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11 Budgetary Procedures—Aspects and Changes: New Evidence for Some European Countries

Jakob de Haan, Wim Moessen, and Bjørn Volkerink

11.1 Introduction

Most industrialized countries entered the 1980s with their public finances in disarray. At the time, persistent deficits pushed up public-debt-to-GDP ratios. Still, some countries proved more successful than others in keeping their public finances under control. In recent literature it has been argued that this variation in cross-country fiscal experiences cannot be explained on purely economic grounds, or as a result of the timing of recessions, as implied by Barro's (1979) tax-smoothing theory. Variations in political and institutional arrangements that affect national policy formation might help explain cross-country differences in fiscal policies pursued. This line of research has emphasized political instability, government structure, and electoral systems as potential determinants of budget deficits (see Alesina and Perotti 1995b for a review). For instance, Roubini and Sachs (1989a,b) have argued that the type of government in power is very important in explaining debt policies in OECD countries. These authors found that large coalition governments had higher deficits, other things being equal, than one-party, majoritarian governments. However, subsequent research found less support for this so-called weak-government hypothesis. Edin and Ohlsson (1991) argue, for instance, that the political cohesion variable used by Roubini and Sachs captures the effects of minority governments rather than majority coalition governments. De Haan and Sturm (1994,

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1997) found support for neither the Roubini-Sachs hypothesis nor the position expressed by Edin-Ohlsson. Borrelli and Royed (1995) also dismiss the weak-government hypothesis. However, Alesina and Perotti (1995a) conclude that coalition governments are less successful in adjusting public finances than one-party governments.

Another institutional factor that has been pointed out as a potential determinant of cross-country variation in fiscal policy is budget institutions, that is, the procedures that lead to the formulation, approval, and implementation of the budget (Alesina et al. 1996). Various authors have analyzed the importance of budget rules and institutions on the basis of U.S. state experience with balanced-budget rules and on the U.S. federal experience with antifiducit rules (see Poterba 1996 for a review). There are also various studies that compare budget outcomes in nations with different fiscal institutions. It is quite remarkable that the international studies conclude that budget institutions are important. The two aspects that have received most attention in this line of research are the degree of centralization or authority in the budget process, and the degree of budget transparency (Poterba 1996).

On the basis of a survey under the member states of the European Union, von Hagen (1992) has developed two sets of indicators for the strength of budgetary procedures in these countries. The so-called structural indices pertain to testing the hypothesis that fiscal discipline is enhanced by budget procedures in which the prime minister or the minister of finance has a strong position; in which universalism, reciprocity, and parliamentary amendments are limited; and that facilitate strict execution of the budget law. The so-called long-term planning constraint indices pertain to testing the hypothesis that the more budgetary decisions are tied to a multiperiod fiscal program, the greater will be the degree of fiscal stability achieved. On the basis of simple bivariate regressions von Hagen reports strong support for the structural hypothesis, but the role of long-term constraints is not found to be significant. Von Hagen and Harden (1994) also use these indices to evaluate the link between budget processes and sustainability of fiscal policy. They report a significant correlation between their sustainability measures and the structural index. Similarly, the long-term constraint index is positively correlated with the sustainability measure with a six-year time horizon; for the eight-year horizon this is true only if Luxembourg is left out.

As pointed out by Poterba (1996), international research is more likely to be affected by omitted variables that are correlated with both budget institutions and fiscal priorities than cross-state analysis. There is, however, also evidence that even if other variables are included, budgetary institutions still exert a significant influence on fiscal policy outcomes. De Haan and Sturm (1994) have used an index based on all the information that von Hagen provided in a similar model as employed by Roubini and Sachs (1989b) and find that it still has a significant effect on fiscal outcomes in the (at the time 12) EU member

countries. However, the importance of budgetary institutions is much less than suggested by simple bivariate regressions.

In a similar vein, Alesina et al. (1996) conclude that centralized and transparent procedures have been associated with more fiscal discipline in Latin America in the eighties and early nineties. Centralized procedures are those that, for example, limit the role of the legislature and attribute a strong role to the Treasury minister in the budget process.

There is one potential problem with this literature (Poterba 1996). Budget institutions may be endogenous, that is, to use them as an explanatory variable it is necessary that the institutions cannot be changed easily as a result of current or past fiscal outcomes. Riker (1980) argues that political institutions reflect the “congealed preferences” of the electorate. In other words, institutions that do not suit a majority of the electorate will be overturned. Still, one could argue that changing budget institutions is not that easy and there are costs involved with revising fiscal rules (Alesina and Perotti, chap. 1 in this volume). There are various ways to deal with the endogeneity problem (Poterba 1996). The first one is to control for some measure of voter preferences. De Haan and Sturm (1994) include a proxy for the political color of the government in their regressions and find that budgetary procedures are still relevant in explaining fiscal policy. A second approach involves analyzing the evolution of budget rules and examining the causes and impact of procedural changes. This is the approach pursued in the present paper.

Another unresolved issue is the question of which features of budget institutions are the most important in influencing fiscal policy (Poterba 1996). The indicators of von Hagen (1992) and of Alesina et al. (1996) broadly focus on similar aspects. Alesina et al. (1996) conclude for their sample of Latin American countries that the two components not significantly related to fiscal performance are those referring to transparency and, in particular, the role of the minister of finance. In the present paper we follow a similar approach, using the information provided by von Hagen–Harden for the EU member states.¹

The remainder of the paper is organized as follows. The next section outlines our methodology. The third section presents an analysis of aspects of budgetary procedures in EU member states. In the fourth section the experience of some countries (Belgium, Ireland, Italy, and Sweden) is analyzed in detail. These countries show very diverging developments in their public-debt-to-GDP ratio.

1. Von Hagen (1992) distinguishes between two groups of (overlapping) indices, namely the so-called structural indices (focusing on the position of the minister of finance, the presence of constraints, the role of parliament in the budget process, the transparency of the budget, and the flexibility in the execution phase) and the so-called long-term constraint indices (focusing on multiannual fiscal programs, the informativeness of the budget, the amendment powers of parliament, and the flexibility in the execution phase). Von Hagen and Harden (1996) present both additive and multiplicative versions of their index of “centralization” of the budget process. The two methods of aggregation lead to very similar results, suggesting that lack of similar degrees of centralization holds at different stages of the same process.

On the basis of a case study approach, we examine whether (and why) budgetary institutions have changed and whether this has affected fiscal policy outcomes. The final section offers some concluding comments.

11.2 Methodology

The focus of this paper is on changes in and aspects of budgetary procedures. To analyze which aspects of budgetary procedures are the most important ones, we follow an approach similar to Alesina et al. (1996), using information provided by von Hagen (1992) and von Hagen and Harden (1996) and distinguishing between the following aspects of the budgetary process (in parentheses the corresponding items of von Hagen are shown):

- A1. Position of minister of finance (items 1b, 1d, 4a, 4c)²
- A2. Position of legislature (items 2a–e)³
- A3. Presence of some kind of constraints (items 1a, 5d)⁴
- A4. Transparency of the budget (items 3a–e)⁵
- A5. Flexibility during execution of the budget (items 4b, d, e, f)⁶
- A6. Relationship with other parts of government

It has been argued by various authors that a minister of finance (MF)—in contrast to spending ministers—does not strive for a large budget but is more constrained by considerations of general welfare. Consequently, a strong position of the MF—both in the preparatory and execution phase of the budget—may enhance budget discipline.⁷ The position of the legislature may also be important. It is generally assumed that if parliament has much power to change the proposed budget, it is likely that budget deficits will be higher than proposed by the government. The presence of various kinds of binding constraints (varying from constraints in the constitution or the law to political agreements) may foster budget discipline. The transparency of the budget may also be im-

2. These items refer to the position of the minister of finance (MF) in agenda setting, the structure of the negotiations, whether MF can block expenditures during execution phase, and whether disbursements require approval of MF.

3. These items refer to room for amendments, whether they have to be offsetting, whether they can cause the fall of government, whether all expenditures are passed in one vote, and whether there is a global vote on total budget size.

4. These items refer to presence of general constraints and the degree of political commitment to a long-term planning constraint.

5. These items refer to whether special funds are included, whether budget is submitted in one document, assessment of transparency by respondents, link to national accounts, and whether loans to nongovernment entities are included.

6. These items refer to presence of cash limits, transfers between chapters, changes in budget law during execution, carryover of unused funds to the next year. We have corrected the codings of item 4f of von Hagen 1992 in our research, as they do not correspond to the possible scorings in the explanation of the contents of the table on p. 72 of von Hagen 1992. A score on item 4f of I should be 1.33, 2 should be 2.66 and 3 should be 4.

7. Von Hagen distinguishes between both phases of the budgetary process, but here we follow Alesina et al. (1996), who also focus on the position on the MF in the entire budget process.

portant: the more transparent the budget, the more difficult it will be to use budgetary tricks to increase expenditures. As Alesina and Perotti (chap. 1 in this volume) put it: “at least up to a point, the less the electorate knows and understands about the budget process, the more the politicians can act strategically and use fiscal deficits and overspending to achieve opportunistic goals.” A fifth item is the execution of the budget. How binding the budget law is for government depends, *inter alia*, on the possibility of proposing supplementary budgets and the relative importance of open-ended appropriations in the budget. The final issue that we distinguish is the relationship between central government and other levels of government. Although von Hagen (1992) provides some information on this issue, he does not take it into account in constructing his budget indicators. Still, this issue may be important since the degree of fiscal decentralization is often found to influence fiscal policy outcomes. One reason may be that local governments generally face a harder budget constraint than the federal or national government (Moessen and Van Cauwenberge 1997). Our sixth variable is the score on two items: whether other levels of government face some kind of balanced-budget requirement, and the degree of planning autonomy of regional authorities.⁸ All variables that we use are normalized on a scale ranging between 0 and 4.⁹ The variable A_{tot} is the sum of variables A1 to A6.

