

Compare and
contract the budget
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Comparative Public Administration PROJECT Compare and contract the budget processes and systems of fiscal accountability in Presidential and Parliamentary systems of Government. Student: Lyn Marie James Abstract There is diversity of forms of government (Laundy, 1989) and different ways of classifying them and as such, this paper sets out to discuss the budgetary powers of the legislature under different forms of government, and the environment that informed the political structures.

The paper discusses the different forms of government systems that exist in various countries with specific focus on the Presidential system as obtained in countries such as the United States of America and the Parliamentary “Westminster” form that exists in countries such as the United Kingdom. The different forms of budgets are discussed including their advantages and disadvantages, with particular reference to the degree of the legislature’s political control over the executive in the budget process.

Specific areas of budgetary control by the legislature are identified – mainly those exercised prior to the adoption of the annual budget and various factors that determine the power of the legislature to shape the annual budget. The budget cycle and its various stages are identified in the context of the role of political institutions on fiscal outcomes of the budgetary process.

Key challenges to public budgeting systems in presidential and parliamentary systems are examined to discover factors such as how to retain the advantages of strong executive authority required to ensure fiscal discipline and sound public finance management while providing the

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institutional checks and balances that guarantee accountability, ensure restraint and prevent corruption (Santiso, 2005). The paper concludes with a discussion on the way forward with respect to strengthening the independence and performance of oversight institutions, civil society oversight and fiscal transparency with a view to enhancing accountability in public finance management.

General Background of the Study A Budget is one of the most significant documents of any administration since its decisions affect the nation as a whole, state and local governments, and individuals. In some Western European countries, the origins of national budget systems can be traced to the institutional arrangements prevailing before democracy was introduced. Monarchies had royal treasuries to manage government finances, sourced by obligatory taxes on citizens. In a few countries, the “constitutional” arrangements for budget systems have an inheritance dating back several centuries.

Although many changes and reforms in the legal framework for budget systems have been introduced over the centuries, a few ancient features still prevail ??? especially in the United Kingdom and France. These in turn were inherited by the former colonies of these two countries, whose legal frameworks for budgeting still bear resemblances to those inherited at independence. Governments have collected taxes and utilized the resulting proceeds to support armies and civil administration even before the advent of money (Webber and Wildavsky, “A History of Taxation and Expenditure in the Western World”, 1986).

However, the roots of contemporary budgetary practices can be traced to the development of the English Constitution. The Glorious Revolution of 1689 established the supremacy of Parliament over the monarchy, and thereafter, at least in principal, the King, and later the Prime Minister, could request certain taxes or various expenditures, but only Parliament could authorize them (California Department of Finance, 1998). In the United Kingdom, budgetary control at first extended only to the armed forces, to prevent the King from assembling a force large enough to unseat Parliament.

For example, Parliament controlled appropriations for the army and for ships in port, but not for ships at sea (Hill, “ A History of England: Volume 5: A Century of Revolution”, 1961). Moreover, complete budgets were not written, budgetary control was not exercised annually, there were no controls on what was actually spent for these purposes, record keeping was haphazard, and there was no reporting or auditing (Balfour, “ On the Budgets and Accounts of England and France,” “ Journal of the Royal Statistical Society of London”, 1866) (California Department of Finance, 1998).

The expansion of budgetary control over the rest of the military and into non-military areas during the Eighteenth Century was slow and inconsistent. However, as Parliament became more accustomed to allocating funds, some modern concepts and terminology began to develop. In 1733 Robert Walpole, Whig Prime Minister under George I, began referring to the inauguration of the discussions on the Crown’s proposed expenditures as the “ opening of the budget. ” This convention continued, and gradually by 1800 this usage was universally accepted in England.

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In France a conscious effort to make government rational was initiated. Following the lead of the Philosophers during the Age of Reason, and eager to replace the medieval traditions of the ancient regime, the French introduced sweeping changes to their government and society during the reign of Napoleon. As with the English, except with different motives, Napoleon's first concern was with mastering the military budget. To obtain better information on, and to control expenditures, he established a Corps des Comptes.

The general who headed this corps became, in effect, the first auditor general. In 1803 France adopted the English word budget, budgetary procedures, and expanded on the English technical capabilities and practices as part of an effort to obtain greater control over all expenditures, both military and non-military. The French achievements were remarkable, not only because they were unprecedented but because they were accomplished in such a short period of time. Moreover, these innovations not only survived Napoleon but were refined during the Second Republic and Second Empire.

By the 1860s France had developed a uniform accounting system that applied to all departments and all units within departments, a standard fiscal year, conventions on how long encumbrances can be held open after the close of the fiscal year, a requirement for departments to explain programmatically and account fiscally for all funds which have been allocated to them, standard year-end closing procedures and year end reports comparing appropriations and expenditures, a system of audits, the reversion of unexpended funds, and record keeping by fiscal year.

