittee
- Another option closely linked to the office model of audit is to use a specialised Public Accounts Committee
- Finally, some parliaments have devolved audit scrutiny to relevant sectoral committees (NZ, also an occasional reform proposal in the UK)

## Committee structures for parliamentary audit (national legislatures of 34 OECD countries)



# The public accounts committee model

- The PAC system provides an institutional framework that allows extensive consideration of audit findings
- The PAC of the UK House of Commons dates back to the Gladstonian Reforms in 1861, relies on strong linkage with the Auditor General
- Functionality of the process relies on deeply entrenched conventions and principles (Pelizzo & Stapenhurst 2008, Wehner 2003):
  - Policy-neutrality: hearings focus on accounting officers, not politicians
  - Non-partisanship: traditionally chairperson from the opposition
- In the UK, the PAC focuses almost exclusively on value for money audit

# Linking audit scrutiny and budget approval

- In many cases, the link between audit scrutiny and budget approval is incomplete or nonexistent:
  - The US Congress spends almost the entire year on budget approval, but has no specialised committee capacity or systematic process for audit scrutiny
  - The UK Parliament has a dysfunctional approval process, but a comparatively rigorous system of parliamentary audit
- Perhaps the subcommittee model maximises the potential for audit findings to feed into budgetary decisions:
  - The Budget Committee of the German Bundestag maintains a permanent audit subcommittee with a rapporteur structure

# Other potential co-ordination issues

- Tax and expenditure decisions
  - Considered by separate committees in some countries
  - Need for committee-level co-ordination is greatest where significant tax changes are frequent and/or tax expenditures are large
  - Ambitious fiscal consolidation plans require careful consideration of the overall mix and composition of tax and spending measures
- Inter-chamber relations
  - The need for co-ordination depends on the authority of the second chamber and is most important in countries with co-equal chambers
  - Role for conference committees to negotiate compromise
  - Joint budget committees exist in some American states