To analyze whether an aspect of budgetary procedures has changed since the beginning of the 1990s in the four countries that we focus on, we have sent out a survey with questions on the aspects outlined above. The survey is added as appendix A. The survey was sent to the ministry of finance or, in case we did not get a response, to experts at the national central bank. The answers were subsequently checked by experts from outside government. In case of diverging answers we went back to the original respondents to clear these issues. By following this procedure, we are quite certain that our surveys give an adequate representation of the current budgetary process in Belgium, Ireland, Italy, and Sweden.

This approach may yield insights with respect to changes in the budgetary process. Indeed, in the case of Sweden we can clearly identify which aspects of the budgetary process have changed recently. Although it may be necessary to discover what—if anything—has changed in the budgetary process, simply conducting another survey is not without problems. First, the questions that we have asked were not exactly the same questions as von Hagen posed. From a much wider set of questions he included those items where the answers varied

8. The information is taken from table A1 in von Hagen 1992. If local governments have no planning autonomy, the second variable is 4; if they have limited autonomy, it is 2.66; if they may be placed under surveillance, it is 1.33, and in case of autonomy it is 0. The first variable measures whether a binding balanced-budget constraint exists: 4 for a binding requirement; 2.66 for the golden rule; 1.33 for not binding; and 0 if there is no requirement.

9. The total score is divided by the number of issues taken into account to construct the variable concerned.

the most across countries. Still, the purpose of our survey is to analyze whether changes in the selected items have occurred, and for that purpose our approach is valid.

Second, the person who answered our questions is in most cases not the same as von Hagen's respondent, and this may yield different answers due to the subjective nature of at least some of the questions. The only exception here is Sweden, where the budget process was evaluated in 1992 on the basis of items as published in von Hagen 1992; after a number of reforms the process was evaluated again (Swedish Ministry of Finance 1995). As the issues raised were exactly the same in both evaluations, the first potential problem also is unlikely to have affected the outcomes for Sweden.

Third, the overall attitude with respect to the importance of sound budgetary procedures—and, more generally, sound fiscal policies—may have changed since von Hagen conducted his survey, and this may affect our survey. Although the purpose of our survey is to find out whether any changes have occurred in those aspects of the budgetary process that we have distinguished in the four countries that we focus on, we have sent out the questionnaire to all EU countries,¹⁰ as this allows us to discover whether any systematic pattern is present. If, for example, the overall score in all countries were higher, this could indicate that increased awareness may have affected our results. Table 11.1 shows the total scores (the sum of A1 to A6) based on the results as reported by von Hagen (1992) and the results of our survey. It follows that indeed in all countries included in von Hagen's (1992) study and in our survey the scores in our survey are higher. Still, the most remarkable increases occur in the budgetary procedures of the countries that we analyze in more detail in section 11.4.

Apart from the factors pointed out above, there are two other possible explanations for any differences between the results of our survey and that of von Hagen. First, interpretations of existing rules in the budget process may have become stricter. We would definitely consider this a change in budgetary institutions, similar to a change in the formal rules. Second, the coding as reported in von Hagen 1992 may have suffered from incomplete information. It is simply impossible for any researcher in comparative analysis to check for all countries whether the answers given are accurate. For those countries that an author is most familiar with, this an easier task. Indeed, for the case of the Netherlands, for example, we have some doubts about certain codings given by von Hagen. For instance, for item 1b (presence of some general constraint) the score of von Hagen indicates that the level of government debt acted as some kind of constraint in Dutch budgetary procedures. However, at the beginning of the 1990s the norms of fiscal policy in the Netherlands related to the budget deficit and the level of taxes and social security payments as share of national

10. Including the new EU member states (Austria, Finland, and Sweden), as this may provide useful new information.

Table 11.1 Indicators of Budgetary Institutions Based on von Hagen and New Survey

	Original	Survey
Austria		12.56
Belgium	7.18	15.23
Denmark	15.08	16.61
Finland		13.18
France	20.23	
Germany	15.26	16.41
Greece	9.88	
Ireland	8.35	16.78
Italy	7.03	11.09
Luxembourg	13.06	
Netherlands	14.38	15.11
Portugal	8.38	12.26
Spain	6.33	13.55
Sweden		5.78 ^a
United Kingdom	17.24	15.88

Note: The table presents the scores of A_{tot} as constructed on the basis of information provided in von Hagen 1992 and von Hagen and Harden 1996 and on the basis of a new survey.

^aAs of 1999, score is 15.50.

income (see de Haan, Sterks, and de Kam 1992), which is not one of the options given by von Hagen. This brings us to another issue. Sometimes our respondents indicated that the possible answers—which were all taken from von Hagen (1992) for comparison purposes—were not sufficient.¹¹ For instance, in Ireland parliament has no ability to amend government “estimates”—only to accept or reject them (see appendix B for details). In those cases we took the score for the answer that was closest to the answer actually given.

After this discussion of our methodology we now turn to our results concerning the importance of the distinguished aspects of budgetary institutions.

11.3 Aspects of Budgetary Institutions

Table 11.2 presents a summary of the variables we distinguished in the previous section. The variables are based only on the information provided by von Hagen (1992) (and von Hagen and Harden 1996 for Luxembourg). The data relate to the situation at the beginning of the 1990s. The variable A_{tot} is the sum of all variables (A1–A6). It is quite remarkable that the scores for the various aspects of the budgetary process show considerable variation across countries.

Table 11.3 shows a simple correlation matrix of the data presented in table 11.2. The variable $d(\text{debt})$ is the change in the debt-to-GDP ratio over the pe-

11. We included a question concerning the adequacy of the options given for all clusters of questions (see appendix A).

Table 11.2 Aspects of Budgetary Institutions at the Beginning of the 1990s

	Variable						
	A1	A2	A3	A4	A5	A6	A_{tot}
Belgium	1.25	0.80	0.00	2.00	1.80	1.33	7.18
Denmark	1.75	2.40	3.00	2.67	2.60	2.67	15.08
France	4.00	3.60	2.50	3.66	3.13	3.33	20.23
Germany	3.25	0.80	3.00	3.40	2.82	2.00	15.26
Greece	1.25	0.00	1.00	2.07	2.90	2.67	9.88
Ireland	0.25	1.60	2.50	1.00	3.00	0.00	8.35
Italy	0.75	1.20	2.50	1.00	0.25	1.33	7.03
Luxembourg	2.50	2.00	1.50	3.73	2.67	0.67	13.06
Netherlands	2.75	3.20	2.50	3.60	0.33	2.00	14.38
Portugal	2.50	0.25	1.50	1.47	2.67	0.00	8.38
Spain	0.50	0.80	0.50	3.00	1.53	0.00	6.33
United Kingdom	1.75	3.20	3.50	3.20	2.93	2.66	17.24

Source: own calculations based on information provided by von Hagen (1992) and von Hagen and Harden (1996).

Note: The possible score of all aspects as distinguished in section 11.2 (A1–A6) ranges between 0 and 4. A_{tot} is the sum of A1–A6. Differences are possible due to rounding.

Table 11.3 Correlation Matrix

	A1	A2	A3	A4	A5	A6	A_{tot}
A2	0.43						
A3	0.33	0.61					
A4	0.67	0.56	0.19				
A5	0.25	−0.00	0.14	0.13			
A6	0.49	0.51	0.45	0.44	0.18		
A_{tot}	0.77	0.77	0.67	0.73	0.39	0.76	
$d(\text{debt})$	−0.50	−0.54	−0.45	−0.58	−0.36	0.05	−0.57

riod 1980–92. It follows that the correlation between the various aspects of the budgetary process that we have distinguished is sometimes quite low. It is, for instance, quite remarkable that the presence of some binding constraint (A3) is hardly related to the flexibility in the execution process (A5). The correlation between the position of the legislature (A2) and A5 is even less. It also follows that the total index and the transparency of the budget (A4) show the highest correlation with the change in the general government debt-to-GDP ratio over the period under consideration.

The remainder of this section reports the outcomes of a model similar to the one used by Roubini and Sachs (1989b) to analyze which aspects of budgetary institutions affect fiscal policy outcomes most strongly. As Roubini and Sachs have pointed out, the specification of this model is consistent both with elements of optimizing approaches to budget deficits (such as the tax-smoothing model of Barro 1979) and with traditional Keynesian models of fiscal deficits.

Indeed, both theories imply that budget deficits are countercyclical. Variants of this model have also been used in subsequent research (de Haan and Sturm 1994; Hallerberg and von Hagen, chap. 9 in this volume). The model is estimated using panel data for 12 EU member countries over the period 1980–92. Suppressing time indices, the estimated equation is

$$(1) \text{ DBY} = a_0 + a_1\text{DBYL} + a_2\text{DU} + a_3\text{GR} + a_4\text{DRB} + a_5A + v,$$

where the dependent variable (DBY) denotes the change in the public-debt-to-GDP ratio. The explanatory variables are the lagged change in the debt ratio (DBYL), the change in the unemployment rate (DU), the GDP growth rate (GR), the change in debt-servicing costs (DRB),¹² and some indicator for the budgetary process (A); v denotes the error term.

