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The Budgetary Process: An Analysis of the Legislative Measures In Serbia and Croatia

Abstract

This paper looks into the effects of political institutions on government fiscal policy. Our aim is to establish whether a legislative body has the power to influence the budget proposal tabled by the government. This leverage is measured in the analysis of the six indicators (so-called Wehner scale) which combined, make up the index of parliamentary power in Serbia and in Croatia. In the final section, the results obtained from our analysis are presented in a comparative perspective. Our assessment refers exclusively to legislative measures, not practice

Keywords: budget; the executive; the legislative; economic policy; fiscal policy; public spending.

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1. Previous Research

A large body of previous research on political institututions and economic policy was focused on examining the behavior and internal dynamics of executive bodies. One group of arguments claimed that ever greater number of actors in the cabinet blocks policy change. If spending is already high, it is unlikely to be reduced, as a growing number of parties in the cabinet strengthen a public policy status quo (Tsebelis 1995; 2002). The second set of arguments is grounded in the concept of the common pool resource problem or the 1/*n* law, which makes it possible for each actor to avoid internalisation of the overall levels of public spending, thus increasing the overall levels (Weingast *et al*. 1981). Persson and Tabelini argue that the trend of high public spending is a consequence of electoral rules. Electoral systems generate coalition cabinets, and such cabinets tend to spend more (Persson and Tabelini 2003). In our previous research, we introduced the concept of the Budget dilemma, which also correlates the number of actors in the cabinet with the level of public spending (Pavlović and Stanojević 2011a).

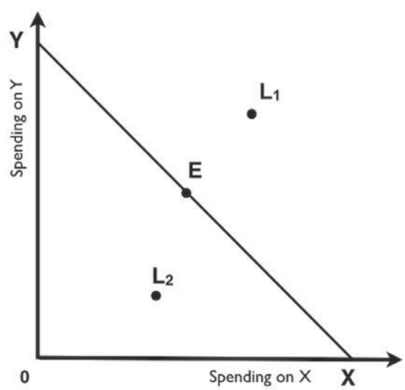
2. A Simple Model

In this paper we broaden the existing body of research in two ways. We start from the assumption that proportional representation creates coalition governments in which coalition partners have the potential to blackmail each other in terms of their use of budget funds for their party or own needs. Here, we try to investigate if it is possible to remove the negative effects of the electoral system on public spending by designing institutions that would reverse or at least mitigate the trend created by proportional representation.

A possible way to do this is to design a legislative body (Crain and Muris 1995). We deploy the model constructed by Joachim Wehner in his book *Legislatures and the Budget Process: The Myth of Fiscal Control* (Wehner 2010). The effects of the budget dilemma can be reversed if a legislature (or some other control) body has the capacity to balance budget spending. The institutional design model that would address overspending should look somewhat like this. Assume that at a given point in time, t_0, a realistic and balanced budget (e.g. adjusted to the annual GDP growth rate or to some other reasonable fiscal rule) for the following year should equal the amount *x*. As a result of bargaining within the coalition, the government drafts a budget proposal *x+y* in $t_{1.}$ If the Parliament is bound to pass the budget proposed by the government, i.e. if it has no powers of amendment or revise the proposal, the budget passes in t_2, and it will be *x+y*.

However, assume that after the government submits the proposal, the Parliament in t_2' has the authority to propose budget amendments or apply some other institutional mechanism that makes it possible to reduce the extravagant spending contained in the proposal, i.e. restore budget to *x* or modify its structure to *x+z* (where *z<y*), or even lower the level of spending by *z* (where *x>z*). The budget in t_2' could then become *x–z* rather than *x+y*. In that case, the effects of the Budget dilemma from t_1 would be reversed in t_2.

In broadest terms, the legislative-executive relationship can be visually presented as in graph 1. Assume that the budget contains only two items, *X* and *Y*. Line *YX* represents the budget line. Point *E* represents the ideal position of the executive. L_1 represents the ideal position of the legislative which aims to spend more than the executive under both items (x and y). By contrast, L_2 represents the ideal point of the legislative which aims to spend less than the executive under both items. There are three possible outcomes of this relationship. If the executive prevails, the outcome will be *E* (ideal spending level of the executive). If the parliament prevails, the outcome could be twofold: (1) if the legislative is fiscally more responsible than the executive, the outcome can be situated anywhere *along* the budget line *YX*. In that case, the



Graph 1: A model of parliamentary control of the executive

legislative reduces spending. On the other hand, (2) if the legislative is fiscally less responsible than the executive, the outcome will be situated at L_1, as well as at any other point *outside* the budget line *YX*.