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Moreover, their budgets were written and considered all revenues and all expenditures for the fiscal year. French budgetary procedures encompassed steps which we would identify today as analytical. France prided herself on being able to act promptly during an emergency because funds were monitored and controlled.

Moreover, French officials realized that they had the mechanisms for developing and implementing public policy in a large industrializing state. In contrast, English budgetary practices of the 1860s lacked not only many of the technical features of the French system but also had not yet adopted the emphasis on consistency and universality of application that was central to the French innovations.

For example, although most funds were now appropriated by Parliament, there was no single document reflecting all governmental expenditures, no comparison of appropriations and actual expenditures, lump sum appropriations were widely used, different accounting methods were used by various departments, major sums were unexplained and unaccounted for, records were not kept on a fiscal year basis, and surpluses were rolled into the next fiscal year.

Thus, by the end of the Nineteenth Century what Wildavsky calls the “ great norms that provide a framework for budgeting in modern governments” that is, unity, annuality, balance, comprehensiveness, and control, had emerged in Europe. Fiscal procedures there had developed into structures, a century of innovations had settled into institutional relationships. The picture at that time was quite different in the United States. The Early American Experience <https://assignbuster.com/compare-and-contract-the-budget-processes-and-systems-of-fiscal-accountability-in-presidential-and-parliamentary-systems-of-government-assignment/>

Most American colonization occurred after the Glorious Revolution of 1689, and the colonists carried the notion that control of finances should be vested in the legislature with them.

Closely allied with this concept was the idea, expressed in Locke's Second Treatise on Civil Government, that property rights existed prior to the formation of the state, in the state of nature, and could not, therefore, be abridged by the state. Thus, taxation was only legitimate to the extent that the people's representatives had given their consent. Since the colonists wanted English protection but not English rule, colonial legislatures were more zealous than their English counterparts in controlling executive expenditures.

Wildavsky concludes in *The New Politics of the Budgetary Process* (1988) that the extraordinary efforts of Yankee ingenuity shown by colonial legislatures to control royal governors give this period "its peculiar stamp." Colonies elected independent treasurers and developed other ways to control the actual allocation of funds. This absolute insistence on legislative direction of finance easily survived after the Revolution. The period before the Civil War is marked by a relative balance of Congressional and Presidential power.

Congress was able to limit the size and scope of government by controlling taxes and authorizing its major programs and activities. The President and the executive branch assumed increasing control over the day to day activities of government, proposed and initiated new ones, and started to become a focal point for the expression of national ideals and goals. In the <https://assignbuster.com/compare-and-contract-the-budget-processes-and-systems-of-fiscal-accountability-in-presidential-and-parliamentary-systems-of-government-assignment/>

wake of the unfathomable situation which followed the Civil War, and its imminent threat to national survival, Lincoln asserted the position that whatever was required for national defense had to be approved.

He began ordering the Treasury to spend un-appropriated funds for a variety of military requisitions. This great expansion of executive power was dramatically reversed after the Civil War. In 1885 the House of Representatives began to strip the Appropriations Committee of its authority to review and report on bills falling into the domain of other committees. The prior arrangement threatened, in Wildavsky's words, " the smooth flow of patronage" (Wildavsky, *The New Politics of the Budgetary Process*).

These changes became " a symbol of dysfunctional fragmentation in Congress and of waste and mismanagement, and would serve as a rallying point in the creation of an executive budget focused around presidential leadership. " (Stewart, " The Politics of Structural Reform", (1985), in Wildavsky). Presidential and Parliamentary Systems of Government There is a diversity of forms of government (Laundy, 1989; Cheibub and Limongi, 2002) and different ways of classifying them. The two main forms of government are presidential and parliamentary systems.

The main characteristic of a presidential system is that the head of the executive, the President, is directly elected by citizens. An elected President appoints a Cabinet composed of individuals that support his/her political agenda. There is no Prime Minister, but a Vice-President is common and Cabinet members are chosen from outside the chambers of elected

representatives. The President is both head of the State and head of the
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executive. Within the Presidential system, the president's powers are "balanced" by those of a House of Representatives, a Senate, and a judiciary.

This form of government is characterized by very strong separation of powers. Parliamentary systems usually have a clear differentiation between the head of government and the head of state. Additionally, there is no clear cut separation of powers between the legislative and the executive. This is mainly because the survival of the government is dependent on the support of the parliament. The government can be removed by the parliament through a vote of no confidence, or by the executive dissolving parliament and calling elections.