The results using A_{tot} as an indicator for the strength of budgetary procedures are for the coefficients of a_0 to a_5 , respectively (t -statistics are shown in parentheses): .03 (3.47), .32 (4.89), .43 (1.51), $-.46$ (-2.89), 2.65 (6.46), and $-.001$ (-1.82). The indicator is significant at the 10 percent level, but the coefficient is not very large. All other variables (except the coefficient on the change in unemployment rate) are significant at the 5 percent level. These findings are in line with the results reported in de Haan and Sturm (1994). Budgetary institutions matter, but the effect on fiscal outcomes is quite small.

Next, we have examined whether all aspects of the budgetary process as we have distinguished them in section 11.2 are equally important. The first step is to calculate the F -statistic for the test that all coefficients are the same if all indicators are included in the regression for gross government debt growth. This statistic is .57, which implies that the hypothesis cannot be rejected. Next, we have repeated the regression, each time subtracting one of the aspects that we have distinguished from A_{tot} .¹³ If the results are different in comparison with the regression reported above, this would be an indication of the importance of the excluded aspect of the budgetary process. The results are shown in the upper part of table 11.4. As the coefficients of the other included variables are similar to those reported above, we only report the coefficients for the budgetary variables. It follows that the coefficients and their significance levels are very similar, suggesting that all aspects of the budgetary process that we have distinguished are more or less equally important. Similar results are found if we use the various budgetary indicators (A1–A6) as explanatory variables in equation (1) instead of A_{tot} (not shown). However, it is possible that differences

12. We have used two variants for this variable. First, actual interest payments as share of GDP. Second, a similar variable as used by Roubini and Sachs, namely: $d(i - p - n)BY_{t-1}$, where i denotes interest payments on government debt divided by government debt, p is the rate of inflation, and n is the GDP growth rate. Whenever the real interest rate exceeds the rate of real output growth—as was the case in many countries during the 1980s—the outstanding debt imposes a burden on the public finances. If this rising debt burden is transitory, it should be accommodated by a temporary rise in the budget deficit, as argued by Roubini and Sachs. Both variables yielded similar results. The results shown are those using actual interest payments. All data are from the OECD and the European Commission.

13. Von Hagen (1992) followed a similar approach.

Table 11.4 Estimates of Equation (1) (budgetary variables only), 12 EU Member Countries, 1980–92

	Variable					
	$A_{tot}-A1$	$A_{tot}-A2$	$A_{tot}-A3$	$A_{tot}-A4$	$A_{tot}-A5$	$A_{tot}-A6$
Coefficient	-0.001	-0.001	-0.001	-0.001	-0.001	-0.002
(<i>t</i> -statistic)	(-1.72)*	(-1.81)*	(-1.72)*	(-1.76)*	(-1.59)	(-2.10)**

	Variable					
	A1	A2	A3	A4	A5	A6
Budgetary variable	-0.003	0.002	0.001	-0.001	0.000	0.003
	(-0.99)	(0.58)	(0.27)	(-0.42)	(0.02)	(1.14)
Interaction variable	-0.001	-0.187	-0.174	-0.081	-0.163	-0.136
	(-0.01)	(-2.38)**	(-2.57)**	(-1.37)	(-2.78)**	(-1.48)

Note: The upper part of the table presents estimates of a_5 in equation (1) with various budgetary indicators. These consist of the scores of A_{tot} minus the scores of the various aspects of budgetary procedures as distinguished in section 11.2 (A1 to A6). The lower part of the table presents estimates of equation (1) in which A1 to A6 are used as budgetary indicators. The interaction variable consists of the interaction of GDP growth and the budgetary indicators. *T*-statistics are shown in parentheses.

*Significant at the 10 percent level.

**Significant at the 5 percent level.

in budgetary institutions are more strongly felt during economic downturns. We have therefore reestimated the model, adding each time an interaction variable that consists of the product of the GDP growth rate and the budgetary institution variable. Multicollinearity problems forced us not to include the GDP growth rate as a separate variable. The coefficients of the interaction variables are shown in lower part of table 11.4. The results suggest that the position of the legislature, the presence of binding constraints, and flexibility during the execution of the budget matter most. Our findings are not entirely in line with those of Alesina et al. (1996), who found that the position of the minister of finance and the transparency of the budget showed the lowest correlation with budgetary outcomes in their sample of Latin American countries. They argue, however, that this is probably due to the difficulty of measuring these aspects in their sample.

11.4 Evolution of Budgetary Institutions: Evidence for Some European Countries

11.4.1 Introduction

Figure 11.1 shows the public-gross-debt-to-GDP ratio in Belgium, Ireland, Italy, and Sweden over the period 1979–95. It follows that the debt ratio in these countries has developed quite differently over the period under consideration. In Ireland the upward trend has been reversed. In contrast, in Italy the debt ratio was on the rise until 1994; since then some stabilization has set in. In Belgium the debt ratio has been more or less stabilized since 1987, although

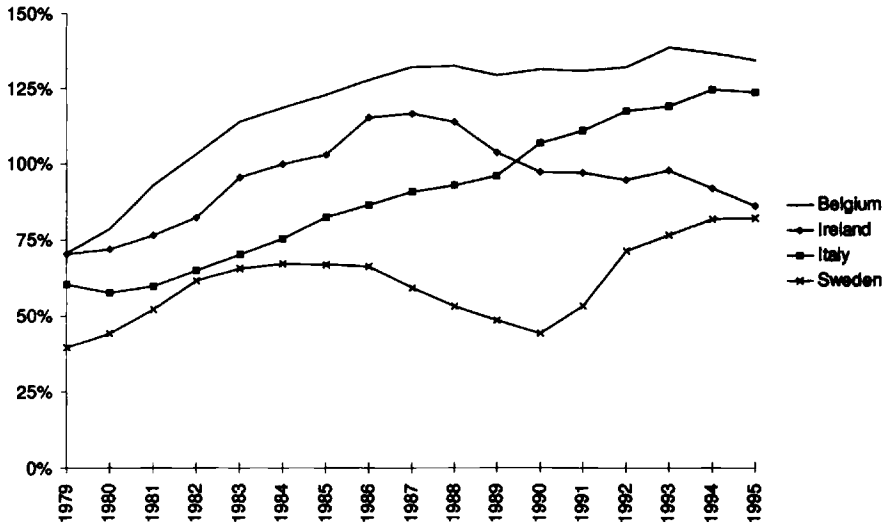


Fig. 11.1 Gross government debt (% GDP), 1979-95

Source: OECD.

Table 11.5 Changes in Codings of Aspects of Budgetary Procedures

Aspect	Belgium		Ireland		Italy		Sweden	
	Old	New	Old	New	Old	New	Old	New
Position of minister of finance (A1)	1.25	3.25	0.25	3.25	0.75	0.75	1.00	1.75
Position of legislature (A2)	0.80	1.60	1.60	3.00	1.20	2.80	1.60	3.20
Constraints (A3)	0.00	3.00	2.50	3.00	2.50	2.50	0.50	4.00
Transparency (A4)	2.00	3.13	1.00	1.53	1.00	0.80	1.00	3.20
Flexibility during execution (A5)	1.80	2.92	3.00	2.67	0.25	1.58	1.68	2.02
Relationship with other parts of government (A6)	1.33	1.33	0.00	3.33	1.33	2.66	0.00	1.33 ^a
Total	7.18	15.23	8.35	16.78	7.03	11.09	5.78	15.50 ^a

^aFrom 1999 onward.

the debt ratio is still very high. In Sweden the debt ratio increased until 1994, but has been stabilized since.

In this section we analyze whether budgetary procedures in the four countries under consideration have changed recently, and if so, why these changes occurred and what their consequences were in terms of policy outcomes. An important input in this process are the results of our survey. Appendix B contains the detailed results of our survey. Table 11.5 summarizes our main find-

ings as reported in appendix B. The table presents the situation at the beginning of the 1990s, mostly based on von Hagen 1992 and the outcomes of our survey. There are notable differences. As described in section 11.2, however, the simple fact that we find other scores for our budgetary variables may not necessarily be caused by actual changes in budgetary institutions (except probably for Sweden). Therefore, the information from our survey is supplemented by information from various other sources to enable us to evaluate developments in the budgetary process in the countries under consideration. We start all country studies with an outline of the budget cycle.

11.4.2 Belgium

In 1989 a major institutional change occurred in Belgium as a new budgetary law (June 28, 1989) was enacted, modifying substantially the previous budgetary law of 1963. Two concerns were explicitly articulated: (i) the presentation of the budget in terms of programs, and (ii) a stricter timing for the parliamentary approval of the submitted budget. In addition some minor modifications were implemented.

Before 1989 the principle of "speciality" was interpreted rather rigorously in the sense that the Belgian budget easily encompassed some 2,400 line items. As usual, these line items were input oriented (e.g., wages, operating costs), and quite often they represented minuscule amounts of money. This required a drastic reduction in the number of budget items. At present the budget covers some 500 items that focus on programs. For each program the total cost is stated together with a program description and a tentatively quantified program output. The further breakdown of the program appropriation into the detailed cost elements is also communicated to the parliament, but no longer requires a formal vote. Moreover, within the same program (and below some precise legal ceilings) the spending minister is entitled to reshuffle the cost items during the execution of the budget. This modification significantly increases the managerial autonomy of the spending minister within the approved budget program and the prespecified rules.

