1

COMPARATIVE BUDGETING

INTRODUCTION

Budgeting has come of age in the twenty-first century. As globalization progresses, more information is available about budget processes and practices of nations around the world. Budgeting continues to be recognized as one of the most critical policymaking processes, reflecting national priorities and previous policy choices. Nearly a generation after the fall of the Berlin wall and the collapse of the Soviet Union, we have seen the creation of new economic and political institutions across a range of transitional democracies. The European Union has grown to twenty-seven nations and contemplates further expansion. Its budget processes and decisions become more important to member nations every year. Rapid globalization has not only affected commerce, it has also increased the degree that innovations in budgetary practices are recognized across international borders. Nations continue to attempt to learn from the successes and failures of others. International reform efforts have been launched to give poor countries better systems and outcomes. But budget reform targets rich countries as well: budget deficits, government guaranteed pensions, and health care costs challenge budget makers around the globe. This book attempts the massive task of comparing budget systems around the globe. The first chapter attempts to develop a comparative framework that can provide global perspectives on government taxing and spending.

A budget tells much about a nation: its health, wealth, problems, and priorities. It reveals the size of the public sector compared with the private sector and the degree of government control of the economy. It indicates the share of national wealth devoted to military spending versus social programs. It reveals a set of policy choices made over a long period of time. A budget is an accounting of revenues and expenditures and can variously be a planning document, a proposal, a guide to operations, or a record of what was collected and spent. National budgets serve several purposes simultaneously and in various nations; budgeting has evolved to encompass new and different objectives. In a democratic political

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system, the budget process usually involves the preparation of proposals by an executive, review by a parliament, and execution by a bureaucracy.

Budgeting is an important component of governance. What does it say about a political system if it is incapable of rectifying fiscal imbalances, for example? Budgeting is also a critical component of policymaking. Comparative budgeting is premised on the fact that the allocation of public resources affects policy results. Progress in solving public policy problems is linked to how resources are allocated within and between sectors. While some policy failures are linked to disputes about the desirability of certain goals or the means to achieve them, other failures can be traced to weak management controls, underfunding, improperly designed projects, or institutional disincentives for proper performance.

Developing a comparative framework to analyze budgeting around the world is challenging for many reasons. What are the relevant variables? What are the consequences of whether a country is rich or poor, developed or developing, democratic or democratizing, transparent or secretive, centralized or fragmented? What is the appropriate level of detail or generality? The challenge for an effective comparative analysis is to develop meaningful categories that recognize both important differences and commonalities, recognizing interesting details without being swallowed up in budget trivia. What is the role of normative judgments? Much of the comparative budgeting literature is normatively based, focusing on the application of practices in advanced countries. But how transferable are knowledge and budget practices from one political system and political culture to the next? These are some of the questions that we will try to answer.

In this first chapter, we present a framework for comparing budgeting across a range of political systems, from the United States and Europe, to democratizing and developing nations around the world. First, we explore the dimensions of the political and economic environment that create a context for national budgeting. Second, different levels of budgeting—microbudgeting versus macrobudgeting—are considered. Third, we consider how constitutional structure and political institutions affect budgeting. Fourth, we consider budget institutions and processes and identify the stages of budgeting that are commonly found. Fifth, we take up the question of reform and the transferability of practices from one country to another and the international institutions that are pursuing reform agendas. Finally, we look at the policy context and policy challenges facing budget makers as well the constraints that often limit maneuverability.

THE CONTEXT OF BUDGETING

Wealth and Economic Strength

Work on comparative budgeting going back to the 1970s (Caiden and Wildavsky 1974; Wildavsky 1975) focused on the relative wealth or poverty of a country as a

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predictor of their budget processes. While Aaron Wildavsky had popularized the theory of budgetary incrementalism in the United States (Wildavsky 1964), he recognized that budgeting was not stable from year to year in poorer countries. He hypothesized that the wealthier countries would have more predictable budget outcomes, while poorer ones would be unstable and characterized by repetitive budgeting—the need to frequently revisit or revise previously made budget decisions. He wrote:

> Wealth and predictability control all other variables. Poverty homogenizes behavior. When nations are extremely poor and woefully uncertain, the consequences are so pervasive and profound as to determine almost all budgetary behavior. The rulers, so long as they are in power, may decide who gets what the government has to give, but the formal budget is unlikely to be a very good guide to what will happen. . . . Rich and certain environments lead to incremental budgeting; poverty and predictability generate revenue budgeting; unpredictability combined with poverty generates repetitive budgeting; and riches plus uncertainty produce alternating incremental and repetitive budgeting. (1975, 11–12)

In the twenty-first century, the link between economic conditions and budgeting still are very important. The poorest nations of the world often have poorly functioning political institutions and public financial management systems. Clearly, the level of economic development and national wealth has a tremendous impact on public budgeting. In nations such as Malawi, with a per capita Gross Domestic Product (GDP) of $140 per year, governments are limited in what they can tax and spend compared to Luxembourg, with per capita GDP of $53,000. The structure of the economy (agrarian, industrial, postindustrial), the rate of economic growth, and the possession of natural resources are all significant as well. Table 1.1 examines per capita GDP for the wealthiest and poorest nations. Clearly, governments cannot tax and spend what citizens do not have.

Size of the Public Sector

One important comparison among nations concerns the size of the budget relative to GDP and the degree to which GDP is composed of private versus government spending. Before the end of the cold war, the economies of the Soviet Union and Eastern bloc nations were government-run, using centralized planning rather than a market system. In many of these nations a large underground or "gray" economy existed. With the democratization in the 1990s, many such nations began to privatize their economies, some gradually, some rapidly using "shock therapy." Today, with the exceptions of a few holdouts such as North Korea, most national economies have significant elements of market capitalism.

