
REPAIRING THE BUDGET CONTRACT: BALANCING HIGH EXPECTATIONS AND LOW TRUST

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INCREASED LEGISLATIVE BUDGET ACTIVISM HAS COINCIDED WITH DECLINING TRUST IN PARLIAMENT

- Confidence in parliament declined in almost all advanced countries during the final decades of the 20th century
- Negative attitudes also affected other institutions, including national governments and political parties
- Public confidence in parliament and government increases or decreases in tandem, though not always at the same rate
- This pattern indicates that mistrust in parliament may be due to factors beyond its direct control, and that remedies may require broad sociopolitical change
- Despite mistrust, parliamentarians generally have high re-election rates during stable times

TRENDS IN CONFIDENCE IN PARLIAMENT (in percentages)

	Early 1980s	Early 1990s
Belgium	40	44
Canada	43	37
Denmark	36	42
Finland	65	34
France	55	48
Germany (West)	51	50
Iceland	48	54
Ireland	52	50
Italy	30	30
Japan	28	29
Netherlands	45	53
Norway	77	59
Sweden	47	47
United Kingdom	40	44
United States	52	45

Note: The numbers reported here are the percentage of respondents who had “a great deal” or “quite a lot” of confidence in parliament.

Source: Susan Pharr and Robert Putnam, *Disaffected Democracies*, Table 3.2

TRUST IN INSTITUTIONS: GOVERNMENT

(percentage who tend to trust)

	11/03	6/05	5/07	6/09	6/10
Austria	46	49	57	58	54
Belgium	38	44	62	35	22
Denmark	53	55	67	61	50
Finland	49	68	75	54	49
France	30	24	36	39	35
Germany	24	27	49	45	32
Greece	47	40	41	25	25
Hungary	n/a	32	27	14	40
Ireland	31	40	41	20	21
Italy	27	29	37	25	25
Luxembourg	60	68	66	77	66
Netherlands	37	40	73	56	47
Portugal	39	33	46	28	20
Spain	42	40	52	34	20
Sweden	42	33	55	57	57
Turkey	n/a	76	71	57	43
United Kingdom	24	34	34	21	26

Source: Eurobarometer

CONTEMPORARY PARLIAMENTS ARE CROSS-PRESSURED BY CITIZEN EXPECTATIONS AND INSTITUTIONAL PROBLEMS

- Increased parliamentary independence on budget matters, but greater parliamentary dependence on government to take the lead and make tough decisions required to correct fiscal imbalances
- Rising shares of national budgets are allocated to income support and other financial aids to households, but declining citizen trust in parliament and other governing institutions
- Greater need for strong political parties to mobilize support for austere measures, but weaker voter identification with parties and (in some countries) weaker party discipline
- More openness and transparency in government but heightened citizen perceptions that government is not performing well and disregards their interests

LEGISLATIVE BUDGETARY ACTIVISM REFLECTS GOVERNMENTAL WEAKNESS

- During the postwar high growth, high trust period, most parliaments had limited, passive budget roles
- National legislatures relied on government for data and analysis: they rarely adopted independent budget policies
- Beginning in the last decades of the 20th century, many OECD parliaments have expanded their budget
- This development, which has not occurred in all OECD countries, is reflected in the volume of budget amendments and the size of legislative budget staffs
- It has coincided with decline in economic growth and in citizen regard for government
- With only a few exceptions, newly-empowered legislatures have not challenged basic budget policies, the government's fiscal framework, or constitutional roles

THE FINANCIAL CRISIS HAS UNDERMINED THE BUDGET CONTRACT BETWEEN CITIZENS AND THE STATE (1)

- A nation's budget is a contract in which citizens pay taxes in exchange for or expectation of services and benefits from government
- Many features of this contract, such as authorized activities and expenditures, are explicit
- But some of its most important features are implicit and are embedded in citizen expectations
- These expectations were elevated during the long period of economic and governmental expansion
- However, the financial crisis has destabilized national budgets, and may (in some countries) lead to fundamental changes in citizen-state relations
- Adjustments are likely to be contentious because destabilization has occurred during a period of low citizen trust/confidence in political institutions