The tardy vote of the budget constituted another major drawback of the previous budgetary procedure. Although the budgetary documents were to be submitted before the end of September, the parliament rarely succeeded in approving the budget before the end of December. Quite often one had to have recourse to the escape route of "provisional twelfths." This means that each month a routine paragraph is approved that allows each spending minister to operate as a going concern, limiting the outlays to one-twelfth of the last budget law. No new activities may be undertaken. This procedure was repeated for several months in a row, quite often until March. The new law drives the formal vote forward to the end of November instead of December (see table 11.6).

When interpreting the codings in appendix B one should also keep in mind that two other events have shaped the budgetary behavior in Belgium. First,

Table 11.6 Budgetary Cycle in Belgium

Main Events and Activities	
FY $t - 1$	
February–March	Minister of the budget and minister of finance send their colleagues a circular setting out guidelines for drawing up budget proposals for the following fiscal year. The instructions have already been approved by the Council of Ministers.
March	On the basis of the guidelines in the budget circular, all the ministers draw up, with the help of their officials, a budget estimate for their department, based on unchanged policies. The appropriations required for any new initiatives must figure separately in the budget estimate. The proposals are sent for his or her advice to the inspector of finance accredited to the department.
April	The budget estimates are then reviewed in bilateral meetings (between each spending department and the Budget Department).
June	When all departmental budget estimates have been bilaterally reviewed, the minister of the budget presents a report on the outcome to the Council of Ministers at the end of June. The minister of finance does the same for the Ways and Means budget estimate.
June–July	Early July marks the beginning of a series of meetings held by the ministerial Select Committee headed by the prime minister.
Early August	Once the budget proposals have been reviewed by the Select Committee, they are submitted to the Council of Ministers for decision in late July–early August.
Late September	Submission to parliament.
Late November	Formal vote in parliament.
FY t	
January 1	Start of fiscal year t .

Source: OECD (1995).

there was a constitutional reform in 1988–89 that transformed Belgium from a unitary to a federal state. In one stroke about one-third of the central government spending was transferred to the regional level. This expenditure shift is highly concentrated on the areas of education, cultural and recreational affairs, public health and welfare services to individuals, transportation, environment, and economic matters. Shared taxes constitute the major financing source for the regional level. More than 90 percent of the tax proceeds originate from a joint personal income tax and VAT. Exclusive taxes are deliberately downsized to a limited scope (such as the inheritance tax, the tax on games and bets) in order to minimize local distortions or an overexploitation of the tax bases. At the same time, it is believed that fiscal federalism can exert some disciplinary force. The golden rule applies *de facto* for the regional level, which has limited access to public borrowing and no opportunity for seignorage collection. As opposed to the central government, the regional level is confronted with a harder budget constraint. In a federalist setting more government decisions are taken under a hard budget constraint than in a unitary state.

Second, the prescriptions of the Maastricht Treaty (1992) have also reshaped budgetary attitudes. Belgium has committed itself to a first entrance into the EMU. The ambition to reduce the general government budget deficit from 7.2 percent of GDP to 3 percent in five years requires a sustained austerity, which in turn places fiscal discipline high on the political agenda and also emphasizes the relative weight of the minister of finance.

Comparing the old and the new scores of the various indicators that we have distinguished (table 11.5), it follows that the most notable differences for Belgium occur with respect to the position of the MF (A1) and the presence of constraints (A3). As the Maastricht fiscal targets became more important, the position of the minister of the budget together with the MF became stronger. For instance, in 1992 the minister of the budget got the title of vice prime minister. Still, part of the differences in comparison with the codings of von Hagen may be due to different evaluations of budgetary practices. For instance, according to von Hagen the MF cannot block expenditures. Strictly speaking this is correct. However, the minister of the budget can block expenditures upon instigation of the accredited inspector of finance. As the MF teams with the minister of the budget, we agree with our respondent that the maximum score is therefore more appropriate (see appendix B for further details).

As explained above, from 1992 on the guidelines of Maastricht have oriented, some would say dictated, fiscal policy in Belgium, which is devoted to a first entrance into EMU. Each year, a numerical time-path is specified for the next year and the following years until the start-up of the EMU. This results in a strong political commitment to the deficit and debt targets, in contrast to the past.

The score on A4 (transparency) is also higher in our survey. Here at least part of the differences with respect to the results of von Hagen is due to subjective interpretations. For instance, although the budget consists of one document (unity of budget presentation), it materializes in three “books” to make the volumes manageable. This has been the practice for some time now. Our respondent therefore answered that the document consists of one document, while the score of von Hagen implied that this was only the case recently. Another major difference under this heading is the link to the National Accounts, which—in contrast to von Hagen’s information—is provided, albeit in a different document; this practice has not changed recently.

11.4.3 Ireland

As follows from the outline of the budgetary cycle shown in table 11.7 the MF takes the lead in the budgetary process in Ireland. In recent years, the practice has been to specify medium-term fiscal objectives. Since 1980 there has been broad political consensus that restoration of fiscal balance is essential for promoting economic growth. To this end, various specific quantitative targets have been used. Recent practice has been to specify specific medium-term fiscal objectives, particularly in relation to the deficit and public debt ratios, as

Table 11.7 Budgetary Cycle in Ireland

Main Events and Activities	
Year $t - 1$	
February	MF issues circular requesting departments to submit expenditure projections on no-policy-change (NPC) scenario.
March–April	After departments have submitted their three-year NPC projections, negotiations take place between DF and departments.
May–June	Taking NPC projections into account, government decides on targets for budgetary aggregates like general government deficit.
June	MF issues circular to spending departments, which inter alia explain the parameters with which the budget will operate and which seek appropriate adjustments to existing spending plans.
July–September	Departments submit draft expenditure estimates to DF for examination. Subsequently, MF briefs government on remaining areas of dispute. Government decides on detailed expenditure allocations.
October–November	Abridged version of “Estimates for Public Services” is published.
December–January	MF formulates proposals for annual budget statement that is presented to Dáil toward end of January. White Paper on Receipts and Expenditures is published.
Year t	
March	Revised estimates are published, together with public capital program.
April–May	Enactment of Finance Bill. This gives legislative effect to the tax changes proposed in the budget statement.
June–July	Dáil votes on individual spending estimates by way of financial resolutions.
June–December	If necessary, supplementary estimates are submitted for approval by the Dáil.
December	Appropriation Bill is passed.

Source: Public Financial Procedures, June 1996.

Note: With effect from budget year 1998, the budget date will be brought forward from January to October, which will mean presenting the 1998 budget in late October 1997.

Ireland is clearly committed to becoming a member of EMU. Indeed in the policy agreement *A Government of Renewal* between Fine Gael, the Labor Party, and Democratic Left of December 1994, it was stated, “This Government is committed to a firm management of the public finances throughout its period in office. In particular, we accept the public debt philosophy and targets set out in the Maastricht Treaty . . . to adhere strictly to an annual General Government Deficit of no more than 3% of GDP . . . and to reduce the Debt/GDP ratio towards 60%.”

The annual Estimates Circular seeks expenditure demands that comply with these medium-term objectives. Spending departments, in submitting their annual demands for resources, must now provide details of forecast resource requirements for three years ahead. Their demands are then assessed for consistency with the Estimates Circular specifications in a consultative process that

clarifies the basis for the bids and focuses on the elimination of excess demand. Despite that process, the aggregate demand typically exceeds the allocation for departmental spending that would be consistent with the target for the overall deficit. The next stage is, therefore, for the MF to undertake a series of *bilateral* meetings with each of his or her colleagues to establish priorities for the allocation of the available resources. The Department of Finance (DF) again aggregates the outcome of these negotiations into a total provision for all departmental spending and presents it to government in an overall budget context. If the outlook remains unsatisfactory, the government will instigate a further round of bilateral meetings to secure further reductions. Finalization of the budget also requires cabinet decisions on specific taxation changes and final adjustments to spending plans.

Recently, the budgetary process was strengthened, as in the 1996 budget a full system of multiannual budgeting was announced. This approach involves three-year benchmark projections for the budgetary aggregates. In setting the budget targets and making budget decisions in year n , the impact of those decisions on the budget positions for years $n + 1$ and $n + 2$ is considered. In year n the budget projections for years $n + 1$ and $n + 2$ on the basis of continuation of policies as pursued in year n are published. So, the 1997 budget contained projections for the main economic and budgetary aggregates for 1998 and 1999, as well 1997. In making these projections, it was also considered prudent to include a contingency provision for unforeseen factors that could have an impact on the budgetary aggregates in the medium term.

In 1996 cash-limited spending programs were introduced after a joint report by the Department of Finance/Comptroller and auditor general. "Cash-limited" means that entitlement to payment in a specific year will be contingent on the availability of funds.

Comparing the old and the new scores of the various indicators that we have distinguished (table 11.5) it follows that the most notable differences for Ireland occur with respect to the position of the MF (A1) and the relationship with local governments (A6). Our respondent did not indicate that the formal rules concerning the position of the MF have changed. The most notable differences with respect to the codings of von Hagen relate to the position of the MF in the execution phase, as our respondent indicated that the MF can block expenditures and that his or her approval is required for disbursement. Indeed, the expenses of government departments are paid out of moneys provided by the Oireachtas (Irish parliament) to such an amount as sanctioned by the MF under section 2(4) of the Minister and Secretaries Act, 1924, and confirmed by section 3(3) of the Controller and Auditor General Act, 1993. The difference with respect to the codings of von Hagen may therefore reflect the formal rule versus actual practice.