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Table 1.1. Per Capita Gross Domestic Product for Richest and Poorest Countries

Rank	Country	GDP Per Capita	Rank	Country	GDP Per Capita
Highest GDP Per Capita					
1	Luxembourg	$52,990.0	36	Puerto Rico	$17,420.0
2	Norway	$49,080.0	37	Israel	$17,220.0
3	Switzerland	$44,460.0	38	Kuwait	$16,700.0
4	Denmark	$39,330.0	39	Bahamas	$16,590.0
5	Ireland	$38,430.0	40	Greece	$15,650.0
6	United States	$37,240.0	41	Martinique	$15,560.0
7	Iceland	$36,960.0	42	Cyprus	$14,790.0
8	Bermuda	$35,940.0	43	Portugal	$14,640.0
9	Sweden	$33,890.0	44	French Polynesia	$14,190.0
10	Japan	$33,680.0	45	Slovenia	$14,130.0
11	Netherlands	$31,770.0	46	South Korea	$12,690.0
12	Austria	$31,410.0	47	Taiwan	$12,670.0
13	Finland	$31,070.0	48	Malta	$12,160.0
14	Cayman Islands	$30,950.0	49	New Caledonia	$11,920.0
15	United Kingdom	$30,280.0	50	Netherlands Antilles	$11,140.0
16	France	$29,240.0	51	Bahrain	$10,790.0
17	Belgium	$29,170.0	52	Barbados	$9,690.0
18	Germany	$29,130.0	53	Saudi Arabia	$8,870.0
19	Qatar	$27,990.0	54	Czech Republic	$8,790.0
20	Canada	$27,190.0	55	Hungary	$8,360.0
21	Australia	$26,520.0	56	Trinidad & Tobago	$8,010.0
22	Italy	$25,580.0	57	Guadeloupe	$7,950.0
23	United Arab Emirates	$23,650.0	58	Oman	$7,480.0
24	Hong Kong	$22,380.0	59	Estonia	$6,990.0
25	Virgin Islands	$22,320.0	60	Croatia	$6,540.0
26	Faroe Islands	$21,600.0	61	Mexico	$6,050.0
27	Singapore	$21,490.0	62	Slovakia	$6,040.0
28	New Zealand	$20,400.0	63	Equatorial Guinea	$5,900.0
28	Spain	$20,400.0	64	Reunion	$5,750.0
30	Guam	$19,750.0	65	Poland	$5,430.0
31	Greenland	$19,640.0	66	Lithuania	$5,360.0
32	Aruba	$18,940.0	67	Lebanon	$5,040.0
33	Andorra	$18,790.0	68	Latvia	$4,770.0
34	Brunei	$18,290.0	69	Chile	$4,590.0
35	Macau	$17,790.0	70	Gabon	$4,510.0
Lowest GDP Per Capita					
1	Burundi	90	11	Mozambique	230
1	Ethiopia	90	11	Nepal	230
3	Congo	110	11	Niger	230

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Table 1.1. (continued)

Rank	Country	GDP Per Capita	Rank	Country	GDP Per Capita
4	Liberia	130	14	Uganda	240
5	Malawi	140	15	Tajikistan	250
6	Guinea-Bissau	160	16	Gambia	280
6	Sierra Leone	160	16	Tanzania	280
8	Eritrea	180	18	Bhutan	300
9	Rwanda	190	18	Cambodia	300
10	Afghanistan	200	18	Chad	300

Source: The Economist, *Pocket World in Figures* (London: The Economist Ltd, 2006), 28.

Even China, which retains a one-party communist political system, has allowed extensive growth of a market economy and has become a major player in the global economic system. One indication of the size of a nation's public sector is the amount of GDP that is collected by the government. Figure 1.1 compares tax revenue as a percentage of GDP for OECD countries (Organization for Economic and Development—a group of wealthier, more developed countries). On the low end are Mexico, Japan, Korea, and the United States, taxing 25 percent or less of GDP. On the high end are Scandinavian countries such as Sweden, Denmark, and Finland that provide extensive "cradle to grave" social welfare systems and tax nearly one-half of GDP.

Governments do not necessarily raise money using the same kinds of taxes. Some nations, such as the United States, raise the majority of revenues by taxing income and profits. Most other nations depend much more heavily on taxes on consumption of goods and services. For example, taxes on goods and services in the United States averages less than 5 percent of GDP compared to 16 percent in Iceland.

Economic factors are a crucial element of the budgeting environment. Irene Rubin suggests that the level of resources influences the degree of centralization or decentralization in budgeting (Rubin 1990, 24). Under conditions of scarcity, budget processes are more likely to be centralized than under conditions of abundance where decision makers can afford to be more decentralized in responding to the demands of interest groups. We will discuss this further when political and budgetary institutions are examined.

