Patterns of Executive Control over Public Spending

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1.1 Introduction

This paper starts from the assumption that the meaning of control in public finance is neither trivial nor self-explanatory. If states are complex organizational systems where public money is scarce, then control over public spending is a crucial challenge everywhere. The variation in control institutions between countries needs to be explained. The chapter will be divided into five sections. The first section (1.2) explores the role of finance ministries as control agencies in a modern public sector.[1] The sections (1.3)-(1.5) develop two indices for different types of expenditure control by the finance ministry for a group of 50 countries. The two indices are micro-level controls that rely on the finance ministry dominating the bilateral relationship with spending ministries, and macro-level controls, that rely on the finance ministry dominating the whole budget process. The final section (1.6) offers a comparison between the two indices and describes some of the implications of looking at them separately. The paper will conclude with and outlook on further research.

1.2 The Finance Ministry as Control Agency

Finance ministries are as widespread as they are unpopular. Underneath the very substantial variation in the economic, political and administrative histories of even Western European countries is a strong functional logic that drives modern countries, or at least modern democracies, to develop a central ministry for public spending at the core of its executive. In the OECD, only Australia and Canada split the central budget authority between two ministries. In this section, I will briefly discuss the role of the finance ministry as an actor in the central executive.

The finance ministry is a control agency. Its own operating expenditures are extremely small compared to the budget it supervises (Dunleavy 1992:184). As central budget authority, the finance ministry exercises authority over the whole national budget. In Germany, for instance, the relation between the ministry’s own and its supervised expenditures is about 1:1000 (Bundesministerium der Finanzen 2006). A very traditional finance ministry would consider this supervised budget as its program budget, which is defined as funds that are passed on to others (i.e. spending ministries) for implementation, but over which it exercises relatively tight supervision. A strong degree of micro-level controls would constitute the means to do so. If a spending ministry has to get finance ministry approval for its budget each year, has its

[1] I refer to the finance ministry as the generic organization in charge of public spending. Central budget authority refers to the specific function of managing the budget process as defined by the OECD (2006), be it part of a larger ministry, a stand-alone department or indeed a split organization. I do not distinguish between central budget office, agency, or authority.

expenditures fixed down to detailed line items and needs to return to the finance ministry for approval during the year for each reallocation, then its own control over the budget is severely constrained. The finance ministry, on the other hand, is in a very clear hierarchical position vis-à-vis the spending ministry, but also has to account for any problems that may arise under its authority. In many francophone countries, control officials in the finance ministry are personally liable for expenditures they authorize (Moussa 2004:11). It can be imagined that such authorization is not given easily.

The operational work within the ministry of finance is not very strongly affected by the size of its total budget, because the largest part is passed on. The core budget and the program budget are quite detached from each other, and most officials in the central budget authority will be involved not in spending money themselves but in the exercise of control over the national budget. Their motivation should not be strongly affected by budgetary increases. As a result, the finance ministry is in a natural position to act as a counterweight against the effects of the common pool resource problem.

Without much to gain from rising ministerial budgets, the finance ministry represents the budgetary interests of the government as a whole, while spending ministers would only consider the tax burden that affects their parliamentary constituency, or that of their party, but in any case it is narrower than the full tax burden of the whole government (Hallerberg 2004:22-28). Ultimately, the finance ministry will prefer the kind of spending – and corresponding taxation - that ensures the government's political survival, which normally will be lower than what each spending ministers prefers. Officials within the finance ministry will therefore prefer the highest level of control over spending they can achieve. It does not automatically follow, however, what kind of control.

Finance ministries, because they can often be traced back to a sovereign's household, tend to be among the oldest parts of a country's bureaucracy. The quaint titles used in the UK treasury are only one example, the Japanese finance ministry, for example, is still officially named the "great storehouse ministry" today (Hartcher 1998:3). Central budget authorities in the OECD employ on average around 300 staff, but they exercise control over a public bureaucracy that can easily number in the tens or hundreds of thousands. Situated at a crucial interchange near the top of the executive, it has to account for public spending both to the head of the executive and to the legislature as well. All of these factors favor a high degree of centralization and formalization in the structures within the finance ministry itself and between it and the spending ministries.

What would be the fate of macro-level controls in such a bureaucracy? The many proponents of NPM reforms in general (Osborne and Gaebler 1992; Ammons 2002) and of budgetary reforms in particular (Holmes 1998; Diamond 2001) make a potentially far-reaching case. A strong micro-level control apparatus stands either in the way of controls that allow the finance ministry to deal with larger policy questions and fiscal performance, or is at least an inefficient and ineffective means to such ends. Consequently, the finance ministry should not only build up instruments of macro-level control and ease the micro-level controls; it should restructure itself accordingly and shift its mode of operation.