A new system of financing local government has been introduced with effect from budget year 1997. The new system involves the abolition of charges of domestic consumers for water and sewerage services. The revenue loss will be

replaced by the assignment of motor tax revenue currently paid directly to central government. In general, local governments have limited autonomy and face, according to our information, a balanced-budget requirement.

11.4.4 Italy

The main features of the budgetary process in Italy are shown in table 11.8. The process is extremely complicated. At the budget formulation stage, three ministries—the Treasury, budget, and finance—are involved. The central role in budgetary matters is played by a department within the Treasury, Ragioneria Generale dello Stato (RGS). The responsibility for economic and fiscal policymaking is shared between the Ministry of Finance and the Economic Planning Ministry: the first has the lead in fiscal revenue policies (taxes and other revenues), the second in macroeconomic forecasting (OECD 1995). The process generates several budget documents, which differ in terms of accounting basis, sectoral coverage, and date of issuance. In May the Documento di Programmazione Economica e Finanziaria (DPEF) is presented, which contains two sets of projections for the next three years: trend projections based on existing legislation and a program projection. The DPEF has a heavy emphasis on planning, and often fails to keep a clear distinction between trends and plans (Alesina et al. 1995). The DPEF quantifies deficit targets, but does not specify measures to reach them (OECD 1997). In July budgetary projections under current legislation (*bilancio a legislazione vigente*), which refer to the state only, are presented to parliament.

At the beginning of 1997 a budget reform was approved that has led to some changes. The main change is that the parliament is no longer going to approve a budget in which expenditure is organized in about six thousand items, and will deal with a simplified structure. The budget is going to be organized according to “functional targets” (that indicate the main political decisions), and according to “base units” (that indicate resources for the responsibility centers of the state administration). This reform may increase transparency and accountability both at the political and at the administrative level.

Comparing the old and the new scores of the various indicators that we have distinguished (table 11.5), it follows that the most notable differences for Italy occur with respect to the position of the legislature (A2) and the flexibility during execution of the budget (A5). At this stage it should be pointed out, however, that in the case of Italy the answers of our respondent and of our outside expert sometimes differed considerably. On the basis of available evidence and subsequent answers to detailed further questions we have come up with the scores as shown in appendix B. In case of doubt from our side, we indicate so.

11.4.5 Sweden

Budgetary procedures have improved considerably in Sweden (see below for further discussion; see also table 11.9). The acute financial crisis that hit

Table 11.8 **Budgetary Cycle in Italy**

	February	March	April	May	June	July	September
Preparation of next year's budget		Budget guidelines prepared by RGS	Current and capital account of each ministry submitted to RGS	Document of Economic and Financial Planning (DPEF)	Parliament resolution on DPEF	Annual and three-year budget on current legislation submitted to parliament by July 31	Forecasting and planning report. Draft budget documents submitted to parliament by September 30 (and to be approved by December 31)
Activity during the year				Quarterly Treasury report estimating borrowing requirements for the public sector and the statement of cash accounts*			
Conclusion of previous year's budget	Treasury report on cash outcomes for previous year (state sector and other levels of government) submitted to parliament by February 28	General report on the economic situation of the country			Budget adjustment bill for the current year and financial statement for the previous year submitted to parliament by June 30		

Source: OECD 1997.

*In May, August, November.

Table 11.9 Budgetary Process in Sweden

Date	Main Events and Activities
November–December	Directives from the Budget Department of the Ministry of Finance to spending ministries for five-year expenditure forecast
December–January	Government discusses priorities
February–March	Preparation of background material for government negotiations
April 15	Spring Budget published, which contains three-year expenditure ceilings proposal, outline of the budget of next year, in-year followup report, and the outcome of the previous year
June	Parliamentary decision on Spring Budget
August	Budget amendments presented to parliament (generally minor)
September 20	Budget proposal presented to parliament
November	First budget decision in parliament about the frames for expenditures areas
December	Second budget decision in parliament about appropriation
Late December	Issue letters to the agencies providing authorization for spending

Source: Swedish Ministry of Finance.

Sweden in the beginning of the 1990s was the main motivation of the reform of the budgetary process. In fact, reform of the budget process formed an integral part of the policy of fiscal consolidation (OECD 1996). However, our survey also revealed that recent academic work on budget institutions, notably the work of von Hagen as well as the personal commitment of high-ranking civil servants and the minister of finance—Goran Persson, who became prime minister in March 1996—also played a major role in the reform.

In 1992 a parliamentary commission was installed to analyze possibilities for improving the budgetary process. In a report to the Ministry of Finance (Molander 1992) it was concluded that the Swedish budget process performed relatively poorly in comparison with other European countries with respect to expenditure control. This lack of control reflected a weak role of the minister of finance, a fragmented budget process within parliament, absence of transparency and inadequate information content of the budget, and too much flexibility in the implementation of the budget (see also table 11.5). The result was heavy spending overruns, primarily on transfer programs (OECD 1996).

The aforementioned report of Molander proposed to change the existing procedure, introducing the two-step procedure outlined in table 11.9. The final report of the parliamentary commission contained a further elaborated version of this two-step procedure. Implementation required a change of the constitution. Both the old and the new parliament approved this change in 1994.

A second major change was the introduction of expenditure ceilings in 1996, following a proposal from the government in 1995 (Molander 1997). The lack of control of government expenditure in the past was due to the fact that 70 percent of spending was governed by statutory rules, with no obligation to find matching cuts if estimates were exceeded, or to implement legislative

changes in order to bring expenditures in such programs back to a baseline (OECD 1996). Political opposition to expenditure ceilings motivated by fears that they would undermine security as provided by the welfare state has been voiced from the Left Party (formerly the Communist Party). The strong involvement of the new prime minister no doubt has helped to introduce the system of expenditure ceilings. Nowadays three-year ceilings are imposed for the 27 major expenditure areas (including social security transfers, but excluding interest payments). These ceilings are the cornerstone of the new budget process. The total expenditure ceiling is derived *ex ante* from overall budgetary objectives and not from component commitments embodied in the program setups (OECD 1996). The ceilings for the period 1997–99 were decided upon by parliament in the spring of 1996. The total expenditure ceiling was scheduled to fall from 40.7 percent of GDP in 1997 to 37.5 percent in 1999 (OECD 1996). The following budget rounds consist of decisions as to the expenditure ceiling for the new year, added to the three-year horizon.

Comparing the old and the new scores of the various indicators that we have distinguished (table 11.5), it follows that the indicators A4 (transparency of the budget) and A3 (constraints) show the highest increase. The budget is now, for example, submitted in one document (see appendix B for further details). The increase of A3 is due to the introduction of the expenditure ceilings outlined above and the strong political commitment attached to them. The most important change in the flexibility of the execution of the budget (A5) is also due to the system of expenditure ceilings. The increase in A2 (position of legislature) is due to the fact that the powers of parliament have been reduced somewhat. Amendments, for example, were not required to be offsetting previously, but they are now. In the past there was only a final global vote, while the new procedure requires approval in the initial stage of the budgetary process (Swedish Ministry of Finance 1995). The position of the minister of finance (A1) has also improved slightly, as he or she now proposes budget norms on which the government will decide, whereas in the past a standard bottom-up procedure was applied (Swedish Ministry of Finance 1995). Finally, the position of local governments (A6) will change, as a binding requirement on their accounts to balance, combined with requirements to fund their commitments in the area of occupational pensions, will apply from the year 2000 (OECD 1996).

11.5 Concluding Comments

In this chapter we have analyzed which features of budget institutions are the most important in influencing fiscal policy outcomes using data for member countries of the European Union. It is concluded that budget institutions affect fiscal policy outcomes, but that the effect is quite small. There are some indications that the position of the legislature, the presence of binding constraints, and flexibility during the execution of the budget matter most. We have also analyzed the evolution of budgetary institutions in some countries to examine

the causes and impact of procedural changes. The countries included in the analysis have divergent public-debt-to-GDP ratios. A survey under experts from these countries was used, together with other information available, to analyze possible changes in budgetary institutions. The most notable changes occurred in Sweden. All aspects of the budgetary process that we have distinguished improved, but the most notable changes relate to the transparency of the budget and the presence of binding constraints. The latter is due to the introduction of expenditure ceilings and the strong political commitment attached to them. The most important change in the flexibility of the execution of the budget is also due to this new system. The acute financial crisis that hit Sweden in the beginning of the 1990s was the main motivation of the reform of the budgetary process. However, our survey also revealed that recent academic work on budget institutions as well as the personal commitment of high-ranking civil servants and the minister of finance also played a major role in the reform. Despite these improvements, the public debt ratio in Sweden has risen considerably since the beginning of the 1990s. It is our contention, however, that without the improvement in the budgetary procedures the rise would probably have been even more pronounced.

In Ireland the debt-to-GDP ratio rose in the 1980s, leading at that time to a broad political consensus that restoration of fiscal balance was essential for promoting economic growth. To this end, various specific quantitative targets have been used. Recent practice has been to specify medium-term fiscal objectives, particularly in relation to the deficit and public debt ratios, as Ireland is clearly committed to becoming a member of EMU. The most notable differences for Ireland in comparison with the survey of von Hagen (1992) occur with respect to the position of the minister of finance, which are not due to changes in the formal procedures, but may reflect the formal rule versus actual practice.