Public Debt and Social Contracts

Taxing citizens is the main way governments pay for programs and investments, but borrowing is another source of funds, particularly in wartime. When governments spend more than they collect in revenue, they run budget deficits and

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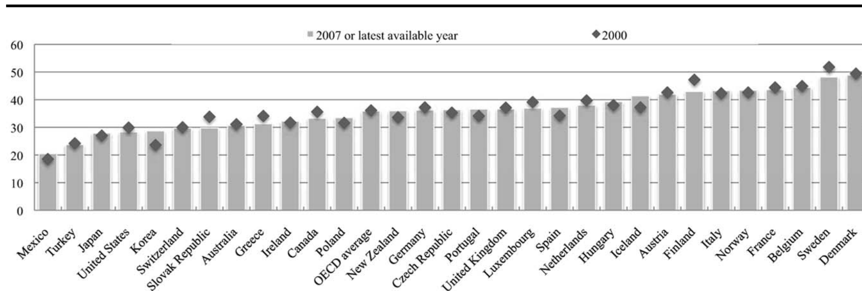
FIGURE 1.1. Total Tax Revenue as a Percentage of GDP, 2003



Source: Organization for Economic and Development, *OECD Factbook 2006*, 193.

borrow the difference. The sum of all deficits in history minus any budget surpluses equals a nation's debt or financial liabilities. In the case of extremely poor nations, debt relief is sometimes granted, but most nations must meet their financial obligations. Extensive government borrowing is dangerous, and most nations try to maintain relative balance between revenues and expenditures. This is often politically difficult because of public demands for programs and benefits. However, large amounts of accumulated debt make budgeting more challenging because it reduces decision makers' degrees of freedom and straps the budget with debt service payments—interest on past borrowing. Figure 1.2 shows the changes in public debt levels of OECD countries in the decade between 1995 and 2004. In the early 1990s, debt was rising in most countries. Since the mid-1990s, as the world economy performed well, debt began to decline in many countries but with some notable exceptions. Debt ratios rose rapidly in France, Germany, and Greece. Countries such as Luxembourg and Korea have maintained relatively low levels of debt, while Italy and Japan have accumulated significant amounts of debt. Japan's debt in 2005 was more than one and one-half times the size of its entire GDP. The United States was about average with its $8 trillion debt equal to about 60 percent of GDP. After having surplus budgets for three years between 1999 and 2001, U.S. deficits surged to record levels and the level of debt began to increase again. Because of the recessionary effects on GDP and expansion of public expenditures for the stimulus program and aid to the financial and banking sectors, U.S. new public debt will reach an estimated 98 percent of GDP in 2009 (Economist 2009). As we will see in chapter 3, the European Union has rules concerning how large budget deficits can be but have had difficulty enforcing them.

In addition to accumulated debt, other past budget decisions are a critical dimension of the environment for national budgeting. Nations that commit to comprehensive social welfare programs—a social contract with citizens—limit the

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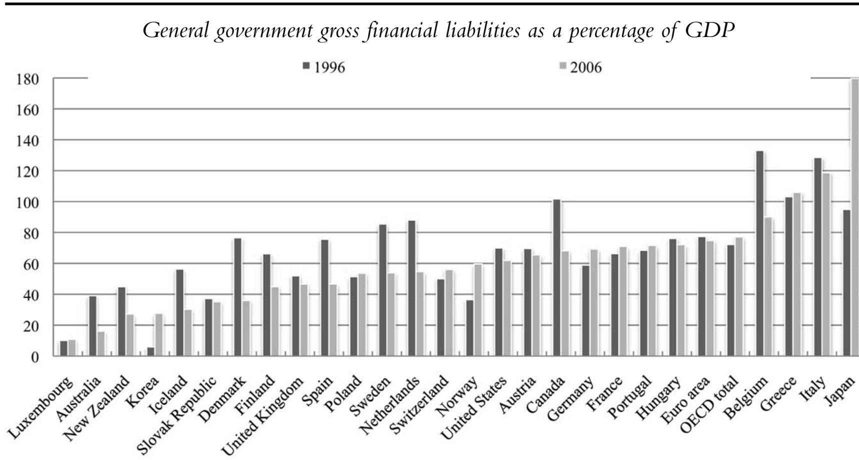
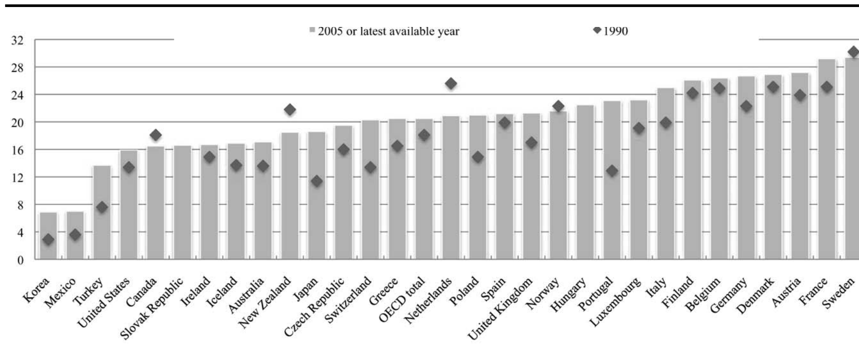
FIGURE 1.2. Comparing National Debt 1995, 2004

General government gross financial liabilities as a percentage of GDP



Source: Organization for Economic and Development, *OECD Factbook 2006*, 179.

FIGURE 1.3. Public Social Expenditure as a Percentage of GDP, 2001



Source: Organization for Economic and Development, *OECD Factbook 2006*, 63.

degrees of freedom of subsequent decisions. Figure 1.3 takes an overview of social spending in OECD countries. On average, OECD countries spend 21 percent of GDP on social spending, but the range is from 5 percent in Mexico to nearly 30 percent in Norway and Sweden. The United States is below average at just under 15 percent of GDP. The kinds of budget choices made in the past have significant constraining effects on budget choices in the future.