The finance ministry would move strongly from control based on direct authorization towards control based on competition and performance. Reflecting the broader NPM-reforms that would ideally go hand in hand with the budgetary reforms, the finance ministry would shift its organizational culture towards a lower grid and lower group, i.e. individualist position (Dunleavy and Hood 1994). Structurally, a large part of the relatively simple control apparatus in the operating core would become redundant, while the professionalization of staff would rise, reflecting the demands of performance budgeting and management techniques. As a result, in countries with stronger macro-level than micro-level controls, the budget should be simpler and easier to administer.

A shift towards macro-level controls would fit well into a historical narrative of the executive bureaucracy becoming ever larger and more complex, making direct controls less and less feasible over time. Cultural theorists observe that organizational cultures define themselves largely in opposition to (and as remedy against the shortcomings of) their polar opposites (Hood 2000:11). In countries where the traditional bureaucracy is hierarchist, and riddled with perceived failings, a strong individualist response may just be a question of time.

Finance ministries are among the primary entry points for external pressure on the executive bureaucracy. If officials in the finance ministry sense that their present instruments are insufficient in the face of environmental pressure from the legislature or the head of the executive, they would have to adapt and pass this pressure on into the spending ministries. Indeed it would be hard to understand the reform trajectories of the classical NPM cases, such as New Zealand, without strong external pressure, often ultimately driven by economic crisis (Aberbach and Christensen 2001; Jensen 2003; McKinnon 2003:358).

Officials in the finance ministry may also find a strong shift towards macro-level controls attractive because the more professional, policy-oriented work it entails is more appealing to them (Dunleavy 1992:200). If they could achieve the same degree of control with more

attractive and less onerous instruments, they should push for change if they have a chance. The UK Treasury seems to have done just that and used the reforms of the mid-1990s to bureau-shape itself into a more desirable form (Parry and Deakin 2003:108).

Advocates of NPM-inspired budget reforms may still overstate their case by conflating the desirability of macro-level controls with the necessity of dismantling of micro-controls and corresponding bureaucratic reforms. Any NPM reform would have to overcome strong hierarchist resistance against its individualist ideas, based on the critique that reforms would erode cohesion and central control (Dunleavy and Hood 1994:11). It is quite possible to imagine a traditional finance ministry finding ways to integrate macro-level control instruments into its current structure and culture without letting go of the traditional tools.

In the traditional “village culture” of British budgeting, treasury staff were always able to challenge their spending ministerial counterparts on the details of policy (Heclo and Wildavsky 1974:88). It is hard not to view the traditional finance ministry as a central part of the policy bureaucracy, where many staff in the operational core are involved in the production, maintenance and service of policy (Page and Jenkins 2005:60). For instance, the sector desks that negotiate the annual budget and maintain control throughout the year, a common feature in most finance ministries, always do policy work, although they do not report directly to the political leadership. In budget negotiations that go from professional staff to senior managers to vice-ministers, most decisions never see the ministerial desk. There is still a difference between doing policy work in the finance ministry and using macro-level controls over the budget process to link policies and resources. However, the concrete organizational demands of macro-level controls on the finance ministry have not yet been studied in the literature. Consequently, some finance ministries may lack the desire, ability, or authority for a full NPM budget reform (Andrews 2004), and still incorporate macro-level controls into its operation.

Ultimately, this is an empirical question. Budget reformers suggest that a combination of higher macro-level and lesser micro-level controls is ultimately desirable. Countries may simply lack the institutional foundations for any high levels of control, but where control is possible and scope for reform exists, macro-level controls should rise and micro-level controls should go down relative to the macro-level. In countries where macro-controls are higher, the finance ministry should be leaner and the budget itself simpler. In contrast, a fiscal institutionalist perspective, as well as organizational culture views, would suggest that micro controls are more tenacious and will remain even as macro-controls rise, as far as operationally feasible. How

wide-spread these changes actually were, and how profound, has not been systematically investigated. The following section is a first attempt to do so.