3. Fiscal Control and the Legislative Body

The second contribution of this paper is in expanding our previous research on the subject. In our previous works, we focused on the legislative measures and parliament power indicators for Serbia (Pavlović and Stanojević 2011b). Here we present the findings for Croatia and compare them to our previous findings for Serbia (which we repeat from our previous research). Each indicator's value (coded on the scale 0-10) obtained for Croatia is numerically and descriptively compared to the values obtained for Serbia. Finally, results obtained for Croatia and Serbia are included among the results obtained for 17 countries (section 4). The list of indicators and coding methodology are taken from Joachim Wehner (Wehner 2010: 18–63).

The scores obtained and aalyzed in section 3 and presented in Table 1 were calculated after the analysis of the legal solutions found in the fiscal legislation in Serbia and Croatia in 2012 and 2014, respectively. The scores for other countries, presented in graph 2, were taken the OECD survey conducted in 2003 (Wehner 2006).

We emphasize that here, we only look into *legislative* measures for each of the indicators. In many Western democracies, there is consistency between legislative provisions and practice. The results of Wehner's research relate only to legislative measures in the countries analyzed (see graph 2 at the end of this paper). Many specific situations that deviate from legislative measures can be found in practice. (A more detailed discussion on the empirical findings for Serbia can be found in: Pavlović and Stanojević 2011c; 2012).

a. Amendment Powers

If a legislative body has the authority to amend the government's budget proposal, it can modify the budget structure. The coding of this indicator looks like this: if the parliament can only reject or adopt the budget, the indicator's value is [0], as the lowest form of parliamentary leverage on the executive; if it can lower the level of spending by amendments, it is [2.5]; if it can reallocate funds without increasing the budget [5] or deficit [7.5]; if it has unlimited budget-amending powers [10] (Wehner 2010: 20-27).

In our previous research, we found that Serbia, in terms of its legislative measures, receives the score of 8.75 for this indicator (Pavlović and Stanojević 2011b: 45-46). The Serbian Assembly can modify the budget amount (increase or reduce it), but only within the limits of deficit or suficit defined by the Government. An identical measure can be found in the Croatian legislation (the Budget Act, Article 38). Neither the Serbian Assembly, nor the Croatian Parliament have unlimited powers to amend the budget as they have to adhere to the deficit or suficit levels projected by the Government. Yet, since they do have budget-amending powers, in both cases we assign them a score of [8.75] on the Wehner scale.

b. Reversionary Budget

Reversionary mechanism comes into play once the old budget has expired and the new one has not been passed yet. This means that the legislative has the right to veto the budget. In that case, it is possible to reverse the budget to zero (i.e. no budget until the legislative and the executive agree on the new budget); restore it to its previous condition (i.e. to the previous year's level of spending) until the sides agree; or resort to partial spending of the previous budget (e.g. 25%) to ensure the minimum functioning of the state administration (public service, police, army, courts, etc.).

If the parliament fails to pass the budget and consequently, the government's proposal is adopted or new elections follow, the indicator is worth [0]; if the overall budget is rejected and only its part is adopted (temporary financing), the indicator coding is [3.3]; if last year's budget is adopted - [6.7]; if "zero budget" is adopted[2], [10].[3] (Wehner, 2010: 28-31)

2 „Zero budget" implies that for all budget items the starting point is zero and that spending for each item needs to be justified from scratch. Traditionally, last year's budget represents the baseline and only increase or deviation from it are subject to justification.

3 However, this case, as well as the previous one, shows how higher score correlated with greater fiscal responsibility only if the legislative is fiscally more conservative than the parliament. Otherwise, then greater indicatora value can suggest fiscal excess. As in the previous case, it is impossible to know in advance how the legislative will behave.