Budgeting is increasingly reliant on estimations and projections of economic performance, revenue collections, and social spending. Budget estimates are based on a set of assumptions derived from econometric models, themselves contingent

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on a set of assumptions. Projections are often wrong. If the economy underperforms, cyclical deficits are created. In the United States' case, an increase in unemployment of 1 percent over projection can increase the budget deficit by $40 billion by reducing revenues received and increasing social spending (such as unemployment compensation). Conversely, an improvement in real growth of 1 percent over projection can reduce the deficit by more than $100 billion in a few years. Because many nations run deficits and have accumulated debt, budgets are also sensitive to changes in interest rates.

POLITICAL CULTURE AND BUDGETING: FRENCH-, U.S.-, IBERIAN-, BRITISH-, AND SOVIET UNION–INFLUENCED SYSTEMS

Political culture is also a key contextual element in comparative budgeting. Following the fall of the Berlin wall in 1989 and collapse of the Soviet Union in the early 1990s, many nations of Central and Eastern Europe underwent dramatic political and economic transitions. Political culture consists of values and attitudes that affect political behavior. For example, an authoritarian setting driven by brutal police state tactics for more than forty years discouraged personal trust, individual risk taking, and adoption of new political ideas, management systems, and production methods. Mass publics and elites living under generations of communism with centralized resource allocation, artificially low prices, and few taxes on individuals have made it difficult to adopt new budget processes and policies. Writing about budget reform in Hungary, Jeffrey Straussman warned that "prescriptions need to accommodate the realities of history, particularly after more than four decades of experience with a command economy" (1996, 93). How can the relevant features of political culture be identified in comparing budgeting around the world?

In comparing budgetary systems and considering the transfer of practices from one country to another, one must account for local values, attitudes, and customs. Political culture can be viewed in several ways, either emphasizing attitudes and values (sociological/ anthropological) or political and economic institutions. Viewed as a response to political and economic institutional forces, political culture can be useful in explaining budgetary practices such as the lack of program analysis, resistance to devolution of authority, and centralization of power in developing and democratizing countries. Some centralized cultures have highly formalistic, top-down relationships, where managers exercise authority in peremptory fashion. Underlings are berated in public or even flogged for minor errors. In Nepal, a process of endless movement of documents for signature ensures delay and allows senior officials to maintain control over

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all but the most minor decisions (Somali, 1992, 6). In some Latin American and Eastern European countries, middle managers may not make even minor transfers between budgetary funds without approval from superiors. From the perspective of budget reform, the degree of mutability of a political culture is critical. There is evidence from Central and Eastern Europe during the 1990s that budget practices can change quite rapidly (Thurmaier 84; LeLoup et al. 1998). Observers such as Harrison (2006, 97) believe that political cultures can be roughly classified a "change-prone" and "change resistant." In their view, cultures are independent variables that influence individual and institutional behavior and affect how societies evolve. For purposes of comparative budgeting improvements, all cultures are not of equal worth and can operate as major constraining influences. From sustainable economic success stories such as Chile, Botswana, and the Novgorod region of Russia, they argue that cultures are variables not constants. Politics can change culture (2006, 97). These can be incremental cultural changes produced by marginal technical reforms. For example, when the MOF introduced a mechanism to increase expenditure reporting and control in exchange for devolution of increased budget management authority to line officials in ministries, Ecuador developed an improved culture of budget reporting (Guess 1992).

How do political cultures influence budgetary behavior? It can be surmised that the effects of political culture and institutional history will influence efforts to change official and institutional behavior relevant to public budgeting. What is relevant for budgeting is that more advanced political cultures are compatible (encourage) institutions that transcend individuals, families, and clans. Budgetary institutions in such cultural contexts are more transparent—allocations take place more transparently. Conversely, less advanced or backward cultures encourage opaque allocations according to individual or family discretion. Institutions in such cultural contexts do not function systematically and according to transparent rules. They are more arbitrary and less predictable than in advanced cultures. It can be suggested that cultural and historical factors will likely have greater influence over broader policy changes (e.g., elimination of state enterprise or SOE subsidies from the budget for improved macroeconomic stability) than over narrower technical changes (e.g., change local government or LGU budget and accounting codes for improved reporting). Thus, for broader policy changes (e.g., devolution and delegation of functions) one may expect political culture to exert positive and negative influences. In order to cover the widest number of countries, it may be helpful to examine those core systems that had significant influences over other countries (Guess, Loehr, and Martinez-Vazquez 1997, 45). For explanatory purposes, institutional historical generalizations from former colonial blocs can be useful in thinking about models of budget culture: (1) French, (2) Iberian, (3) U.S., (4) British, and (5) Former Soviet Union.

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French Systems

Assignment of Authority

The French context is that of a state-created nation with strong treasury influence over central and local fiscal and policy direction. States under the historical influence of the French system (Africa, and Eastern European states with French-speaking elites such as Bulgaria and Albania) often function consistently with principles behind this institutional model. The French model of strong central state has influenced several states to deconcentrate their services rather than devolve control of them to local units; or to retain control at the center.

Financial Management Process

The French financial management system is based on two principles: strong financial control and a central treasury (Premchand 1983, 133). Fiscal controls are exercised by cadre of ministry comptrollers, public accountants, and powerful financial inspectors. The treasury functions as a cashier and a banker. Control and treasury functions are devolved to subnational units so that local authorities are integrated into the national system. Of late, to achieve fiscal decentralization efficiencies, greater authority has been devolved to local units.

Legal Basis of Public Management

The French legal system (the Napoleonic civil code tradition) attempts to codify public decisions and tends to work against the U.S. tradition of managerial autonomy. The French legal system is similar in management function to the Spanish code—both operate to some extent as constraints to increases in public sector productivity by increasing the perceived risk of making an erroneous and possibly illegal decision.