1.3 Two Indices of Finance Ministry Control

In this section, I seek to describe the variation in finance ministry control institutions between countries. I will do so by constructing separate indices for micro-level (administrative) and macro-level (policy-oriented) controls. These two indices should give a better understanding of both the overall degree of finance ministry control, as well as the precise nature of that control. The focus of my attention is the finance ministry as the chief budgetary actor of the central executive. I assume that countries will vary significantly along both dimensions (see Table 1). The results of the two indices should make it possible to better understand what the necessary and sufficient conditions for different kinds and degrees of control are.

Each of the four combinations in Table 1 can be observed in some countries. They also vary over time. The stages model of budgeting assumes that countries over time move in a counterclockwise direction from D to C. The classical case of NPM-inspired budget reform would be to move from any field into the C-field of the matrix. The United Kingdom, for instance, moved from A to C during the 1990s (Parry, Hood et al. 1997).

Table 1: Two Dimensions of Budgetary Control

	High macro-level control	Low macro-level control
High micro-level control	(A) MoF exercises control over entire budget process, combined with detailed control of spending ministries (Chile)	(B) MoF dominates relationship with spending ministries, but largely confined to budget negotiations and budget execution (Germany)
Low micro-level control	(C) MoF exercises control over entire budget process, detailed controls are either dismantled or delegated (United Kingdom)	(D) No hierarchical position of MoF, few effective controls (Argentina)

To measure budget institutions through indices is not a new idea. Several authors have used indices to study the balance of budgetary power between the legislature and the executive. Lienert uses five dimensions of legislative power, four covering the budget formulation phase[2] and one the budget's execution (Lienert 2005:22). The index represents the un-weighted sum of these five dimensions. Wehner takes a more complex approach, based on two sub-indices, one covering the formal legislative authority[3] and the second covering legislative budget capacity[4], assuming a higher degree of substitutability within each index than between them. Several of the measures for legislative power are necessarily executive powers in reverse. More importantly, as Wehner's index shows, organizational capacity and practice are just as important as formal legal authority.

There is also a growing body of literature that takes a measure of regulation in the budget process to assess the effect that such institutions have on fiscal outcomes, starting with the work of von Hagen on the European Union (von Hagen 1992; von Hagen and Harden 1995). In general, these indices study the constraints on the budgetary powers of all relevant actors, they are therefore only an indirect measure of the authority of the finance ministry, although each of these indices contains measures that clearly address the finance ministry directly. The best measure can be found in a recent paper by Scartascini and Filc (2007:172), which updates earlier work by Alesina et al (1999). The authors use three separate sub-indices for budgetary institutions, covering transparency[5], restrictiveness[6] and hierarchy[7]. The advantage of these sub-indices, similar to Wehner's work, is that they make it possible to distinguish between different causal mechanisms and different effects with regard to each dimension.

Both of my indices will use the latest OECD Budget Practices and Procedures Database.[8] The database covers all stages of the budget process with 89 different variables. Data currently exist for 97 countries worldwide, including the 30 OECD member countries and 67 non-members from the Middle East, Africa, Eastern Europe, Asia, Latin America and the Caribbean. The

[2] These are: (1) legislative role in medium-term budgeting, (2) amendment powers, (3) time for deliberation, (4) technical capacity of the legislature.
[3] Legislative authority covers: (1) legislative amendment powers, (2) consequences if the legislature cannot agree on a budget and (3) executive during budget execution.
[4] Legislative capacity covers: (1) Time for deliberation, (2) role of legislative committees and (3) research capacity.
[5] i.e. comprehensiveness of the budget and availability of budget information.
[6] i.e. fiscal rules, borrowing restrictions, medium-term frameworks, reserve funds.
[7] i.e. flexibility of budget execution, central authority over spending ministries, legislative amendment powers.
[8] See www.oecd.org/gov/budget/database.

database is based on a set of surveys of senior budget officials conducted in 2007/8.[9] For an overview of the terms and definitions used see (OECD 2007).

The data were checked for errors by the survey team and the responses from the countries in the survey can be considered to be of reasonably high quality. Earlier versions of the database have been used for quantitative research (Wehner 2006). Wherever possible, the returns for each country were complemented by other sources, mainly qualitative analyses of the budget process. These are mainly studies conducted by the OECD, the IMF and the World Bank, as well as academic publications. For instance, after checking the results for Chile against other sources (Blöndal and Curristine 2004; Rojas, Mackay et al. 2005), one variable each for both the micro and macro indices were adjusted. For a number of countries, this process is still ongoing.