If the Assembly of Serbia vetoes the budget, temporary financing is introduced and the Government is due to operate on the basis of the previous year's budget. On the Wehner scale, this indicator for Serbia is worth [5] (Pavlović and Stanojević 2011b: 47). From the legal point of view, the situation in Croatia is identical: in the case that the budget is not passed by the beginning of the fiscal year for which it is adopted, temporary financing takes effect under the Budget Act (Article 42). Temporary financing is introduced for a maximum period of three months and implies the level of spending identical previous year's, provided that it does not exceed one fourth of the previous year's expenditures without outlays. During temporary financing, financing is limited to the same programmes as in the previous year, and budget users may not increase the number of their employees above the count on 31 December of the previous year. This indicator for Croatia is also worth [5].

c. Executive Flexibility During Execution

In the previous two cases, depending on the scope of authority of the legislative, the executive can be forced to act strategically between the budget submission and passing (between t_1 and t_2). However, imagine that a legislative body has the powers of amending the budget in t_2 (section 2), but that the executive has the authority to change the levels of spending in t_3, i.e. during budget execution. In this case, legislative powers would not amount to much as the entire budget process would be dependent on the executive, which would render it useless (Wehner 2010: 32).

To code this indicator, it is possible to pose several questions: can the government reallocate funds during execution (move them from one item to another), without parliamentary approval?; can the government deny funds committed to spending without the parliamentary approval?; are there resources *outside* budget items that the government can utilize during execution by using discretionary right without parliamentary approval? The actual question is – can the government during execution *increase* the budget? (Wehner, 2010a: 31-38, 48). Affirmative answer to each of these questions is coded with [0], since it shows that the legislative body does not play a significant role in the budget process. The negative answer scores [3.3]. The total value for this indicator is obtained by adding the values for all three questions together (Wehner 2010: 31-38)

Legally, the Government of Serbia has the option to manipulate budget funds through the mechanism of appropriation and discretionary use of the current budget reserve, but has no legal possibility to utilize funds not contained in the budget items without the approval of the Assembly of Serbia. For this indicator, Serbia received the score of [6.7] on the Wehner scale (Pavlović and Stanojević, 2011b: 48-50)

The Government of Croatia can redistribute resources during budget execution without the approval of the Parliament [0]. This mechanism is called "reallocation of funds" (the Budget Act, Article 46). Reallocation of funds is a discretionary right of the Minister of Finance to execute budget reallocation up to 5% of funds committed for expenditure under the item to be reduced in order to divert the funds to another item. [0]. Further, the Budget Act defines the measure of "temporary suspension of execution" (Article 43) that the Government can apply to suspend payments of expenditures envisaged in the budget. Temporary suspension of execution represents a discretionary measure authorizing the Government to suspend payment of budget expenditures for a maximum of 45 days due to "the occurrence of new liabilities for the state budget or changes in the economic developments". The Government does not need approval of the Parliament to apply this measure, but is only obliged to notify the Parliament on its application [0]. Finally, the Government of Croatia has no legal basis for the use of extra budgetary funds [3.3]. In sum, Croatia receives a score of [3.3] for this indicator on the Wehner scale.

d. Timing of the Budget Submission and Debate

The timing of the budget submission to the Parliament for consideration is not irrelevant. If the Parliament has sufficient time to deliberate, chances are higher that it will be thoroughly prepared and amendments passed; if the time is short, the Parliament practically faces a deadlock and has to pass the budget in the version submitted by the government or reject it. If the time between submission and passing is shorter than two months, the indicator is worth [0]; if it is shorter than four months [3.3]; if it is shorter than six months [6.7]; if it is longer than six months [10] (Wehner 2010: 39-40).

Legally, the Serbian Assembly has *45 days* to pass the budget, which is less then Wehner's minimum to grant the indicator any value above 0. Hence this indicator for Serbia is worth [0] (Pavlović and Stanojević 2011b: 50-51). The situation is similar in Croatia, where the Government of Croatia has a very flexible position in the process of budget adoption. Pursuant to the Budget Act (Article 37), the Ministry of Finance is due to submit the budget proposal for the next year, with projections for the following two years to the Government by October 15. In the case of a disagreement between the Minister of Finance and a representative of the budget users, the Prime Minister has the final say. When the disagreement is settled and the final budget proposal with projections is adopted, the Government of Croatia is due to submit them to the Parliament by November 15, so the deputies have one and a half months to discuss the proposal and adopt it. In this manner, the Government creates a deadlock for the Parliament, for which the Wehner assigns the score of [0].

e. The Capacity of Parliamentary Committees

In this case we attempt to establish whether committees in the Parliaments of Serbia and Croatia have any leverage on the budget process. There are three questions to ask here:

- Does the Parliament Committee on Finance have the right to request clarification from the Government member responsible for the budget before the budget reaches the Parliament?;
- Can each single committee request the same for the part of the budget within its competency (for example, Committee on Education for the part concerning education)?;
- Does the Committee on Finance, or some other committee, have a legal basis to request evidence on the budget execution?

