Committee structures for budget approval and oversight

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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)

- No significant committee involvement: 1
- Sectoral committees only: 3
- Budget plus sectoral committees: 5
- Budget committee only: 25

Sources: Wehner (2006 and 2010) plus updates.
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)

- Limited audit committee capacity: 8
- Specialised audit committee: 12
- No audit committee capacity: 14

Sources: Wehner (2006 and 2010) plus updates.
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


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)

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>(1) Administration request</th>
<th>(2) CBO reestimate</th>
<th>(3) Budget resolution</th>
<th>(4) Percentage change</th>
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<td>outlays (b)</td>
<td>balance (c)</td>
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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. ^a Termed “Reserve Pending Social Security Reform.” ^b Based on *The Economic and Budget Outlook: Fiscal Years 1997-2006*, May 1996. ^c Based on *A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook*, March 2009. d House and Senate did not reach final agreement on a budget resolution.