Iberian Systems

Assignment of Authority

The Iberian-Spanish influence over Latin American governmental structures and processes remains strong. The Spanish centralist tradition created governments throughout Latin America with central government control over the country. Intermediate administrative layers represented arms of the central government rather than autonomous tiers of government in a federal system. The centralist tradition produced either unitary-style systems or strong reactions to authoritarian centralism as exemplified by the "laissez-faire" decentralization in Brazil. In the Brazilian federal system, central influence over local priorities is limited. By contrast, in Mexico, which is also a federal system, the influence of the central government is very strong (Shah 1994, 6).

The Iberian centralist tradition can be reversed or mitigated by changes in colonial masters or evidence of economic benefits outweighing political costs. In

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the Philippines, the U.S. colonial system restored the local role in government that had been eliminated under the rigidly centralized political authority of Spanish influence (Miller 1996, 6). Centralist controls can be mitigated by institutional quid pro quos without encountering major cultural constraints. For example, to speed up budget releases the Ecuadorian MOF reduced multiple steps for pay order approvals in 1989 in exchange for greater post-audit reporting requirements. The experience of learning and performing novel but narrower technical tasks can change routines incrementally, which leads to cultural adaptation and change (Guess 1992). Many Latin American local governments still lack the discretion to decide which programs to apply funds, (i.e., devolution). But since the mid-1990s, Latin American states have delegated many functions to municipalities to serve as agents for the central government in program administration (Lopez Murphy 1995, 31). Of late, Spain has adopted a highly decentralized system, devolving expenditure and taxing powers to two regions. Although Spain still has a unitary system of government, many of its features are similar to those in federal systems.

Financial Management Process

Latin American budgetary systems have evolved from Iberian influence partly from their own administrative experiences. The major features of Latin American budgetary systems have been: extensive earmarking of funds and deconcentration of government activities into autonomous agencies (Premchand 1983, 134). Budgets are narrow in coverage, meaning that fiscal deficits may not measure operations of the consolidated public sector. This has inhibited central macroeconomic planning and expenditure monitoring and control, and explains some of the more serious fiscal policy problems with which Latin American states have had to grapple.

Legal Basis of Public Management

Institutional change and assumption of management responsibilities have been inhibited by the formalistic tradition of the legal codes that attempt to codify public decision making. The tendency of management to await specific orders from higher authority before taking action is a direct product of this legal tradition (and is similar to the legal environment faced for years by socialist officials). Where a tight vertical command structure governs official action at the expense of program efficiencies, risk taking and innovation are inhibited.

United States Systems

Assignment of Authority

Governmental structure consists of constitutionally based delegations of substantial authority to states. States delegate authority to local governments. States can

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choose their own tax structures so long as they do not violate the Constitution, which prohibits levies that interfere with interstate commerce or that discriminate against subgroups in the population. Each tier of government has its own budget. But budgets are related through networks of intergovernmental transfers. State and local recurrent budgets must be balanced. Borrowing is officially allowed for capital purposes only. The U.S. government receives most of its revenues from income taxation; the states from sales and income taxes; and municipalities from property taxes and state transfers (Bahl 1995, 77). The level of budgetary autonomy and taxing powers of LGUs in the United States are for the most part unmatched in the world. This makes the United States a special case.

Financial Management Process

The U.S. local government budgeting model is heavily oriented toward management discretion and away from legal restrictions on operations. Budgets are prepared and approved according to matches between revenue authority and expenditure needs. Budget items are not legally coded; accounting and budget codes can be changed for purposes of improved management without legal decisions; expenditure authority is granted by the council and exercised by managers subject only to internal and external controls. Emphasis is also on post facto responsibility for expenditures through audits rather than pre-control of each transaction (as is common in Latin America) by ministry accountants that can delay service delivery and drive up costs of investment projects.

Legal Basis of Public Management

U.S. LGU managers have considerable discretion based upon broad grants of legal authority. LGU units formulate budgets without specific reference to legal codes. Formats and budget structures can change within the context of potentially adverse judgments by financial markets and auditors on transparency criteria. Accounting codes can be changed within the same broad framework. Managers implement budgets within council-approved budget limits and are subject to discipline depending upon budget resolution language on overspending items and totals. Reasonableness of managerial discretion can be the subject of cases brought before independent administrative law tribunals.

British Systems

Assignment of Authority

In the British model, delegation of power has evolved over the years in a way that has blurred accountability. The Westminster model consists of a very centralized unitary state, a vague constitution that is very adaptable but can easily be manipulated, an executive that dominates Parliament, and an ethos of Treasury domi-

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nance of the Whitehall bureaucracy (Whiteley 1996, 945). Emphasis on the cabinet-parliament form of government within the framework of common law has influenced the design and functioning of "Commonwealth" nations across continents from Australia, to Central America (Belize) and Africa (Ghana). In this context, local governments are integrated into the central government structure and are provided with substantial levels of transfers to cover local constituent needs. This balances treasury preferences for expenditure control with local authority preferences for autonomy.

Financial Management Process

The budget law establishes a central consolidated fund through which all revenues and expenditures flow. In the UK model, budgeting focuses mainly on the expenditure side and spending agencies are subject to different degrees of control during budget execution (Premchand 1983, 133). Cash limits were introduced in the 1970s as an instrument of budget control and they indicate in advance the maximum amounts to be spent by line agencies on blocks of services. Cash limits incorporate prespecified amounts for inflation and indicate that some purchases are to be cut if prices exceed the limits. The cash limits extended to fiscal transfers to local governments. In the UK, about 80 percent of local government revenues flow from the central government in grants. Even though local governments provide only 20 percent of their own revenue, the UK is considered decentralized by many observers. Because of substantial revenues from transfers (which eliminate most of the vertical imbalance), UK local governments spend the second highest share of total public sector expenditures among OECD countries (World Bank 1995, 38).