In parliamentary systems, the Prime Minister is the head of the government and both the Prime Minister and the Cabinet of ministers have their background in parliament. The leader of the largest political party in the parliament is usually appointed as the Prime Minister. The implication of this basic distinction leads to radically different behaviours and outcomes under each regime. Parliamentary government is a democratic regime in which the executive and the legislature ultimately must agree on policy. The two branches are synchronized, so to speak, like two gears that mesh.

If the two branches are out of "synch," something will be done to compel policy agreement between them. How this harmonization is brought about, which branch tends to dominate the other, and the composition and designation of the executive branch will vary from country to country.

Behavior of political actors in presidential government is very different. The executive and legislative branches are free to disagree with each other; any

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prolonged domination of one branch by the other, normal in parliamentary regimes, is exceptional and abnormal.

Not only do many important policies require agreement between the branches, but that agreement results from voluntary cooperation rather than forced synchronization. While failure to reach agreement could mean failure to accomplish policy goals, failure does not produce a governmental crisis. Indeed, both sides may find it politically expedient to agree to disagree. It is true that some measures, budgets for example, must be enacted to keep the system going.

But even then the chief executive is hardly likely to micromanage budget items as executives are able to do in many parliamentary regimes. The tenure of the executive does not depend on support from the legislature; by the same token, the legislature is not required to conform to executive directives in order to keep the system in operation. (Kaminsky, 1997) In France and in German-speaking countries, judicial organs developed under the auspices of the absolute ruler, executive power grew, as did the public administration of the State.

Over time, the power of the monarch diminished. Some budget-related organizations, notably courts of accounts, date from an early emphasis on a semi-autonomous judiciary. Additionally, the notion of the State, a written constitution and a system of public and administrative law developed. These influences continue to impact on the primacy given to the law in these countries. In contrast, in Britain, parliamentary assemblies became

increasingly important and the monarch's role gradually diminished until it became, as today, a purely ceremonial one.

Statute law govern budget processes in Britain, and this, combined with the first-past-the-post electoral system, allows the executive to dominate the legislature since the Prime Minister and the Cabinet controls the legislative agenda. In a semi-presidential system, the head of State ??? the president ??? is also directly elected. However, the executive is divided between the head of State and the head of government, the prime minister (who is usually the leader of the majority political ruling parties at the time of legislative elections). The president may have strong powers, specified in a written constitution.

Finland, France, and Korea have adopted a model in which the prime minister is formally appointed by the president after approval or election by Parliament. In contrast to the Westminster system, any elected parliamentarians usually must resign from Parliament to become a Cabinet minister ??? the two functions are perceived to be incompatible. Budget Processes and Systems Arriving at a reliable budget, involves gathering pertinent information. There are two main methods for gathering data and preparing the budget. They are: * Top-down budgeting * Bottom-up budgeting

A top-down budgeting strategy involves the collection of data from upper level sources such as top and middle level managers. This data is based on their judgment and experiences and represents, according to Schick and

Rubin certain degrees of incrementalism. Upper level management estimate <https://assignbuster.com/compare-and-contract-the-budget-processes-and-systems-of-fiscal-accountability-in-presidential-and-parliamentary-systems-of-government-assignment/>

budgets for the fiscal year and pass it down to lower managers who then break down the estimates into smaller components. This process continues when the estimates are passed down to line managers and supervisors until individual division budgets are obtained.

The advantages of this method of budgeting are that accurate aggregate budgets can be developed for each division since all expenditure can be considered and not overlooked. The experience and judgment of top managers are not overlooked as the top managers provide the global budget and the lower level managers provide the specific budget requirement for each division. The drawbacks of this method is that lower level managers, supervisors and line managers may always argue for more resources since from their estimation, the funding allocated may be considered insufficient.

On the other hand bottom-up budgeting usually starts with the line managers who are the persons doing the work, are familiar with it and responsible for it, being consulted with respect to the budgets for their divisions. This approach is used so that those with the intimate knowledge provide the estimates to achieve the highest level of accuracy. In this method, differences of opinions between senior and junior managers are discussed and resolved to ensure accuracy and to clear up discrepancies. The advantages of this method are that people closer to the work are likely to have a more accurate idea of the resources required.

Additionally, the direct involvement of lower level managers and line leaders in the preparation of the budget increases the chances that they will accept the results with less resistance and be committed to them. Also top

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managers consider this method of budgeting to be a risky process because it relies heavily on lower level staff and in so doing may compromise the use of budgeting as a tool of control of the organization and top managers are reluctant to give up such control. Generally in governmental budgeting, there tends to be a combination of bottom-up and top-down budgeting methods in use.

When they are combined the budget process usually commences with top management inviting each division to submit budget requests for the coming year, and the heads of divisions will then pass the request down to sections or units. The distinction is that there is a formal invitation from top management for the submission of a budget request. Public budgeting systems, which are devices for selecting societal ends and means, consist of numerous participants and various processes that bring the participants into interaction.