Countries for which no information is available from the OECD database were not included in the research for this paper. From the database, countries were selected based on two criteria, income and democracy. Only countries from the high income and higher middle income categories were considered - based on the country classification used by the World Bank (World Bank 2007). This excludes countries with a per capita income of less than 3705 US dollars in 2007, for three reasons. First, it is assumed that a modern budget system requires a certain level of financial and human resources, as well as robust formal institutions, all of which are less likely to be found in countries with low incomes. Second, most lower-income countries are significantly dependent on aid to fund their budgets. This gives aid donors significant influence over the shape of budget institutions (Andrews 2008). Even if this influence is often not effective, it does have a significant effect that would be impossible to disentangle from genuinely domestic factors. Finally, there are good reasons to assume that budgeting in poor countries is simply different (Caiden and Wildavsky 1974). Their economic, social and political challenges are very different from advanced economies and budget institutions are shaped differently as a result. The kinds of spending controls, such as cash controls, are not covered by the OECD database and would be difficult to compare to the institutions of countries in the OECD.

[9] The 2007 OECD survey of budget practices and procedures in OECD countries, the 2008 World Bank/OECD survey of budget practices and procedures in Asia and other regions, and the 2008 CABRI/OECD survey of budget practices and procedures in Africa.

Table 1: Overview of the two Indices

Dimensions of Micro-Level Control	Dimensions of Macro-Level Control
(1) The finance ministry introduces ceilings on the initial budget requests at a line item level.	(1) The formulation of the economic assumptions used in the budget process is under sole authority of the ministry of finance.
(2) Disputes between spending ministers and central budget authority during budget formulation are resolved by the minister of finance.	(2) The central budget authority is in charge of monitoring compliance with fiscal rules.
(3) Appropriations in the budget are specified below the agency level.	(3) The finance ministry is in charge of multiannual budgeting.
(4) The ministry of finance controls spending increases during budget execution.	(4) The finance ministry has the authority to limit legislative changes to the executive budget proposal.
(5) The ministry of finance has the authority to cancel appropriated spending during budget execution.	(5) The finance ministry is in charge of performance targets.
(6) Approval from the ministry of finance is required before spending ministries can reallocate ("vire") funds between line items in their budget.	(6) A significant proportion of the budget is explicitly linked to performance indicators.
(7) The ministry of finance exercises authority over spending ministries carrying over funds from one budget year into the next.	

The second selection criterion was the existence of a reasonably sound democracy with effective elections, separation of powers, where some sort of external accountability is exercised over the workings of government. Following (Wehner 2007), I use Freedom House scores as a proxy, applying a cutoff below a score of 3.5. This leaves a set of 50 countries from all regions of the world. In the following sections, I build one index for micro-level controls and one for macro-level controls. Both indices are composites with several dimensions. Each dimension is scored on a scale of zero to one. For the sake of presentation, I recalculate the final scores on a 1-10 scale.

1.4 Index of micro-level controls

The first index will cover micro-level, administrative controls. They are the traditional domain of the finance ministry in its role as central budget authority. They are primarily designed to

prevent funds from leaking away uncontrolled and unaccounted for, and give the finance minister a strong position within the executive during the annual formulation and execution phases of the budget. Micro-level controls are the default instrument of budgetary control, having grown out of the parallel evolution of direct administrative oversight within the executive bureaucracy and the need to ensure financial accountability of spending units. In this sense, micro-level controls are different from the term "micro-budgeting" used by Schick (1988), who uses it to describe budgetary decisions taken at the level of the spending unit and the process of formulating the budget from the bottom up. The term micro-level controls looks at budgeting from a slightly different perspective, to describe the degree to which the ministry of finance can dominate the annual budget cycle as a series of hierarchical bilateral relationships between itself and each spending unit.

The stronger micro-level controls are, both in austere and expansionary economic climates, the smaller discretionary space exists for spending units to spend, and the more the ministry of finance is able to determine the outcome of budget negotiations to rein in spending as it sees fit. A strong position vis-à-vis spending ministries implies that the ministry of finance is not just able to successfully determine its desired outcome in budget negotiations, but also to ensure that spending ministries cannot sideline the finance ministry to obtain additional funds and finally it is able to ensure that spending ministries stick to the agreed budget during budget execution. To some extent, this strong position depends on the absence of legislative interference during budget execution. Neither index is a measure of executive power vis-à-vis the legislature, although they both capture limitations of legislative budgeting insofar as they are necessary for the finance ministry to centralize decisionmaking. The micro-level index covers seven characteristics of the budget process. The first three are part of the annual budget formulation phase, while the remaining four address budget execution.