The UK budget model uses a multiyear expenditure planning and control framework. The Public Expenditure Survey (PES) of the 1970s created a framework for: analysis of expenditures within functional groups, provision of revenue and expenditure estimates on a constant basis (ensuring that agencies and local governments would be funded in real terms), and budgeting through annual budgets made part of rolling multiyear plans. High inflation weakened this framework and cash limits replaced the PES in the 1980s (Axelrod 1988, 279).

Soviet Union–Based Systems

This is the largest of centrally planned systems in transition. External assistance programs have had to account for the extraordinary political and ethnic diversity of the Russian Federation. The challenge is to build effective institutions for intergovernmental relations, budgetary management, and economic stabilization within the historical context of a society that lacks a civil society tradition (Hoffman 1996, A1).

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The system of intergovernmental relations in the Former Soviet Union (FSU) had a profound effect on the financing systems that emerged with its breakup. For many years during the transition, the Russian Federation continued to use the same fiscal framework and approaches that were used in the Soviet Union. This was also the case with most of the former Soviet Republics including Ukraine and Kazakhstan. The only break with the old system took place in the Baltic countries (Martinez-Vazquez and Boex 1995b).

The Soviet system of intergovernmental finance was de jure a highly decentralized system. But de facto the system operated more like a centralized unitarian system than a decentralized federal system.

Assignment of Authority

The legal framework provided each level of government with significant freedom to formulate their budget and even raise their own revenues. In practice, all decisions were made at the center. The only agency with ultimate decision power was Gosplan (The Ministry of Planning and Economy). Even the role of the ministry of finance (MOF) was secondary. The system was pervaded by "dual subordination" which meant that LGU officials at the republic, regional (oblast), and local (*rayon* and city) levels had to respond not only to their government but also all the way to the top in Moscow.

However, because of the vastness and diversity of the system, it was hard for the center to exert close-range control of subnational government activities. The authority of the central authorities was based more on legal instructions on the use of thousands of budgetary items for public expenditures, than on the ability to control or receive information from subordinate units. This lack of control was evidenced by the fact that what ultimately led to the breakdown of the FSU was the refusal of the republic governments to transfer up tax revenues that supposedly belonged to the Federation.

Financial Management Process

The main feature of the budgeting process under the Soviet Union was a model of the "nested" budgets that had been associated with the image of Matrushka dolls, a popular folklore item in Russia. Like dolls hiding smaller dolls within, the budget of the Federation contained all consolidated budgets of the republics. The latter in turn contained the consolidated budgets of the regions (*oblasts*). And the budgets of the regions contained the budgets of the lowest tier of government, *rayons*, which are similar to counties, and the *gorads* (or cities). The budget process was informed by a fairly detailed assignment of expenditure responsibilities for the four tiers of government and by an extremely detailed set of budgetary "norms" or physical standards on how public services at each level should be provided (e.g., roubles/meal/type of hospital/type of patient). The assignment of expenditure responsibilities was roughly consistent with the general principles of

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expenditure assignment reflecting benefit areas and the possibility of economies of scale in production. However, this assignment was not linked with any significant degree of budgetary autonomy. Budgets were formed according to a vertically hierarchical process and had to be based on centrally set budget norms. Even though the norms were supposed to represent minimum standards of service, they in fact represented budget ceilings (Martinez-Vazquez 1994b).

The assignment of revenue sources and the determinations of transfers (or subventions) took considerable effort and negotiation through successive interactions among the four tiers of government. But in reality the only purpose of these negotiations was to provide enough funding to cover the minimum expenditure budget determined through application of the norms. Thus, the negotiated budget process was about the size of the minimum expenditure budget. These negotiations always took place in the hierarchical fashion implied by the "nested" budgets. For example, rayon and city officials negotiated only with regional or oblast officials and after the federation, republican, and oblast budgets were already approved.

Even though all levels of government had been assigned their own sources, the most important source of funding was the sharing of national taxes. The sharing rates were "regulated" and adjusted on a customized basis so that funding would not exceed the minimum required expenditure budget set by the norms. In those cases where even total sharing of taxes was insufficient to cover the minimum expenditure budgets, republics, oblasts, or rayons received a subvention or block grant. The end result of this financial management process was a crazy quilt of different sharing rules and subventions in a negotiated process that favored officials with more power and access. The distribution of public resources however, was only partially determined by the budget. Considerable levels of public services (from kindergartens and health clinics to roads and heating plants) were provided outside the budget by state enterprises. The location and resources of each enterprise were determined by Gosplan.

This financial management process is still largely operational in most of the former Soviet republics. In some of the former republics, improvements and innovations have been introduced. For example, in Russia revenue-sharing rates between the federation and the regions are now uniform and part of the equalization transfers are implemented through a formula. However, the basic concept of determining a minimum expenditure budget and filling the funding gap with revenue sharing and subventions still persists. In Russia, intergovernmental relations between the eighty-nine regions and the local governments within each region still replicate the old Soviet model. This is also the case for most of the Central Asian republics and those in the Caucasus, Ukraine, and Belarus.