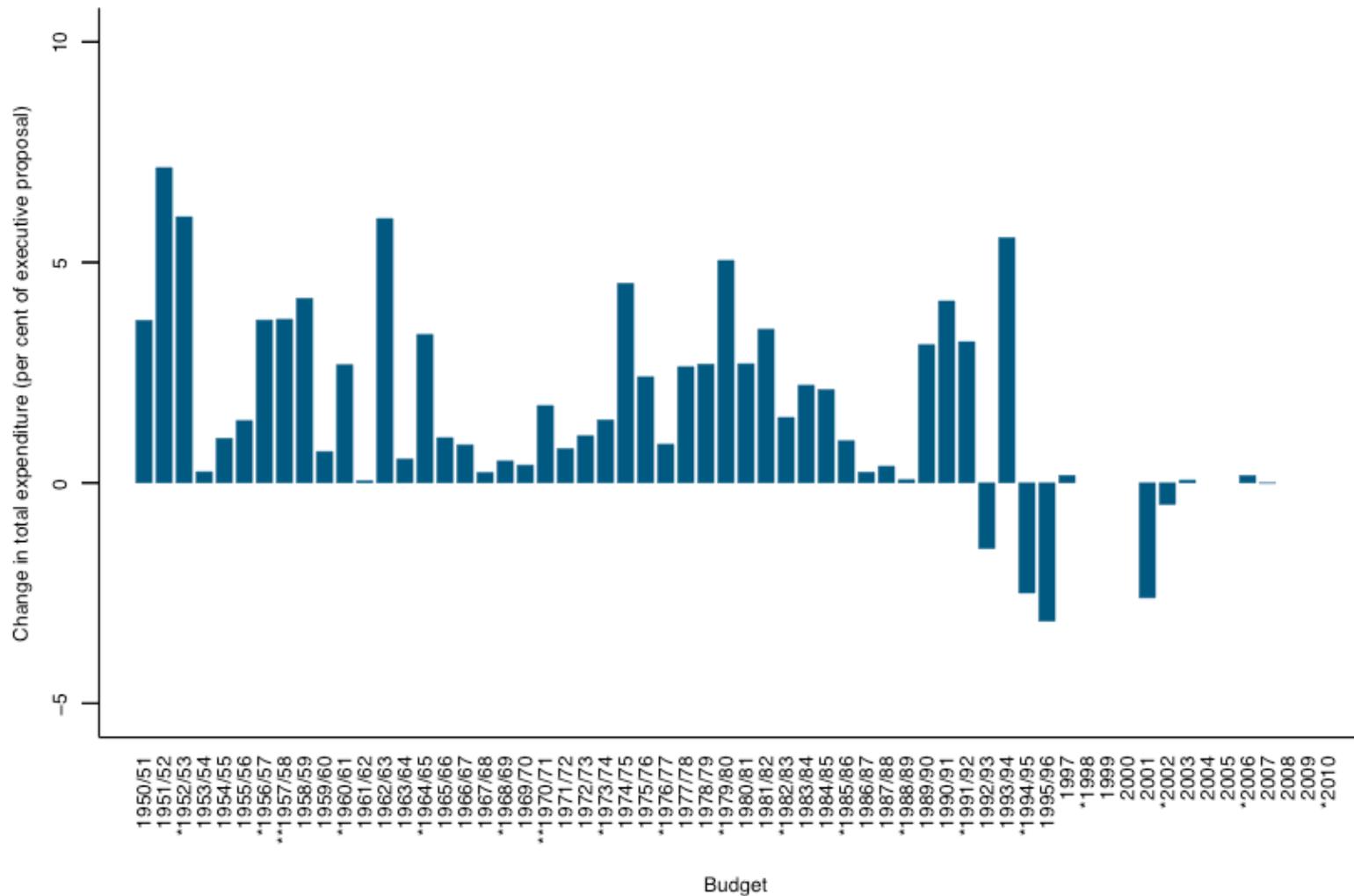
# Conclusions

- Without effective committee structures, parliaments are highly unlikely to be influential in budget approval and oversight
- It has been difficult to design committee structures that safeguard fiscal policy while enabling influence on individual programmes/items
- The potential for audit scrutiny to inform and enhance the budget approval function is underutilised in almost all legislatures

# References and further reading

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## Appendix 1: Parliamentary amendments in Sweden, FYs 1950/51 to 2010 (% of executive spending proposal)



## Appendix 2: US administration requests, CBO reestimates, and budget resolutions, FYs 1995 to 2011 (totals, in billions of current dollars)

Fiscal year	(1) Administration request			(2) CBO reestimate			(3) Budget resolution			(4) Percentage change	
	(a) Revenues	(b) Outlays	(c) Balance	(a) Revenues	(b) Outlays	(c) Balance	(a) Revenues	(b) Outlays	(c) Balance	(1c) to (3c)	(2c) to (3c)
1995	1,354	1,519	-165	1,339	1,521	-183	1,338	1,505	-167	-1.0%	9.0%
1996	1,416	1,612	-197	1,416	1,626	-211	1,417	1,588	-170	13.6%	19.3%
1997	1,495	1,635	-140	1,477 <sup>b</sup>	1,633 <sup>b</sup>	-156 <sup>b</sup>	1,469	1,669	-200	-42.8%	-28.1%
1998	1,567	1,688	-121	1,557	1,703	-145	1,602	1,690	-88	27.4%	39.4%
1999	1,743	1,733	10 <sup>a</sup>	1,751	1,747	4	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>
2000	1,883	1,766	117 <sup>a</sup>	1,881	1,768	113	1,876	1,735	141	20.0%	24.6%
2001	2,019	1,835	184	2,026	1,836	190	2,005	1,783	222	20.8%	16.9%
2002	2,192	1,961	231	2,201	1,944	257	2,171	1,833	337	45.9%	31.1%
2003	2,048	2,128	-80	2,013	2,134	-121	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>
2004	1,922	2,229	-307	1,907	2,245	-338	1,883	2,264	-381	-24.1%	-12.7%
2005	2,036	2,400	-364	2,027	2,384	-358	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>
2006	2,178	2,568	-390	2,210	2,542	-332	2,195	2,577	-383	1.9%	-15.3%
2007	2,416	2,770	-354	2,431	2,766	-335	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>
2008	2,662	2,902	-239	2,679	2,905	-226	2,685	2,930	-245	-2.5%	-8.4%
2009	2,700	3,107	-407	2,699	3,041	-342	2,725	3,060	-334	17.9%	2.3%
2010	2,381	3,552	-1,171	2,289 <sup>c</sup>	3,669 <sup>c</sup>	-1,379 <sup>c</sup>	2,322	3,545	-1,224	-4.5%	11.3%
2011	2,567	3,834	-1,267	2,460	3,802	-1,342	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>	<sup>d</sup>

Sources: (1) Office of Management and Budget, *Budget of the US Government* (various years), <http://www.whitehouse.gov/omb>; (2) Congressional Budget Office, *An Analysis of the President's Budgetary Proposals* (various years), <http://www.cbo.gov>; (3) congressional conference reports on the concurrent budget resolution (listed in Heniff and Murray 2010, Table 4), <http://thomas.loc.gov>; personal correspondence from Dr. Andrew Austin (Congressional Research Service) and Joel Friedman (Senate Budget Committee).  
Notes: Figures may not add due to rounding. <sup>a</sup> Termed "Reserve Pending Social Security Reform." <sup>b</sup> Based on *The Economic and Budget Outlook: Fiscal Years 1997-2006*, May 1996. <sup>c</sup> Based on *A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook*, March 2009. <sup>d</sup> House and Senate did not reach final agreement on a budget resolution.

Source: Wehner (2011).