Affirmative answer to each question assigns a score of [3.3]; and negative a score of [0] (Wehner, 2010: 40).

In the case of Serbia, the Committee on Finance can take part in the budget debate [3.3], but other committees (also dependent on the budget) are unable to do so [0]. The Committee on Finance has the right to control budget execution [3.3]. The total score of Serbia for this indicator according to the Wehner scale is [6,7] (Pavlović and Stanojević, 2011b: 51-52).

During the budget hearing before the Committee on Finance, and pursuant to the Standing Orders of the Croatian Parliament, the Committee members have the right to pose questions to the Government representative who is obliged to attend the Committee, participate in its work, declare the position of the Government, provide notifications and expert explanations, adopt a position on the opinions of the Committee members and submitted amendments if so authorized by the Government (Article 121) [3.3]. On the other hand, representatives of other committees do not have the right to review the budget nor ask questions about the budget in their respective portfolio [0]. Under the Standing Orders, the Committee is also in charge of the final settlement of the state budget [3.3]. Accordingly, this indicator for Croatia receives the score of [6.7] on the Wehner scale.

f. Access to Budget Information

The issue of access to information is actually about budget transparency. The important question is: is there an independent parliamentary body able to analyze budget items, seek clarification regarding specific items, and inform a legislative body about it? The score for this indicator actually uses some practices that appear in the previous indicator since committees partially perform the budget process transparency function (Von Hagen 2006). If that body does not exist, the indicator is coded with [0]; if it has up to ten members, [2.5]; for up to 25 members, [5]; for up to 50, [7.5], and for above 100, [10] (Wehner, 2010: 40-41).

In the Serbian political system, there is only one body with the formal and legal grounds to monitor the budgetary process and the Government's role in it: the Assembly Committee on Finance, State Budget and Control of Public Spending. The Committee comprises 17 members. Another working body of the Assembly, Fiscal Council, has been operating since 2011, and also has very specific tasks *vis-à-vis* the fiscal policy, but only has three members. Therefore, we gave this indicator the score of [5] on the Wehner scale (Pavlović and Stanojević 2011b; 52).

The Croatian Parliament constitutes two bodies whose objective is to oversee the budget process. These are: The Finance and Central Budget Committee and Commission on Fiscal Policy. Pursuant to the Croatian Parliament Standing Orders (Article 73), the Finance and Central Budget Committee has 19 members and is the principal working body of the Parliament in matters pertaining to the financing of public needs, the central budget and its final settlement, budgetary policy, international financial relations and the like. The committee debates draft legislation that gives rise to financial commitments and reports to the Assembly on its opinions, positions and proposals.

On the other hand, the Parliament also constitutes the Commission on Fiscal Policy (Decision on the Establishment of the Commission on Fiscal Policy). The Commission has seven members and is chaired by the Chairman of the Finance and Central Budget Committee, while non-parliamentary experts from important economic and legal institutions are elected to the remaining six seats. The task of the Commission is to control the implementation of fiscal rule enacted by the Law on Fiscal Responsibility (Article 4). It is also within the Commission's competency to establish if, in the event of economic crisis, the fiscal rule is to be suspended. Although not explicitly accountable to the members of Parliament, the Commission does it implicitly by reporting to the public, and is thus mentioned as a body contributing to the transparency of the budget process. Jointly, the Committee and the Commission have 26 members (the Chairman of the Finance Committee is a member of both). Hence, we gave this indicator for Croatia [7.5] on the Wehner scale.