In Belgium the Maastricht criteria have also strengthened the budgetary process since its latest reform in 1989. Belgium has committed itself to a first entrance into the EMU. The goal of reducing the general government budget deficit to 3 percent requires a sustained austerity, which in turn places fiscal discipline high on the political agenda and also emphasizes the relative weight of the minister of finance. It is our contention that the constitutional reform of 1988–89, which transformed Belgium from a unitary to a federal state, may exert some disciplinary force as well, since the golden rule applies *de facto* for regional governments, which have limited access to public borrowing and no opportunity of seignorage collection.

Finally, in Italy the Maastricht criteria also have some impact. Although there are no differences with respect to the von Hagen survey, our respondent has the impression that the policy constraints have become more rigid as a consequence of the EMU criteria. The most notable changes, in comparison to the results from von Hagen, regard the position of the legislature and flexibility during the execution phase of the budgetary cycle.

Appendix A

Survey

I. Questions relating to the position of the Minister of Finance (MF)

1. Could you please indicate which one of the following is the best characterization of the agenda setting for the budget negotiating process in your country (choose only one):
 - MF or cabinet collects bids from spending ministers;
 - MF or cabinet collects bids subject to preagreed guidelines;
 - cabinet decides on budget norms first;
 - MF proposes budget norms to be voted on by cabinet;
 - MF (or prime minister) determines budget parameters to be observed by spending ministers.
2. Could you please indicate which one of the following is the best characterization of the budget negotiating process in your country (choose only one):
 - all cabinet members involved together
 - multilateral
 - bilateral between spending ministers and MF.
3. Can the MF block expenditures: yes/no
4. Is disbursement approval required from MF (or controller): yes/no

It may be that the budgetary process in your country is not characterized adequately by the options outlined above; if so, please indicate in what respect the options are not adequate.

Could you please indicate whether with respect to the questions 1–4 anything has changed since 1991, and if so, why these changes occurred?

II. Questions relating to the position of the legislature

5. Could you please indicate which one of the following is the best characterization of the position of the parliament:
 - a. Possibility to propose amendments: unlimited/limited
 - b. Are these amendments required to be offsetting: yes/no.
 - c. Can (accepted) amendments cause fall of government: yes/no.
 - d. Are all expenditures passed in one vote: yes/mixed/votes are chapter by chapter.
 - e. Is there a global vote on total budget size: final only/initial.

It may be that the budgetary process in your country is not characterized adequately by the options outlined above; if so, please indicate in what respect the options are not adequate.

Could you please indicate whether with respect to question 5 anything has changed since 1991, and if so, why these changes occurred?

III. Questions relating to the presence of some kind of constraint

6. Could you please indicate whether the government is bound by some general constraint:
- none
 - public-debt-to-GDP ratio
 - public-debt-to-GDP ratio and deficit-to-GDP ratio
 - government-spending-to-GDP ratio or Golden Rule
 - government-spending-to-GDP ratio and deficit-to-GDP ratio.
7. Could you please indicate which characterization is most adequate with respect to the degree of commitment of some long-term planning constraint:
- no long-term planning constraint
 - for internal orientation only
 - indicative
 - weak political commitment
 - strong political commitment.

It may be that the budgetary process in your country is not characterized adequately by the options outlined above; if so, please indicate in what respect the options are not adequate.

Could you please indicate whether with respect to questions 6–7 anything has changed since 1991, and if so, why these changes occurred?

IV. Questions relating to the transparency of the budget

8. Could you please indicate which characterization is most adequate with respect to the transparency of the budget.
- a. Are special funds included: no/some/most/yes, but annexed to budget draft/yes.
 - b. Is the budget submitted in one document: no/recently yes/yes.
 - c. Is the budget according to your personal view: hardly transparent/not fully transparent/fully transparent.
 - d. A link of the budget to the national accounts is: not provided/possible/provided in separate documents/direct link provided.
 - e. Government loans to non-government entities are included in budget draft: no/reported in separate document/yes.

It may be that the budgetary process in your country is not characterized adequately by the options outlined above; if so, please indicate in what respect the options are not adequate.

Could you please indicate whether with respect to question 8 anything has changed since 1991, and if so, why these changes occurred?

V. Questions relating to the flexibility during the execution of the budget

9. Could you please indicate which characterization is most adequate with respect to the flexibility during the execution of the budget.
 - a. Are spending ministries subject to cash limits: no/yes.
 - b. Transfers of expenditure between chapters are: unrestricted/limited/require consent of MF/require consent of parliament/only within departments possible/only within departments and with consent of MF.
 - c. Changes in budget law during execution are: at the discretion of government/by new law which is regularly submitted during fiscal year/at the discretion of MF/require consent of MF and parliament/only by new budgetary law to be passed under the same regulations as the ordinary budget.
 - d. Carry-over of unused funds to next year are: unrestricted/limited/limited and requires authorization by MF or parliament/not possible.

It may be that the budgetary process in your country is not characterized adequately by the options outlined above; if so, please indicate in what respect the options are not adequate.

Could you please indicate whether with respect to question 9 anything has changed since 1991, and if so, why these changes occurred?

VI. Questions relating to the relationship between central government and other parts of government

10. Could you please indicate which characterization is most adequate with respect to the budgetary status of regional authorities:
 - a. balanced budget required: no/yes, but not considered to be binding/Golden Rule requirement/yes.
 - b. Planning autonomy: lower-level governments are autonomous/they may be placed under surveillance of higher-level government/they have limited autonomy/they have no autonomy.

It may be that the budgetary process in your country is not characterized adequately by the options outlined above; if so, please indicate in what respect the options are not adequate.

Could you please indicate whether with respect to question 10 anything has changed since 1991, and if so, why these changes occurred?

Appendix B

Detailed Country Studies

This appendix discusses our detailed results concerning the various aspects of budget institutions as distinguished in section 11.2. Any differences in coding between von Hagen 1992—or in the case of Sweden, with respect to the situation at the beginning of the 1990s—and our survey are indicated in bold.

Belgium

Position of the Minister of Finance (von Hagen Score A1: 1.25; Our Survey: 3.25). The MF teams with the minister of the budget, who usually holds the title of vice prime minister. Even before the Maastricht fiscal targets came to play a major role in Belgian fiscal policy, one witnessed an increased “weight” of the minister of the budget together with the MF. In close cooperation with the prime minister they draft the “budget circular,” inviting the spending ministers to submit their budget proposals within specified parameters (item 1b: 1). These instructions are to be approved by the Council of Ministers. In the elaboration of their budget the spending ministers are advised by their higher-ranking civil servants and the inspector of finance who is accredited to the department. Starting from baseline projections, new activities and other priorities are incorporated in the budget proposals. These are submitted in a first round of scrutiny to the minister of the budget. Here they are bilaterally reviewed (item 1d: **4** instead of 0). After aggregation they are confronted with the estimates of the MF for the Ways and Means. In fact there is a kind of division of labor in the sense that the MF handles the revenue side of the budget (taxes, public debt), whereas the minister of the budget focuses on the expenditure side. Several rounds of bilateral “negotiations” may occur to target expenditures to revenues. Finally all items, which remain unresolved, are collected for a final decision procedure called the “Budgetary Conclave.” Again bilaterally the spending ministers are now confronted with the “core” of the Council of Ministers (i.e., prime minister, the vice prime ministers, and the MF). These decisions may involve changes in tax laws, privatizations, or new debt management techniques.

According to von Hagen the MF cannot block expenditures (item 4a: 0). In fact, it is the minister of the budget who can block expenditures upon instigation of the accredited inspector of finance. A score of **4** may therefore be more appropriate. A preliminary “visum” of the department of the MF is required before cash disbursements are executed (item 4c: 4).

Position of the Legislature (von Hagen Score A2: 0.8; Our Survey 1.60). Policy outcomes are often compromises of the different parties constituting the coalition government. The parliament consists of a House of Representatives and a Senate. The Senate provides “fairness” appraisals on new laws but is not active

in the budgetary procedure, which is the prerogative of the House of Representatives. In principle the possibility of proposing amendments is unlimited. In fact amendments are only marginal and, ironically enough, often address budget lines that are directed toward the operational costs of the House itself. This huge distance between principle and practice explains the difference with the score in the von Hagen paper (item 2a: **4** instead of 0). The amendments are not required to be offsetting (item 2b: 0) and do not cause the fall of a government (item 2c: **0** instead of 4). Usually it is the absence of consensus on fundamental policy issues that causes the collapse of a coalition. Linguistic and ideological differences between Flanders and Wallonia have often reduced the length of tenure of a government in the past.

The proposed budget covers three documents: the expenditure budget, the budget of ways and means, and the budget message (Algemene Toelichting). This latter document is more policy oriented and “readable” for the general public. It is not subject to a formal vote in the House of Representatives. The expenditure budget and the budget of ways and means have the format of a budgetary law that is to be voted upon.

As a rule the three documents are available before the end of September, and votes take place before the end of November. The House has two months to assess and discuss the new budget. The more technical debates are conducted in the specialized committees of the House, regrouping those representatives with a special interest in, for example, foreign policy, social security, finance. The plenary debate, which requires several days in a row, is finalized by a vote chapter by chapter (item 2d: **4** instead of 0; item 2e: 0).

