

After the reformation of the budget procedure – Who Controls the Swedish Budget? – A Summary

In the early 1990s, a study for the Commission of European Communities claimed that institutions shape the outcome of the political processes evolving within them (von Hagen, 1992). In particular, it was argued that a budget procedure that enables a government to commit itself to fiscal discipline is an essential condition for fiscal stability. Fiscal data from EC member countries were used to support this structural hypothesis.

At the time of the study, Sweden was not yet a member of the European Union. However, a Swedish study was made to match the European study. It found that poor Swedish finances could well be attributed to the way the budget was prepared and to the budget procedure. It was contended that, had the Swedish budget procedure resembled that of Germany or the Netherlands, the budget deficit would have been substantially lower (Ds 1992:126).

A new budget procedure

The Swedish study had a great impact on decision-makers in the Swedish Parliament (Riksdag) and the Swedish Government. In the mid 1990s there was no opposition to the idea that constraints on the freedom of the decision-makers would indeed improve government finances. Starting with the preparation of the budget for the fiscal year 1997, there was thus to be what is commonly referred to as a new budget procedure. The existing budget procedure was changed in a number of respects. These include:

- the election period to be four years instead of three,
- a three-year limit to overall government spending,
- a new procedure in the Riksdag, whereby the Riksdag first decides on expenditure for each of 27 policy areas and subsequently sets the appropriations to specific agencies or activities. The subsequent decision must not contradict the first decision. All changes to government proposals must be approved by a majority of the MPs,
- a law on the preparation and execution of the budget.

Contents of the present report

The report examines the new budget procedure in the first year of its existence. This includes an examination of how the budget work was carried out in the Riksdag as well as in the Ministries, and of the Ministries' internal budget work and their relationships with government agencies. Two reference chapters deal with the evolution since the late 1950s of the budget procedure of the city of Gothenburg and the budget procedure and budget practices in Denmark.

The new budget procedure in the Riksdag

During the introduction of the new budget procedure, new objectives were added to the original purpose of improving government finances. It was argued, for instance, that the new procedure would alleviate the heavy work load of MPs, that it would make parliamentary debates more interesting, and that it would prove to financial markets that the Swedish decision-makers had taken charge. The objectives of the reform were thus multiplied to correspond to a number of problems.

In the Riksdag, the new procedure was modified as it was put into practice. More often than not, the major opposition parties did not take part in decisions about appropriations to agencies and ac-

tivities. Many regarded the latter part of the procedure as a meaningless numerical exercise, since the new rules made it difficult even for a majority to amend government proposals. This meant that the role of standing committees in the budget procedure was less active than had been intended. When the Government, by asking the Riksdag to approve expenditure limits, made its spring economic budget an important budget document, MPs felt they were back to the never-ending budget work which they had hoped the reform would dispense with.

The new budget procedure in the Ministries

In the Ministries, strict rules were introduced for dealing with new or unpredicted spending. It was stated that all such spending should be offset by adjustments in other items of government business. Agency spending was to be scrutinized monthly. Quarterly reports were to be made to the Government. Reports to the Riksdag were to be produced twice a year. This meant that the staff of the Ministries were as eager as the agencies themselves to keep spending down. In fact, they considered themselves partly responsible for agency accounting.

The new rules made the Government inventive. Some twenty ways of financing new expenditure were reported in the budget bill. Agencies that had not used up their appropriations might find the money was to be assigned to a new purpose, since the Government proposed to use earlier appropriations as well as future income. At least rhetorically, money could be spent more than once. As long-term financial objectives were set up and adhered to, the economic situation of government agencies became all the more uncertain.

The agencies' objectives were spelled out by the Government for a year at a time. The agencies were asked for many detailed reports on how their work was proceeding and which goals had been fulfilled. In this respect, too, the situation of the agencies became uncertain.

Explicit rules – implicit control

It is concluded that the new budget procedure entails more rules about how the budget decision is to be prepared. These rules are more explicit than previously, but that has not led to a clear allocation of responsibility. Instead, frequent and detailed reports on financial and other issues tend to blur accountability. In part, the responsibility is shifted to those who receive the reports.

Neither have the new, explicit rules brought about an overall, long-term approach to budget matters. Instead, the new rules serve to make management more detailed and more short-term than before.

The new budget procedure requires more reports and more administrative work. At the same time, control over the Swedish budget has become indirect and difficult to identify.

Better finances despite different rules

In Denmark, as well as in Sweden, government finances have been substantially improved in the past few years, despite considerable differences in budget procedures. There is thus no clear relationship between budget procedure and fiscal performance. Budget procedures of different kinds, even those that imply close parliamentary scrutiny, may coincide with financial improvement.

In the city of Gothenburg, political interest in procedural matters slackened as the city's financial situation was improved. Whether or not this will be the case with the new national budget procedure remains to be seen. New initiatives do not necessarily mean that the new procedure will be abandoned, however. New rules – or old rules – may be added to the existing rules. Rules may be modified as they are put into practice. The new budget procedure may remain and change simultaneously.