The purpose of budgeting is to allocate scarce resources among competing public demands so as to attain societal goals and objectives. Those societal ends are expressed not by philosopher kings but by mortals who must operate within the context of some prescribed allocation process ??? namely, the budgeting system. A budget is, therefore, a prediction that contains words and figures that propose expenditures for certain objects and purposes. Budgets become the link between financial resources and human behavior in order to accomplish policy objectives.

To provide for responsible government, budgeting is geared to a cycle. The

budget cycle consists of four phases: * Budget formulation ??? the budget
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plans are prepared and submitted by the executive; * Enactment ??? the budget plan is debated, altered, and approved by the legislative branch; * Implementation ??? the features of the budget plans are executed by the government; * Auditing and Outcome Assessment ??? the actual expenditures of the budget are accounted for and assessed for their effectiveness. The budgetary powers of the legislature vary under different forms of government.

The legislature is a powerful agenda setter and decision maker. The annual budget encapsulates the legislature's wishes with respect to revenue and expenditure policies. The United States is a prime example of this form of government where both houses of Congress have unfettered power to amend the President's draft annual budget. Additionally, by adopting laws relating to budget processes, the legislature is able to reinforce its budgetary control over the executive (Lienert, page 3). The United Kingdom is at the other end of the spectrum.

In a Westminster parliamentary system, the head of the executive branch is both a member of parliament and a leader of the political party which has the most seats in the lower house. Within this system of government, the budget making powers of the Prime Minister and the Cabinet of Ministers are very strong. Although Parliament votes on the annual budget, if the government has a majority in Parliament, the government alone determines the size and shape of the budget (Lienert, page 3). The Budget Cycle

Budgetary process is designed, at all levels of government, to ensure that here is control, accountability and planning. In theory, the preparation by the

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executive (usually annually) of a budget for presentation to and approval by the legislature makes possible the exercise of popular control over spending.

||||||| The budget statement must include all the annual revenues and expenditures. As a planning instrument, the budget, again in theory, allows a government to analyze the revenue and expenditure implications of its current and proposed programs and the financial interrelationships among them.

Budgeting can be thought of as having four main stages: the formulation of the budget proposal, the enactment or approval of the budget proposal, and the implementation of the budget that is actually signed into law. The final stage is the audit and evaluation stage where there is an accounting for the actual expenditure of the budget. The first two stages involve the executive and legislature branches, while the last two phases involve the bureaucracy as an agent of the other branches.

1. Budget Formulation The executive prepares a draft budget and submits it to the legislature.

This is usually a two-step process: a Ministry of Finance or the equivalent, prepares a draft budget that incorporates the government's expressed budget orientation. In presidential systems, the President has the exclusive responsibility for preparing a proposed budget and submitting it to the Legislature. There are many factors which curtail the extent to which the president can make major changes in the budget. In parliamentary systems, the Prime Minister (Chief Executive) typically has responsibility for budget preparation and submits what is usually called the "government budget" to parliament.

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The draft budget is then approved by a Cabinet of ministers (or the equivalent for countries with presidential political systems). This budget document is then submitted to the legislature for possible amendment and approval. 2. Enactment At the Parliamentary stage, the budget is approved by a legislative body. In presidential systems, the legislature reviews the executive's budget recommendations and often has access to the original agency budget requests, which enables it to make comparisons. The budget is generally discussed in parliamentary committees, which may propose amendments.

Once amendments are agreed in plenary session, the legislature approves the budget. Likewise in parliamentary systems, the budget is also debated by the legislature. However, since there is no clear-cut separation of powers between the legislature and the executive mainly because the same political power base controls the legislature and the executive, the debate is purely symbolic. Party politics and government survival put pressure on the legislature to adopt the budget without criticizing or amending it.

Many parliamentary systems allow the parliament to modify ??? but not increase ??? the government's budget proposal. The Appropriation Bill and other related legislation are then signed into law. 3. Implementation Implementation of the approved budget is performed by the executive ??? and/or government agencies. This stage is similar in both presidential and parliamentary systems. In so doing, a central budget office (usually in the Ministry of Finance or the equivalent) monitors budget implementation and

prepares periodic budget execution reports using a well-defined accounting system.

Auditing and Outcome Assessment The final stage is when an independent external audit office audits the financial accounts. It may also have a mandate to assess the results of the annual budget in terms of efficiency, economy and effectiveness. The objectives of this phase are to guarantee executive compliance with the provisions of appropriation bills, particularly to ensure honesty in dispensing public monies and to prevent needless waste. This stage also entails parliamentary control of budget implementation. Parliamentary control is based on reports provided by the executive.