Why, then, is political culture important to budgeting? One reason is to avoid application of culture-specific concepts to reform programs. Analysis of cultural constraints can avoid wasting funds, and wasting policy capital on reforms that

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might have succeeded if designed with such sensitivities in mind. For example, as we examine in chapter 7, budget reform is often equated with performance-type budgeting systems. But the concept of "performance" itself is relative and culture-specific—it could mean rule compliance, obedience, protection of resources, cooperation/overt conflict avoidance, etc., where these are the dominant local goals (Schiavo-Campo and Tommasi 1999, 11).

This section has identified some important contextual factors to consider in comparing budgeting across a range of countries: wealth and economic strength, government spending as a proportion of GDP, previous budget choices such as debt accumulated from running budget deficits and past choices in terms of promises of social programs for citizens, and the political culture in which budget choices are made. Next we distinguish decisions on the parts of the budget versus the whole budget.

MACROBUDGETING VERSUS MICROBUDGETING

A key development in budget theory in recent years has been the differentiation between microbudgeting and macrobudgeting and the dynamic between them (LeLoup 1978, 1988). Macrobudgetary decision includes choices on broad-based budget totals, the size of the public sector, deficits and debt, relative budget shares of military, social, and other spending categories that are influenced by aggregate economic trends and external constraints. These are decisions about the budget as a whole more than its many detailed parts. Macrobudgeting represents more centralized, top-down processes and decisions made by higher-level officials. Microbudgetary decisions include lower-level choices on programs, agency and ministry budgets, influenced by specialized interests and constituencies. Decision making tends to be more fragmented and decentralized, more bottom-up, and focused on middle- and lower-level officials and MPs. It tends to represent the parts of the budget rather than the whole. The tension between macrobudgeting and microbudgeting can be thought of as the tension between the whole and the parts of a budget. It has been shown that in times of fiscal stress, nations turn more frequently to macrobudgeting procedures to restore fiscal order and reduce deficits. Table 1.2 compares microbudgeting to macrobudgeting.

Microbudgeting and macrobudgeting can be compared across a number of dimensions. In terms of executive branch actors, microbudgeting involves agencies, ministries, and bureaus encompassing the full range of what governments do and the services they provide. Their interest and perspective is on their own program, their part of the total budget. Ministers and U.S. department heads are often assertive advocates for their ministries and departments, and they are often backed up by influential interest groups, from pensioners to public employees to veterans. Macrobudgeting, on the other hand, describes the perspective and deci-

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TABLE 1.2. Microbudgeting versus Macrobudgeting

	Microbudgeting	*Macrobudgeting*
Executive Actors	agencies, bureaus, ministries, and interest group allies	president, prime minister, finance minister, budget director
Parliamentary Actors	specialized committees, individual taxing and spending bills, individual MPs responding to constituents	committees that take overview, budget committee, rules committee, party leaders, government ministers
Policy Actions	specific taxing and spending legislation, funds individual ministries and programs, line items	overall budget legislation shaping budget totals, budget resolutions, deficits, debt levels
Process Characteristics	bottom-up, fragmented, decentralized	centralized, top-down
Reforms	expenditure management, cost-benefit analysis, audit and financial control	all budget process reforms, spending limits, treasury systems, unified budgets, external limits on deficits (EU)

Source: Authors.

sions of those responsible for the budget as a whole: the prime minister or president, the finance minister, the officer in charge of the national budget. They are responsible for the overall totals, the deficit or surplus, and the fiscal policy consequences of the budget. They are often oriented to resisting spending pressures, imposing limits or caps on expenditures.

Similar distinctions can be made in the legislative arena. Few national parliaments are as powerful as the U.S. Congress, which reformed its budget process in 1974 (LeLoup 2005, 32–37). It created a budget resolution that would set binding totals to limit the actions of the other standing committees, which were often oriented to increasing spending in their own areas. It also created House and Senate budget committees to draw up the budget resolutions and enforce them. This system was superimposed on the old fragmented authorization/appropriation system very much oriented to microbudgeting (Fenno 1965). In parliamentary systems, different macrobudgetary institutions serve as restraints on spending. In a country such as Slovenia, the finance ministry is generally powerful enough to enforce spending limits. In other systems, the parliament may be prohibited from increasing spending over levels requested in the government's budget requests. In strong parliamentary systems with single party majority, the government is very powerful in its ability to impose discipline or to make substantial changes in budget policy.

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The kind of legislation or policy action is different in macrobudgeting and microbudgeting. Macrobudgeting is characterized by laws that set overall budget totals, cap spending, or otherwise set parameters for other policy actions. In the United States, the president's budget and the congressional budget resolution are such documents, as contrasted to individual spending bills, tax changes, or individual programs. The processes of microbudgeting and macrobudgeting are different as well. Microbudgeting tends to be bottom-up. Agencies make requests to departments or ministries, ministries compile requests together and submit them to the finance minister or budget director. The basis for recent expansion of microbudgetary requests in regions such as Latin America and Eastern Europe are populist pressures from parties and groups outside the formal budget process for more social spending. Macrobudgeting, conversely, is more top-down and centralized. The president, prime minister, or finance minister may have to make hard decisions, cut back on spending, raise taxes to balance the budget, or take other such decisions.

Finally, microbudgeting and macrobudgeting encompass distinct sets of reforms. Microbudgeting tends to focus on discrete issues, procedures to gain greater expenditure control, better accounting, and more professional expenditure management. Macrobudgeting reforms tend to be much broader, aimed at deficit reduction or limiting the growth of surging program expenses in health care or pensions. In the U.S. Congress, they have involved strengthening enforcement mechanisms or trying to force spending cuts if deficit targets were not met. The Maastricht treaty gave the European Union a set of "convergence" criteria to both constrain the macrobudgetary policies of its member states and to provide targets for countries that wished accession into the EU (Annett and Jaeger 2004). In comparing budgeting around the world, the macro-micro distinction is very useful in explaining why some nations seem to have stronger, more disciplined budget systems and others are weak in response to spending pressures from interests.