THE FINANCIAL CRISIS HAS UNDERMINED THE BUDGET CONTRACT BETWEEN CITIZENS AND THE STATE (2)

- **THE FISCAL CONTRACT** – provides for government to maintain prudent, politically-acceptable budget aggregates that are sustainable for the medium-term and beyond, and that current fiscal policies will not unduly disadvantage future taxpayers and beneficiaries
 - The crisis has revealed that public finance in some countries is on an unsustainable path, and that fiscal consolidation and austerity are required to correct severe imbalances
- **THE SOCIAL CONTRACT** – promises citizens that in exchange for participating in the economy and paying taxes, government will finance pensions, health care and other social protections
 - Severely impacted countries have been impelled to reduce promised or expected benefits, and to shrink the protective role of the state. Less impacted countries have also adjusted the state's social footprint

THE FINANCIAL CRISIS HAS UNDERMINED THE BUDGET CONTRACT BETWEEN CITIZENS AND THE STATE, cont.

- **THE PERFORMANCE CONTRACT** – provides for efficient operation of government and delivery of accessible, responsive public services
 - Low levels of trust reflect declines in actual or perceived government performance, the financial crisis may further depress citizen confidence if it causes significant reduction in the volume or quality of services

- **THE RELATIONAL CONTRACT** – promotes stable, trusting relationships between citizens and the state, and strengthens the other types of contracts
 - Because citizen regard was low before the onset of the crisis, governments cannot draw on it to mobilize support for corrective budget policies

CITIZENS WANT DEMOCRACY, BUT NOT THE GOVERNMENT DEMOCRACY GIVES THEM

- Despite mistrust, citizens in OECD countries (and elsewhere) strongly favor democratic political institutions
- They want competitive elections and the absolute right to select government leaders
- But they have distaste for the noise and cacophony of democratic politics
- Some argue that democracy is strengthened by having a skeptical, mistrusting public
- But declining trust has been accompanied by political demobilization: less attention to political events, reduced voter turnout, weaker party affiliation, and less engagement in political activity

ECONOMIC CONDITIONS DO NOT ADEQUATELY EXPLAIN LOW POLITICAL TRUST

- The decline in trust coincided with the end of the postwar boom and slowdown in growth
- Since the 1970s, OECD economies have continued to grow, but at a lower pace, and less consistently than during the immediate postwar period
- Weaker growth gives governments less incremental resources to distribute in expansionary budgets
- Policy initiatives often have been crowded out by built-in increases in existing programs
- Political leaders have shifted from taking credit to avoiding blame, as deficits have become more common and budgets less supple
- But economic conditions are not the whole story: trust scores have continued to decline even during growth periods
- Trust is not simply a referendum on the government of the day, but a statement concerning the relationship between citizens and the state

MULTIPLE EXPLANATIONS HAVE BEEN OFFERED FOR DECLINING TRUST AND CONFIDENCE

- The role of the media, including 24/7 news programs, and a more critical, adversarial posture
- Decline in social capital: less civic activity and engagement
- Globalization and the loss of national control
- The belief that government has become too large, distant and intrusive
- Government performance and the quality of services have deteriorated
- Rising expectations out pace the capacity of government to satisfy citizen demands
- Rise in individualism and decline in authority

REPAIRING THE SOCIAL CONTRACT: THE PROBLEM

- Social contracts are inscribed in laws that mandate payments or other transfers to eligible beneficiaries
- They are not pure contracts because governments can unilaterally alter their terms
- Social contracts inflate citizen expectations and thereby contribute to disappointment and distrust
- Many social contracts are grounded on the premise that sustained economic growth will finance future payouts
- The financial crisis and demographic trends have undermined this premise
- Contemporary social contracts have made national government into the holder of risk to society
- They transfer risks from households and firms to government and future taxpayers
- Social contracts have often been based on disregard or miscalculation of future costs
- Citizens believe that government is only giving back what it took in taxes: they therefore feel cheated when government trims benefits