It is Parliament's prerogative to specify the content and timing of such reports, which may contain both financial data (annual accounts) and non-financial data (e. g. attainment of performance targets). This takes place both during and, especially, after the close of the fiscal year. Relationship between forms of government and budget system The relative strength of executives and legislatures varies considerably according to the form of government. Under a presidential system, the separation of the legislature from the executive is specified in the constitution.

In contrast, in parliamentary systems there is less separation of the executive and the legislature. In both systems, however, the main effective tool that Parliaments have for "controlling" the executive is to propose a vote of no-confidence in the government and cause its collapse if the vote succeeds. This happens rarely in parliamentary monarchies that have first-
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past-the-post electoral systems. In such countries, in budgetary matters, the executive holds the “ power of the purse”, even though, constitutionally, Parliament is said to be supreme in money matters.

Review of the Academic Literature Definition: As Robert D. Lee pointed out, budgeting is about information, and bringing that information to bear on decisions about allocating resources to purposes (Lee, 2009). He further contended that budgeting is intended as a mechanism for setting goals and objectives, for allocating the resources necessary to achieve those objectives, for measuring progress towards objectives, for identifying weaknesses and inadequacies in the organization and for controlling and integrating the diverse activities carried out within large bureaucracies.

Aaron Wildavsky a noted scholar on budgeting and budget theory defines budgeting as translating financial resources into human purposes. He acknowledges that resources are limited but that human desires are not. As such, says Wildavsky, some way must be found to apportion available funds among competing people and purposes. Budgeting therefore, was seen as a means to achieving this end. Wildavsky sees budgets as representing record of the past and being statement about the future. Consequently, he views budgets as plans and predictions that specify connections between words and numbers on the budget document.

Additionally, since resources are scarce, a budget becomes a mechanism for choices with respect to allocating resources; it can also be an instrument for pursuing efficiency; the means for securing economic growth; the means for income distribution; and insofar as spending is used to maintain differences

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in status and power, budgets support a hierarchical structure (Wildavsky, 1986, p. 8). Mihaly Hogue agrees with Wildavsky in the view that public budget is a forecast of governmental expenditures and revenues for the ensuing fiscal year and is the key instrument for the expression and execution of government economic policy.

The writer posits that governments exercise their allocative, stabilization and distributive functions through budgeting. Irene Rubin opined that people and groups with varying goals and points of view are always vying to get what they want out of government. She sees budgets as an important link between taxpayers and public officials since budgets tell citizens what their taxes are being spent on, and in a general way how well their money is being spent (Rubin I. , 1990).

Rubin agrees with Lee's views that budgeting is both political and technical, influenced by interest groups and agency heads, and is open to the environment in the sense that it is influenced by various factors which include the economy, public opinion, other levels of government, the press and politicians. Another noteworthy theorist Allan Schick puts forward the theory of incrementalism and defines budgeting as a set of procedures that recur, typically with little or no change, year after year. He sees budgeting as the routinization of choice with respect to public finances. Schick, 1999 p. 3-4). Types of Budgets There are several types of budgeting methods, some of which include: * Line-Item Budgeting * Performance Budgeting * Programme Budgeting * Planning, Programming, Budgeting System * Zero-Based

Budgeting Line-Item Budgeting Line-item budgets simply listed categories

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(line-items) of expenditure, such as salary, overtime pay, postage, gasoline, office supplies and so forth. Statutory or administrative controls could be imposed on the transfer of funds from one line-item to another, or between broad categories of expenditure. Line-item budgets were relatively easy to use and understand, thus attractive to legislative officials. Line-item budgets have a number of appealing features because they allowed central control over inputs, they were uniform, comprehensive, and exact and they allowed routines to be established. (Schick, 1971: 14-43). During the period when the emphasis was on line-item budgeting, some authorities had a more expansive vision for budgeting. An example of this early recognition of the limits of line-item budgeting comes from Lent D.

Upton, writing in 1924, who said “ the average city official confronted with the budget finds nothing in it that enables him to determine in a large way the value of the activities that are rendered the public; or in lesser way the degree of efficiency with which such activities are conducted” (Upton, 1924: 72). Thus, the limitations of line-item budgets were recognized by some observers soon after their adoption. The questions that Upton posed would later be addressed by the concept of performance budgeting. Performance Budgeting

With the expansion of governmental activity, attention began to shift to management efficiency, particularly at the national level. An awareness of the need for efficiency and interest in management improvement was evident at all levels. With this heightened interest in management came the concept of performance budgeting, the next phase of budget reform and

innovation. Performance budgeting emphasized the things that government does rather than the things it buys. It therefore shifted attention from the means of accomplishment to the accomplishment itself.