Other analysts have used similar frameworks to demonstrate the tension between macrobudgeting/microbudgeting. Anthony and Young (1984), for example, distinguish three levels of organization: strategic, management, and operations. The World Bank has long used a distinction between strategic-policy, allocation/sector, and management/operations (1998). Anthony and Young focused on the tensions and relationships within particular state and nonprofit organizations. The Bank has applied the framework to budget systems and issues, for instance, failure to budget for operations and maintenance at the operations level that affects policy results at the strategic level and allocation of funds to particular sectors such as health or education. Thus, our framework is consistent with earlier efforts but focused more on analysis of the tensions to encourage valid and reliable comparison of financial management functions and systems cross-nationally.

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CONSTITUTIONAL SYSTEMS AND POLITICAL INSTITUTIONS

The relative balance in a nation between macrobudgeting and microbudgeting often is a function of the constitution and political system in a nation. In terms of comparative budgeting, countries differ in their ability to make decisions in a timely fashion, to keep revenues and spending in balance, or to make difficult decisions that impose losses on powerful interests. Interest in the link between constitutional systems and governing capacity goes back to Woodrow Wilson and before. In particular, in the 1980s, critics blamed large U.S. budget deficits on the system of separation of powers and divided government. In the 1990s, the nations of Central and Eastern Europe (CEE) went through a period of rapid political and economic transition, usually writing new constitutions. It provided an opportunity to examine links between political system characteristics and budgeting (see LeLoup 1998). In particular, we are interested in the degree to which decisions are centralized, are subject to multiple veto points, and the extent to which political leaders share a set of common values (Weaver and Rockman 1993, 7).

One of the main distinctions to be made in comparing democratic political systems is that of parliamentary versus presidential systems (Lijphart 1992). Scholars generally find that parliamentary systems, where executive and legislative powers are fused, provide greater capacity to make decisions than presidential systems, where legislative and executive functions are separated. Weaver and Rockman (1993, 11) argue that parliamentary systems usually display greater party discipline, a cabinet of ministers largely taken from the parliament, centralization of power in the cabinet, and greater accountability to voters. Other key differences stem from the nature of electoral systems. Single-member districts tend to produce majoritarian legislatures with fewer numbers of parties represented. Proportional representation systems tend to produce a representational legislature often with multiparty governing coalitions and a larger number of parties represented. Parliamentary governments with majoritarian legislatures tend to provide governments the greatest capacity to perform policy tasks, including budgeting.

As with the influences on budget systems discussed earlier, the distribution of constitutional systems around the world is related to various cultural influences: American, British, European, Iberian, Soviet, and others. In general, the American constitutional model reflects a separation of powers system that often produces divided government; the British model encompasses a strong parliamentary system that often produces single-party majoritarian governments; and the Western European model reflects a proportional representation system that often produces multiparty coalition governments. Table 1.2 is adapted from the work of G. Bingham Powell Jr. and shows how these and several other models have influenced a number of other countries. In the 1990s, Central and Eastern European

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countries rewrote their constitutions and largely followed the cultural influence of Western Europe. This was their model in terms of representational legislatures and parliamentary systems, although some (such as Hungary) developed hybrid electoral systems that included both proportional representation and single-member districts.

The main difference between constitutional types has to do with the relationship between the executive and legislative branches. But there are important differences within presidential and parliamentary systems. Weaver and Rockman (1993, 21) identify three parliamentary regime types: multiparty coalition, majority party government, and single-party dominant. Electoral systems with single-member districts disproportionately reward one party, discourage the formation of third parties, and allow factions to exist within major parties without splitting off. Proportional representation systems can provide elections results that make it difficult to form a governing coalition or lead to instability and frequent elections, as in the case of post–World War II Italy and Fourth Republic France. Within these three types, different kinds of governments can and do occur and often depend on the rules and norms surrounding government formation and no-confidence votes.

Scholars have suggested that the ideological distance between coalition partners affects budgeting and fiscal performance. Alesina and Perotti (1995) suggest that coalition governments with greater ideological differences would be less capable of agreeing on fiscal consolidations. Mark Hallerberg (2004) suggests that under an ideologically more united government, it is possible to delegate power to a strong finance minister and maintain greater fiscal discipline. An example of this is the United Kingdom, with two major political parties, or France, where the governing parties are relatively close to each other. He cites Finland and the Netherlands as opposite cases where ideological distance among parties in the governing coalition does not allow delegation. Instead, fiscal discipline depends on negotiated agreements or budget rules accepted by the parties. We will examine these hypotheses more closely in chapter 4 on budgeting in Europe.

Within presidential systems with separation of powers, party control of the two branches is an important variable. The differences in performance between divided and unified party control has been the subject of much recent research. In the 1980s, several writers linked the record high budget deficits to the continued pattern of divided government (Cutler 1989, 391; McCubbins 1991). The assumption that unified party government produced greater policymaking capacity was challenged by David Mayhew with his 1991 book *Divided We Govern*. Subsequent research, however, has challenged Mayhew's approach and conclusions by noting that more major legislation fails to pass (Edwards, Barrett, and Peake 1997) during divided government. Binder (2003) suggests that if the national policy agenda is measured, unified government is able to enact a higher proportion of those policies than divided government. A recent study of the congres-

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