REPAIRING THE SOCIAL CONTRACT: MAKING THE TERMS MORE SUSTAINABLE

- Governments should account for the social risks they are holding, including prospective costs
- Social contracts should distinguish between risks that benefit recipients and risks that adversely affect them
- Transforming social contracts from open-ended commitments into reciprocal obligations may reduce benefits but will make them more effective
- Beneficiaries should share in the cost of longer life spans and improved health care
- Social contracts should make full use of cost-sharing mechanisms such as co pays and deductibles
- Social contracts should have adjustment mechanisms to keep them on a sustainable path

REPAIRING THE SOCIAL CONTRACT: THE ROLE OF PARLIAMENT

- Parliament has a central role because new social contracts have to be codified in law
- Strong government leadership will be needed for parliament to shift some costs and risks to beneficiaries
- Parliament's role will be political because new social contracts will redistribute costs and benefits
- Revised social contracts should be phased in gradually, to give citizens ample time to adjust expectations and behavior
- Some parliament's will seek to deflect political pressures by easing the pain or loss proposed by the government
- To be credible, new social contracts should be financially sustainable, have assured sources of funding, and should restrict future changes by government

REPAIRING THE PERFORMANCE CONTRACT: THE PROBLEM

- OECD Governments are more open and accessible than in the past, and citizens can readily obtain performance data
- But evidence of improved services has not countered the decline in trust and confidence
- Lack of accountability for failure may have a greater impact on public opinion than successful performance Citizen expectations appear to rise faster than government performance
- Austere budgets preclude improving services by increasing public expenditures
- Inasmuch as most direct services to citizens are delivered by subnational political or administrative entities, the national government is not credited for service improvements even when it finances them

REPAIRING THE PERFORMANCE CONTRACT: IMPROVING PUBLIC SERVICES

- Performance Budgeting (PB) can be a useful tool to improve government performance and communicate results to citizens
- However, a budget that merely lists workload, outputs and other data does not fulfill PB's potential
- Governments can improve PB by more closely linking resources and results
- Governments should view performance as a measure of change
- PB should highlight changes in activities and services due to changes in resources
- Linking resources and results requires better information on and allocation of costs

REPAIRING THE PERFORMANCE CONTRACT: THE ROLE OF PARLIAMENT

- In most OECD countries, parliament funds performance contracts through annual appropriations
- It can prod government to improve performance by specifying what it expects in public services and results
- To fulfill this role, parliament needs reliable information and analysis on the results purchased with public money
- Promising better results without providing necessary resources may degrade both performance and trust
- Rather than itemizing all activities/outputs to be produced, parliament should concentrate on areas where public services are deemed deficient and where it is making significant changes in expenditures
- Specifying performance targets enables parliament to compare results against plans

REPAIRING THE RELATIONAL CONTRACT

- When parties to a contract have an ongoing relationship and expect to interact in the future, trust depends on the relationship more than on the formal terms of the contract
- Relations are important because no contract is complete – it cannot specify all relevant terms and conditions or anticipate all the issues and contingencies that may arise
- Budgeting benefits from having both formal contracts that prescribe and limit government action, as well as relational contracts that facilitate political agreement and administrative efficiency
- Relations are essential during all stages of budgeting, not only within government but between citizens and the state
- In fiscally stressed countries, budget relationships have been scarred by mistrust and anxiety

REPAIRING THE RELATIONAL CONTRACT, cont.

- Rebuilding public trust will require repairing these relationships
- As intermediaries between citizens and the state, parliaments can play a positive role in easing anxieties and restoring confidence in public institutions
- Parliament cannot be strong and effective if government is weak and ineffective
- The budget role of parliament cannot simply be to challenge government or amend its proposals: in all systems – parliamentary and separated – government and the legislature must devise new means of working together
- If government and parliament do not trust one another, don't expect citizens to trust either

WHEN ALL IS SAID

THE KEY TO RESTORING TRUST
IS TO BALANCE
CITIZEN EXPECTATIONS
AND
GOVERNMENT CAPACITY