Constraints (von Hagen Score A3: 0.00; Our Survey 3.00). From 1992 on the guidelines of Maastricht have oriented, some would say “dictated,” the budgetary behavior of Belgium, which is devoted to a first entrance into the EMU. When elaborating the budget each year, a numerical time path is specified for the next year and the following years until the start-up of the EMU. Remarkably, a consensus is reached between all the parties and interest groups involved. The scientific input for this deliberation is delivered by the High Council for Finance (which includes academia), the Economic Planning Agency, the National Bank, and the Department of Studies of the Ministry of Finance. This results in a strong political commitment to the 3 percent deficit-to-GNP ratio and to a “significant” reduction in the public-debt-to-GDP ratio (item 1a: 0; now **2**; item 5d: 0; now **4**).

Transparency of the Budget (von Hagen Score A4: 2.00; Our Survey: 3.13). As already mentioned, the budget consists of one document (unity of budget presentation) that materializes in three “books” to make the volumes manageable (item 3b: **4** instead of 2). Special funds are annexed to the budget draft (item 3a: **3** instead of 2). The budget presentation is not fully transparent, as it takes some routine and expertise to run through the chapters (item 3c: 2). The

link to the national accounts is provided in a separate document called the “economic regrouping,” which is published some time later (item 3d: 0; now **2.66**). The “totality” requirement of the budget stipulates that loans to nongovernment entities should be included (item 3e: 4)

Flexibility during Execution of the Budget (von Hagen Score A5: 1.80; Our Survey: 2.92). The von Hagen study reports that the spending ministers are not subject to cash limits. From our information it appears that the Treasury (Ministry of Finance) severely surveys the cash flows (item 4b: 4 instead of 0). In fact, the austerity prescriptions of Maastricht have changed several aspects of the actual budgetary behavior. Nowadays a transfer of expenditures is restricted to line items within the same department and with the consent of the MF (item 4d: 3.2; now **4**).

In the early spring the government organizes a formal assessment of the execution of the budget. The macroeconomic environment may have changed since the drafting of the budget in the summer of the preceding year. There may be new information on real growth, inflation, interest rate levels, tax revenues, and unemployment. If required, the expenditure and/or the revenue side of the budget will be adjusted by a formal law to be voted by the House of Representatives as an annex to the official budget law (item 4c: 4; now **1**). The carryover of unused funds to the next year is limited and requires the authorization of the MF and parliament. The rules are rather detailed and may differ for a recurrent expenditure versus an investment outlay (item 4f: 0; now **2.66**).

Relationship with Other Parts of Government (von Hagen Score A6: 1.33; Our Survey: 1.33). Since the constitutional reform of 1989–90 Belgium has become a federal state. Between the central and the local level (municipalities), the regions (Flanders, Wallonia, Brussels) have now required substantial competence in areas such as economic development, environment, infrastructure, education, and cultural affairs. Tax autonomy is restricted, but the regions benefit from a complex system of shared and assigned taxes (*juste retour*). The lower levels of government are primarily involved in allocation rather than redistribution or stabilization. On average they face a harder budget constraint than the central government. The golden rule applies for the regions and the municipalities. However, within this constraint the own preferences are respected.

Ireland

Position of Minister of Finance (von Hagen Score A1: 0.25; Our Survey: 3.25). As follows from the outline of the budgetary cycle, the MF takes the lead in the budgetary process. In recent years, the practice has been to specify medium-term fiscal objectives. In setting its targets for the 1997 budget, the government set specific targets for the deficit (and debt) and for overall tax/expenditure aggregates for 1997–99, taking account of the foregoing projections. The annual Estimates Circular seeks expenditure demands that comply

with these medium-term objectives (item 1b: 1). Spending departments, in submitting their annual demands for resources, must provide details of forecast resource requirements for three years ahead. Their demands are then assessed for consistency with the Estimates Circular specifications in a consultative process that clarifies the basis for the bids and focuses on the elimination of excess demand. Despite that process, the aggregate demand typically exceeds the allocation for departmental spending that would be consistent with the target for the overall deficit. The next stage is, therefore, for the MF to undertake a series of bilateral meetings with each of his or her colleagues to establish priorities for the allocation of the available resources. The Department of Finance again aggregates the outcome of these negotiations into a total provision for all departmental spending and presents it to government in an overall budget context. If the outlook remains unsatisfactory, the government will instigate a further round of bilateral meetings to secure further reductions (item 1d: 4 instead of 0). Finalization of the budget also requires cabinet decisions on specific taxation changes and final adjustments to spending plans. The MF can block expenditures during the execution phase of the budget (item 4a: 4 instead of 0). The Public Financial Procedures (section A4) makes clear that expenditure must have authority of the Department of Finance. Disbursements also require approval (item 4c: 4 instead of 0).

Position of Legislature (von Hagen Score A2: 1.60; Our Survey: 3.00). The legislature (Oireachtas) consists of the president, who is head of state under the constitution, the lower house (Dáil Eireann) and the upper house (Seanad Eireann). Ministers must be members of a house of the Oireachtas. The prime minister, deputy prime minister, and MF must all be members of the Dáil. Only the Dáil has the power to amend legislation involving public monies; however, it is not empowered to amend estimates—only to adopt or to reject them (item 2a: 4). Standing orders (procedural rules) of the lower house preclude any addition or reduction in the annual estimates. According to von Hagen, amendments do not have to be offsetting (item 2b: 0), but one may question this score as parliament cannot amend estimates. (We have dropped this question in the calculation of our new score for A3.) However, the legislature can propose amendments to the taxation side of the budgetary equation, and in the past one government fell after one particular taxation proposal had been voted down by the Dáil (item 2c: 4). The upper house does not debate the budget per se; it does, however, consider the annual Finance Bill (taxation) and Appropriation Bill (expenditure), on which it may make recommendations that the Dáil may either accept or reject.

As follows from the outline of the budgetary process, the parliamentary stage in Ireland is prolonged into the financial year. Budget provisions are enacted into law only after the budget has already come into operation. This requires preliminary spending authorizations. This is provided for by resolutions on individual estimates. The White Paper on Receipts and Expenditure

shows the outturn for the previous financial year, estimated receipts and expenditures (both voted and nonvoted, see below), and the estimated borrowing requirement. The estimates are in highly aggregated form in this stage. The white paper is not the subject of a Dáil motion. Individual estimates are updated, and each one is presented and debated on separately only in June/July. When an estimate is passed by the Dáil, it is technically known as a Vote. (The score for item 2d is zero according to von Hagen (1992), but given the procedures as outlined a score of 4 is more appropriate). Only in December is the Appropriation Bill passed, which gives statutory effect to the estimates approved by the Dáil (item 2e: 0).

Government expenditure in Ireland falls into two broad categories: nonvoted expenditure, which the Dáil does not have to vote on (like the service of the national debt), and voted expenditures, which refers to the ordinary services of departments (both capital and noncapital spending). Expenditure is provided for under Votes, one or more covering the functions of each department or office (Public Financial Procedures, 1996).

Constraints (von Hagen Score A3: 2.50; Our Survey: 3.00). Since 1980 there has been broad political consensus that restoration of fiscal balance is essential for promoting economic growth. To this end, various specific quantitative targets have been used. As pointed out above, recent practice has been to specify medium-term fiscal objectives, particularly in relation to the deficit and public debt ratios (item 1a: 2). Ireland's current fiscal policy is based on the maintenance of low budgetary deficits and is formally set out in the policy agreement, *A Government of Renewal* (December 1994) between Fine Gael, the Labor Party and Democratic Left, and *Partnership 2000 for Inclusion, Employment and Competitiveness*, agreed with the social partners in December 1996. Nowadays, there is strong political commitment to the targets formulated (item 5d: 4 instead of 3).

Transparency of the Budget (von Hagen Score A4: 1.00; Our Survey: 1.53). As follows from the outline of the budgetary process, the budget does not consist of one document (item 3b: 0). Some special funds are included (item 3a: 1), while our respondent to the survey regarded the budget as almost fully transparent (item 3c: 2). A link to the national accounts is provided in the budget booklet (item 3d: 2.66 instead of 0), while government loans are included in the finance accounts (item 3e: 2).

Flexibility during Execution of the Budget (von Hagen Score A5: 3.00; Our Survey: 2.67). To ensure tight control of expenditure and adequate notice of potential deviations from target, departments are required to submit a profile of expenditure by month to the Department of Finance for approval at the beginning of the year, and monthly returns of actual and forecast expenditure including explanations of variations from profile. If actual expenditure in any

given month is less than the amount specified in the approved profile for that month, this will normally be regarded as a saving for the year; that is, it is not available for spending later in the year (item 4f: 2.66 instead of 4). Approval for expenditure in a particular month in excess of the approved profile is only given where there is a clear-cut understanding that it will be offset by specific compensating measures later in the year. Only a small number of programs are cash limited (item 4b: 0). Transfers are normally only allowed within departments and with consent of the MF (item 4d: 4). As follows from our description of the budgetary process, changes in the budget law during execution require parliamentary approval (item 4e: 4).

Relationship with Other Parts of Government (von Hagen Score A6: 0.00; Our Survey: 3.33). Ireland is a unitary state. There are two layers of government: central government, including the state-sponsored body sector, and regional government, which includes regional health boards and local authorities. There are also extrabudgetary funds (including social insurance funds). Local authorities are responsible for such local services as provision of public housing, construction and maintenance of roads, water supplies and sanitary services, refuse collection, environmental protection, and fire services. Approximately half of their spending is funded by Exchequer grants, most of which are specific grants, and the rest of their funding is raised at the local level. According to von Hagen local governments do not face certain constraints and are autonomous with respect to budget planning. Our respondent answered, however, that they have limited autonomy.