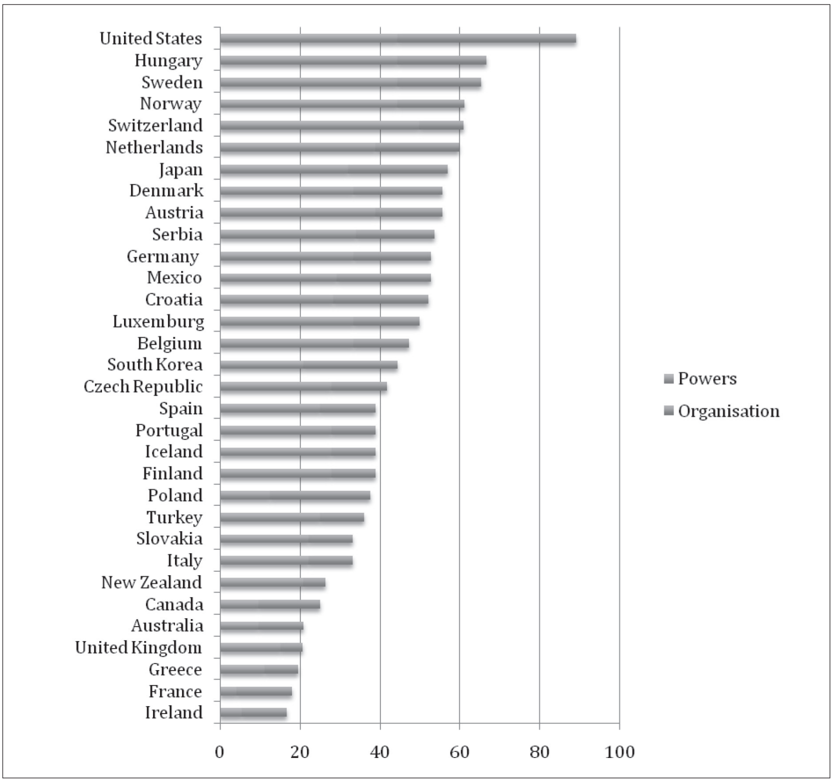
4. Comparison With Other Countries

Before we compare Serbia and Croatia to other countries, we present separate data for Serbia and Croatia in Table 1. The data has been obtained by the analysis elaborated in the previous section. The first three indicators (a–c) together make the power indicator; the other three indicators (d–f) make the organization indicator. Indices are aggregated in two groups as the first three indicators are often incorporated in the Constitution or some organic law (e.g., Law on the Budget System), while the other three indicators point to the organisational capacity of the legislature and are defined by the laws on the legislature (parliament act, rules of procedure, etc.) (Wehner 2010a: 52). As we can see from Table 1, the analysis of the legal acts gives Serbia the total score of [53.6], while for Croatia it is [52.1].

	Pow. a	Rever. b	Flex. c	Time d	Committees e	Research f	Powers g=(a+b+c)	Organization h=(d+e+f)	Index i=g+h
Serbia	8.75	5	6.7	0	6.7	5	34.1	19.5	53.6
Croatia	8.75	5	3.3	0	6.7	7.5	28.4	23.7	52.1

Table 1. Power and organization indicators for Serbia and Croatia. The sum of sub-indicator values for power and organization have been divided by 0.6 to normalize the index at 100.

If the results obtained for Serbia and Croatia were compared to the results for the 17 countries[4] from Wehner's research, both countries would be ranked in the middle of the list (see Graph 2).



Graph 2. The Index of legislative budget institutions. (Adopted from: Wehner, 2010: 54).

4 More detailed data on each sub-indicator for every country presented in Wehner's graph can be found in: Wehner (2006).

5. Conclusion

The discussion in this paper points to an important conclusion: while mechanisms of the common pool resource problem, the Budget dilemma, and the $1/n$ Law have adverse effects on the level of public spending in parliamentary regimes with proportional representation, this still does not mean that a prudent fiscal policy in those regimes is impossible.

Namely, from the ranking presented in Graph 1, it is evident (if we omit the top-ranking US) that parliamentary democracies with proportional representation, too, can develop the institutional design that can limit public spending. As can be seen from Graph 2, a large number of countries with a high index (though not as high as in the case of US), do not have a presidential or even semi-presidential system.

In other words, although parliamentary regimes with proportional representation show a tendency for higher spending, with an adequate institutional design it is also possible to create rules in these regimes that could eliminate the effects of mechanisms that create a tendency for higher public spending. Those rules should not imply the discretionary power of any branch of government, but rather pre-define the level of spending, deficit and public debt (Ferejohn and Krehbiel 1987).

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