Governmental expansion during World War II led to wider interest in performance budgeting in order to more efficiently use financial resources. Performance budgeting encountered a number of problems, particularly at the national level. Budget estimates were “ no more meaningful than those in line-item budgets” (Miller, 1996: 95). Work measurement presented problems. Measuring the output of governmental services was imprecise. Inputs could be easily measured, but not outputs. In addition, “ performance budgeting lacked the tools to deal with long-range problems” (Miller, 1996: 95).

Program Budgeting The next budget reform phase emphasized program budgeting and planning. Program budgeting was more forward looking while performance budgeting tended to focus on what had been accomplished already. The key elements of program budgeting included long-range planning, goal setting, program identification, quantitative analysis such as cost-benefit analysis, and performance analysis (Burkhead, 1961: 139).

Planning, Programming, Budgeting System Program budgeting was one of the key components of the planning, programming, budgeting systems reform.

Planning, Programming Budgeting System was an attempt to use rational means of “ fusing planning processes, programming efforts and the budget system” (Miller, 1996: 97). While little was really new among these
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components, the uniqueness was in the attempt to combine the various elements. Planning was to be used to determine goals and programs to help achieve them. Programming would assist in administering efforts to efficiently accomplish goals. Budgeting would come up with financial estimates of resources needed by agencies to execute the plans.

Planning, Programming Budgeting System failed to live up to its potential in the federal government, although elements of the experiment are said to remain in budget frameworks of several federal agencies (Mikesell, 1995: 175). Zero-Based Budgeting Zero Based Budgeting required that programs be justified over and over again so that the traditional base budget which received little or no scrutiny in traditional budget processes. The concept called for identification of decision units, decision packages, ranking of units within packages and evaluation of alternative spending levels for units in the packages.

Managers were to provide estimates of different levels of funding, such as below current levels of support, maintenance of the current level, or a higher level of support with explanation of the impact of such alternative funding levels upon their program. Note: The literature on different types of budgets was drawn from lecture notes, tutorial sessions, Project Management Handbook of knowledge (2004) and Project Management Textbook, Kerzner, 2007. Analytical Discussion A holistic understanding of the budgeting process can only be attempted if the politics of the budget is factored in.

That is, a comprehensive evaluation of who decides on public expenditures, how (processes) and why (incentives)? In the context of budgeting as a <https://assignbuster.com/compare-and-contract-the-budget-processes-and-systems-of-fiscal-accountability-in-presidential-and-parliamentary-systems-of-government-assignment/>

dynamic system, the role of political institutions on fiscal outcomes, the governmental structures, political systems and the executive-legislature budget relations must be examined. In many developed as well as developing countries, there is currently confusion about the role of Parliament in the budget process. Research on the budgetary powers of legislatures has been conducted in individual countries, particularly in the United States (e. . Schick, 2002a, Shuman, 1992), but also Germany (e. g. Wehner, 2001), France (e. g. French national Assembly, 1999), and Japan (Meyer and Naka, 1998). Since the 1990s, the relative roles of the legislature and the executive have been discussed and one strong conclusion of the literature is that a strong central budget authority in the executive – and strong constraints on the legislature’s budget amendment powers – is necessary for disciplining legislatures and maintaining sustainable fiscal positions.

In virtually all countries, it is accepted that the executive has a mandate to prepare the Budget, since it possesses the most comprehensive information on which to base revenue and expenditure decisions. The role of the legislature is to exercise oversight and to authorize the executive to raise revenue and spend money. The constitutional division of responsibilities between the executive and the legislature has a major impact on legislative-executive roles in budgeting.

In presidential separation-of-powers systems, like in the United States, the legislature has a significant role in policy formulation and in budgeting, partly owing to its independent election by constituencies that are different

from those of the president. Legislative powers are arguably weakest under the Westminster system, where the executive leadership is drawn from the parliament and where the legislature is politically obligated to support the government.

In between are modified forms including the semi-presidential system (France, Korea), the parliamentary republic (Germany, Italy) and the non-Westminster parliamentary monarchy (Netherlands, Sweden) (Lienert, 2005, p. 1). Party systems also play a fundamental role in determining the degree of independence of the legislature vis-a-vis the executive. Strong, cohesive two-party systems generally work to attenuate legislative influence due to the fact that legislatures have a working majority to support executive initiatives. Under these circumstances, there is often little incentive for the executive to bargain and little incentive for the legislature to disagree. In parliamentary systems, the majority party in the legislature can precipitate a downfall of its own government by voting against the budget or by making major amendments. On the other hand, weaker two-party systems, as well as multiple-party systems, generally strengthen the role of legislatures in budgeting and in the policy process more broadly. In these systems, the executive must bargain with more independent legislative actors to ensure majority support for budgets and policy goals.