Italy

Position of Minister of Finance (von Hagen Score A1: 0.75; Our Survey: 0.75). At the budget formulation stage, three ministries—the Treasury, budget, and finance—are involved. The central role in budgetary matters is played by a department within the Treasury, Ragioneria Generale dello Stato (RGS). The responsibility for economic and fiscal policymaking is shared between the Ministry of Finance and the Economic Planning Ministry: the first has the lead in fiscal revenue policies (taxes and other revenues), the second in macroeconomic forecasting (OECD 1995). The process generates several budget documents, which differ in terms of accounting basis, sectoral coverage, and date of issuance. Fiscal targets are set by parliament on the basis of a proposal by the three ministries (score 1b: 1.00). This score is based on Alesina, Mare, and Perotti 1995. After that, negotiations take place between the spending departments and notably the Treasury, which are, according to Alesina, Mare, and Perotti (1995), somewhat unregulated (item 1d: 2). (However, according to our respondent a score of 4 [bilateral negotiations] would be more appropriate.)

At the budget implementation stage, the Treasury has responsibility for the management of the state cash resources. The minister cannot block expenditures if authorized by the budget (item 4a: 0). Whether disbursement is re-

quired is not entirely clear. According to our respondent it is required, but according to von Hagen and Harden (1994) and our outside expert it is not (item 4c: 0).

Position of Legislature (von Hagen Score A2: 1.20; Our Survey: 2.80). Parliament has two chambers: The Camera dei deputati (lower house) and the Senato della Repubblica (senate). In general, ministers are members of parliament. The budget documents are submitted by the Government, either first to the lower house and subsequently to the senate, or vice versa. The two chambers have an equally important position regarding all sorts of laws, including budgetary laws. When chambers disagree with each other, the law is examined again (and modified) following the same procedure. Since 1988, the *Leggi di Bilancio* (finance act) cannot be used to change substantive legislation as it can only reflect existing legislation (art. 81 of the constitution). All interventions must be carried out in the *Legge Finanziaria* (LF) and *Provvedimenti Collegati* (PC). Once passed, these become existing legislation and are incorporated in the LB by amending the LB with the *Nota di Variazioni* (Alesina, Mare, and Perotti 1995; OECD 1995).

The financial law, the connected laws, and the budget are examined by the two houses in the same form. In each house these texts are examined beforehand by parliamentary commissions, but at this stage the real voting process takes place only in the Budget Commission. This will pass the approved text to the full session. Here, the approbation of the financial law starts from article 1, in which the maximum permitted for total budget size is set (item 2e: 4 instead of 0). (Both our respondent and expert gave this score.) Still, as the DPEF sets only the aggregate objectives of the fiscal maneuver, and at an early stage of the budget process, it only provides a very vague description of the government's plan, without any realistic quantification of its expected savings. Thus, at the time parliament votes on the target figure for the SNF, which becomes binding for the subsequent budget process, there is practically no notion of the means to attain it, and therefore, of whether it is realistic (Alesina, Mare, and Perotti 1995).

Both chambers have a limited right to add to or modify proposed revenue and expenditure (item 2a: 4). Parliament can increase expenditures as long as they are covered by additional revenues (Alesina, Mare, and Perotti 1995). According to our respondent a score of 4 on item 2b would be appropriate, as parliament nowadays sets itself lines of conduct that must be followed during the budget sessions. Our outside expert was less optimistic here. While parliamentary amendments must leave the state deficit unchanged, any additional spending being covered by offsetting expenditure cuts or additional revenues (*copertura*), this safeguard can be circumvented by way of parliament proposing higher spending to be implemented by local government and other external agencies (e.g., social security funds). Thus, extra general government spending can arise even when the *copertura* requirement is formally met (OECD 1997)

(item 2b: 0). Both our respondent and expert agreed that accepted amendments can lead to the fall of a government (item 2c: **4** instead of 0). Voting is mixed (item 2d: 2).

Constraints (von Hagen Score A3: 2.50; Our Survey: 2.50). Multiyear budgets are based on commitments. They reflect proposed government policy with respect to the new budget and its multiyear consequences (OECD 1995). Targets are formulated in terms of the debt ratio and the deficit (item 1a: 2; item 5d: 3). Although there are no differences with respect to the von Hagen survey, our respondent has the impression that the constraints have become more rigid as a consequence of the EMU criteria.

Transparency of the Budget (von Hagen Score A4: 1.00; Our Survey: 0.80). As follows from the description of the budgetary process, there are various documents at various stages (item 3b: 0). The budget is hardly transparent (item 3c: 0), and there is no link provided with the national accounts (item 3d: 0). Government loans to nongovernment entities are not included (item 3e: **0** instead of 4), but special funds are, according to our respondent and expert (item 3a: **4** instead of 1).

Flexibility during Execution of the Budget (von Hagen Score A5: 0.25; Our Survey: 1.58). Ministries are not subject to a cash limit (OECD 1997) (item 4b: 0). Transfers are only possible within departments according to both respondent and expert (item 4d: **4** instead of 0). There are only limited ways to carry over unused funds to the next year (item 4f: **1.33** instead of 0). Unspent appropriations are “carried over” (up to two years for current expenditure, three years for public works, and five years for capital spending). As a result, annual cash budgets for the state are based on preliminary evaluations of carryovers that tend to be underestimated. Reliable estimates of carryovers are not available before March (OECD 1997). Changes in the budget require a new law (item 4e: 1).

Relationship with Other Parts of Government (von Hagen Score A6: 1.33; Our Survey: 2.66). Italy is a unitary state. There are three layers of government: state or central level, regional and provincial level, and municipalities. The provincial level is by far the smallest in financial terms. Although there has been a slight increase in fiscal autonomy during the last years, the respondent to our survey found that lower-level governments have limited autonomy.

Sweden

The budgetary process of Sweden went through a reform. Any differences in coding in comparison to the situation at the beginning of the 1990s are shown in bold. The sources are an internal memorandum of the Swedish Minis-

try of Finance (Swedish Ministry of Finance 1995) and information provided by Per Molander.

Position of Minister of Finance (Former Score A1: 1.00; New Score 1.75). The cabinet is involved at all stages of the budget process, although the negotiations on expenditure as a rule are held between the MF and the responsible ministry (item 1d: 4). Late in April, the government presents a revised Budget Bill, summing up the various bills presented after the Budget Bill and containing a revised economic policy and budget statement, a revised revenue estimate, a revision of the economic survey presented in the Budget Bill, the multiyear budget projections, and the three-year economic policy assessment. With respect to item 1b, it was stated that previously a standard bottom-up procedure was applied (0), but that after the reform the cabinet will decide on budget norms to be proposed by the minister of finance (3 instead of 0). The MF cannot block expenditures during the budget year (item 4a: 0), nor does he or she have to approve disbursement (item 4c: 0).

Position of Legislature (Former Score A2: 1.60; New Score: 3.20). Parliament has one chamber (Riksdag). By constitutional law, parliament has to approve the budget before the start of the fiscal year. Parliament has unlimited rights to propose amendments both before and after the reform (item 2a: 0), and these were not required to be offsetting previously (item 2b: 0), but they are since 1996 (4). Budget decisions can cause the fall of the government both in the old and the new procedure (item 2c: 4). Voting is chapter by chapter (item 2d: 4). There is a global vote on total budget size, which used to be final only (item 2e: 0), but is since 1996 initial (4).

Constraints (Former Score A3: 0.50; New Score: 4.00). A frame budget process has been adopted in parliament, which is in effect from 1996 onward. In the spring of 1995, a nominal, multiannual expenditure ceiling for the public sector was proposed in the economic spring bill, a proposal endorsed by parliament. With the expenditure ceiling in place, constraints are even more binding than the most restrictive alternatives (item 1a was 0, now 4). Before the reforms, the degree of commitment to planning constraints was limited to internal orientation (item 5d: 1); after the reform there is strong political commitment (4).

Transparency of the Budget (Former Score A4: 1.00; New Score: 3.20). With respect to the transparency of the budget, it appears that only some special funds were included (item 3a: 1), but that now all special funds are included (4). Before the reform, the budget was not submitted in one document (item 3b: 0), but now it is (4). According to the respondent, the budget was previously not fully transparent (item 3c: 2), but after the reform it is (4). Links

to national accounts are not supplied (item 3d: 0). Government loans to non-government entities used to be recorded by the National Debt Office in a separate document (item 3e: 2), but are now included in the budget (4).

Flexibility during Execution of the Budget (Former Score A5: 1.68; New Score: 2.02). There were no cash limits before (item 4b: 0). They will be tested in some areas, although not where third-party obligations are binding. According to our respondent this implies a score of 4, but here we disagree. Transfers between chapters require the consent of parliament and the MF both before and after the reform (item 4d: 2.4) The same applies to changes in the budget decision (item 4e: 3). Carryover possibilities used to be limited (item 4f: 1.33), but now also require the consent of MF (2.66).

Relationship with Other Parts of Government (Former Score A6: 0.00; New Score: 1.33). Sweden is a unitary state. There are three layers of government: the state or central government, county councils, and municipals. The latter two supply the bulk of public consumption (regional: health care; municipal: schooling, care for children and elderly), and have a constitutional right to tax the citizens in order to finance this production. Social security expenditures outside the budget consist mainly of supplementary old-age pensions, a pay-as-you-go system that is currently being transformed into a sort of simulated premium-reserve system. A golden rule requirement will be in effect as of 1999 for both the municipal and regional levels. Lower levels of government have relatively large autonomy.

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