The eclipse of the legislative role in budget formulation was reflected in the limited formal roles legislatures were given in developing and approving budgets. Legislatures did not have formal power to review or approve overarching budget targets or policies, nor were legislatures generally

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involved in approving medium-term expenditure frameworks. Many legislatures had small staffs without the deep institutional knowledge necessary to effectively compete with the executive, and the executive was often loathe to share important information that had been developed in a highly privileged and somewhat secretive process.

The limited time available to review government budget documents and plans only compounded the legislature's problems. Even where legislatures had effective control over executive budgeting, their roles were largely defined as checks on executive plans and proposals. Even in strong legislatures such as the United States Congress, the power to say no fails to capture the public imagination, as government is valued more for what it can do than for what it refuses to do (Cooper, 2001).

Legislative modifications to executive proposals appear to be quite modest when examining just the formal record of actions taken in response to executive proposals. For instance, in Korea, legislative amendments constituted 3.8% of the executive budget proposal, while Japan reports no legislative amendments changing budgetary allocations in recent years. Mexico, on the other hand, reports that recent legislative amendments to the president's budget constituted 26% of the total.

Minority and coalition governments have the greatest incentives to negotiate a budget agreement prior to the formal release of the budget itself. In the Netherlands, which has a system with more than ten political parties in the legislature, the government negotiates in advance with the parties in its coalition to develop guidelines for the four-year period of the cabinet. In <https://assignbuster.com/compare-and-contract-the-budget-processes-and-systems-of-fiscal-accountability-in-presidential-and-parliamentary-systems-of-government-assignment/>

Sweden, pre-negotiation is used as an important tool for the minority government to secure the parliamentary majority required for budget approval.

Extensive informal consultation can also occur prior to the release of executive proposals in presidential separation-of-powers systems. Korea's system features both formal and informal contact before submission. The formal negotiation between the ruling party and the executive is done during the last stage of confirming the executive budget proposal. Senior officials of the budget office and policy experts of the ruling party have joint meetings for two to three days to discuss budgetary issues and finalize the budget proposal.

Strong incentives exist for governments in parliamentary systems to consult with their party colleagues in the legislature in advance of the publication of the budget. For presidential systems, there is greater potential for conflict when the presidency and the legislature are dominated by different parties, similar to a minority or coalition government in a parliamentary system. Yet, even in presidential regimes, considerable bargaining over the budget occurs between the two branches, particularly after the budget is published.

As Richard Neustadt said, presidential systems are best characterized not as separation of powers but as separated institutions sharing powers (Neustadt, 1960). Each actor has powerful leverage: the legislature can refuse to approve the president's priorities while the president can veto the appropriations. Accordingly, both sides have strong incentives to engage in

bargaining and negotiations to avoid a confrontation that can disrupt programmes and operations and cause public disaffection.

However, most countries have established provisional budget authority to cover instances when there are delays in legislative approval beyond the legal or conventional deadlines. These provisions provide the authority for the executive to continue to operate. In France and Korea, the provision guarantees that the executive can spend on the basis of the previous year's budget authority. In the United States, on the other hand, there is no standing provisional authority to spend public funds in the absence of an appropriation signed by the president.

All governments, wherever in the world, handle resources on behalf of taxpayers and citizens of a country. Consequently, members of the public have an absolute right to be fully briefed on how commitments are made by Government, whether ministries or departments. Simultaneously, there is an obligation on the part of the sector entities to ensure that, whatever actions are taken are within the context of clearly defined rules which can withstand public scrutiny. One of the core functions of the legislature is oversight. When it comes to budgeting, evaluation is needed to assess how well policies have been implemented.

Legislative oversight includes examining fidelity to budget laws, probity in spending, efficiency in choices, and the effectiveness of the budget in producing desired outcomes. In all parliamentary systems amendments have to be moved on the floor of the House. In some countries (for example,

Germany) the committee has primary responsibility for suggesting
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amendments to the deciding House. In these cases, the focus of Budget debate is in the committee; committee involvement is strong and largely determines the debate in the House.

Whereas, in other models (such as India), the role of committees is restricted to providing comment to the House without suggesting actual amendments (Lok Sabha 1997). In these cases, committee involvement is weaker. The focus of the debate is on the floor of the House as it is up to individual Members to move amendments, which may or may not take committee comments into account. In the Australian House of Representatives, there is no committee stage. While committees in the Senate deliberate on the Budget, the report to the House only mentions issues of concern.

It is up to individual Senators to circulate a request for amendment. On the contrary, the German Budget Committee's report contains the suggested amendments that are debated and usually accepted on the floor of the Bundestag. Therefore, where effective powers are located in committees, it is likely that detailed scrutiny will predominate over general debate.

Amendments are more likely under this scenario. The time allocated for Committee debates relative to the total time available for parliamentary consideration is of great importance.

Longer time allocated to committee debate enables detailed analysis to identify and support suggested amendments. Where committees do not have sufficient time for analysis, their role to suggest amendments is weakened. This also has to take into account in which House the committee

deliberations occur. If committees exist and make recommendations to the
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deciding, usually the lower House, the ability of Parliament to make changes is strengthened. Australia allows 1 – 2 months for the legislative Budget process. However, there is no committee stage in the deciding House – the House of Representatives. The committee stage only occurs in the Senate where it lasts approximately one month. However, by convention the Senate plays largely an advisory role in the Budget process. The U. K. does feature a rather extensive committee stage lasting several weeks of a three-month parliamentary Budget process. However, the ad hoc Standing Committee on Finance only deals with the uncontroversial parts of the Budget as agreed by the opposition and the Government. The truly controversial discussions are reserved for debate on the floor of the House.

In contrast, Germany allows 4 months for the Budget deliberations, including several weeks allocated to the Budget Committee stage in the Bundestag (lower House). In addition, the Committee on Finance in the Bundesrat (upper House) also has approximately one month to consider the Budget. Parliament's ability to change the Budget is influenced by which committees are involved in the legislative process and the relationship between these committees. In most countries the Finance Committee accepts responsibility for the process, alone or as a coordinating body for other relevant committees.

The international trend seems to be towards broader committee consultation which seems to indicate that Parliaments themselves have realized the value of committee involvement in the Budget process. It seems that strong co-ordination from the Finance Committee, combined with specialist sector

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input, supports strong committee involvement in the Budget process and therefore Parliament's ability to change the Budget. The relationship between the Finance / Budget Committee and Public Accounts Committee is also crucial for amendment ability.

In many countries, the Finance Committee establishes a special relationship with the Public Accounts Committee. This interaction is very important as the latter usually monitors the implementation of the Budget, including the Auditor-General. Where the two committees work closely together, effective oversight strengthens the ability to change the Budget. Where the work of the two committees is not well integrated, the system may achieve strong oversight without being able to translate this capacity into effective amendment.

The separation of political powers in parliamentary monarchies based on the Westminster model is extremely weak. Since cabinet ministers are obliged to be members of parliament, the executive essentially controls the legislature. The political powers enjoyed by the executive are accompanied by strong budgetary powers. Governments in Westminster countries have not only initiated laws to strengthen their own budget powers but, by virtue of their control over parliamentary committees, have also inserted into parliamentary regulations limitations on parliament's capacity to change the draft annual budget proposed by the government.

Mainly for these reasons, the development of strong parliamentary committees to consider the draft budget has been thwarted. This is in sharp contrast with presidential systems, which have strongly separated powers <https://assignbuster.com/compare-and-contract-the-budget-processes-and-systems-of-fiscal-accountability-in-presidential-and-parliamentary-systems-of-government-assignment/>

and powerful legislatures. Budget-related committees at the legislature can flourish. The United States is an extreme example among presidential systems??? there are multiple committees and subcommittees in both chambers of Congress (which result from separate and independent electoral systems).

These committees are very influential on budget processes, the size of the annual budget, and the allocation of spending. An independent nonpartisan Congressional Budget Office provides a powerful counterweight to the President's Office of Budget Management, which prepares the initial draft budget. This budget must be submitted to the legislature by the President eight months before the beginning of the new fiscal year??? much further in advance than any other country. Conclusions and Recommendations

Greater legislative involvement in budgeting presents important institutional challenges. Legislatures are non-centralised and collegial bodies that are both representative and policy-making institutions. As political bodies, their capacity for collective action is often stymied by a different party, ideology or constituency (Meyers, 1999, p. 490). Legislative institutions and rules can help structure deliberation and voting to balance these oft-competing incentives, but the rules themselves are political settlements that can be overturned when political winds shift (Shepsle, 1986).

A budget process with greater legislative control will enhance democratic accountability but with the potential risk of eroding fiscal discipline or government efficiency. The mix of objectives advanced by legislative control will be dependent on such factors as the nature of the party system, the <https://assignbuster.com/compare-and-contract-the-budget-processes-and-systems-of-fiscal-accountability-in-presidential-and-parliamentary-systems-of-government-assignment/>

potential for collaboration and cooperation across the branches of government, the quality and capacity of legislators and their staff, and the incentive structures they face in balancing the potential tensions between constituency responsiveness and making effective national policy. Whereas one can be categorical that the authority to shape the size of the annual budget is strong in a presidential form of government and particularly weak in countries with Westminster parliamentary monarchies, it is difficult to reach firm conclusions regarding intermediate forms of government.

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