(1) The finance ministry introduces ceilings on the initial budget requests at a line item level. Each budget year starts with the finance ministry sending out a set of guidelines (often called the budget circular). In some countries, these guidelines already contain a maximum amount for each line item in the budget that a ministry may request for that year, which strengthens the negotiating position of the finance minister. It is also a very detailed and work-intensive way of limiting the scope of action for spending ministries. This is a simple binary indicator; countries either receive a "1" or a "0". In the current sample, eight countries have such a limit.

(2) Disputes between spending ministers and central budget authority during budget formulation are resolved by the minister of finance. If disputes over the budget go to cabinet for resolution, it

is easier for spending ministers to form coalitions to outvote the finance minister and his position is severely weakened. To a lesser extent, the same is true if budget conflicts are resolved by ministerial committees. The strongest setup is for the finance minister in practice to prevent unresolved conflicts from reaching the cabinet or any other forum where he may be outvoted. This setup is surprisingly common, to be found in 21 countries.

(3) Appropriations in the budget are specified below the agency level. This is an indication for a traditional input-based budget. If the budget specifies appropriations below the agency level, the finance ministry is involved in very specific budgetary decisions within spending ministries, necessarily constraining their scope for independence during the formulation of the budget. This is the case in 16 countries.

(4) The ministry of finance controls spending increases during budget execution. The authority to respond unilaterally to unforeseen developments with increased spending is clearly a sign of power for the actor who has it. This item is a composite, covering both discretionary and mandatory spending. To gain the full score, a country would need full authority for both, as the score is averaged. A country receives a score of “1” if spending units can only increase spending with authorization from the ministry of finance, without involvement from the legislature. It scores a “0” if ministries can overspend without involvement from the ministry of finance. A score of “0,66” is awarded if both legislature and finance ministry have to agree, as it allows the finance ministry an effective veto. If overspending is categorically forbidden, there is still a score of “0,33”, because it pushes all spending decisions towards the annual budget process and cuts off the possibility to sideline the finance ministry between budget negotiations. In general, the rules for discretionary spending are more restrictive, with nine countries restricting it completely. This is hardly surprising, because uncontrolled increases would greatly devalue the budget process in general, essentially opening a backdoor for unauthorized spending. The most common setup is to require a combination of legislative approval and authorization from the finance ministry. Only nine countries in the survey receive the full score and centralize all authority in the ministry of finance.

(5) *The ministry of finance has the authority to cancel appropriated spending during budget execution.* Similar to item (4), this item refers to the powers of the finance ministry to change public spending after the budget has been approved, in this case to spend less money than budgeted (impoundment). This authority can have a very strong effect on legislative-executive

relations[10], and as a consequence it is completely restricted in 25 countries. On the other hand, this is also a very hierarchical tool of the finance ministry vis-à-vis spending ministries. Given that spending ministries will tend to favor larger spending for themselves, and that the finance ministry will usually be more concerned with overall deficits and fiscal discipline, the authority to cancel spending as the need arises without legislative interference empowers the finance ministry more than any other actor in the executive, because it is most inclined to use it. 13 countries receive the full score. The scores are awarded similarly to item (4), with possible scores of “0”, “0,33”, “0,66” and “1”.

(6) Approval from the ministry of finance is required before spending ministries can reallocate (“vire”) funds between line items in their budget. This item works strongest when the budget is very detailed and uses different line item appropriations for spending categories in one ministry, i.e. personnel, running costs, etc. Their flexibility is highly constrained if ministries do not have the authority for virements between line items. Conversely, the finance ministry can meddle in minute details of a ministry’s day-to-day administration if it must approve all virements before the fact. Finance ministries often argue that long-term fiscal implications are different between spending categories. Hiring new civil servants creates liabilities for generations, using more fuel does not. Nevertheless, this control instrument is among the most criticized for being cumbersome, meddlesome and expensive. Only two countries (Sweden and Slovakia) completely forbid virements, while 26 allow it within certain predetermined boundaries without specific authorization from the finance ministry. The scores are awarded similarly to item (4), with possible scores of “0”, “0,33”, “0,66” and “1”.

(7) The ministry of finance exercises authority over spending ministries carrying over funds from one budget year into the next. This is a composite item, with separate variables for the carryover of running expenditures, investments, and transfers/subsidies. Carryovers increase the managerial flexibility of spending ministries and arguably their efficiency by avoiding the “December fever”, when ministries try their hardest to spend all remaining funds to avoid the impression of not needing all their appropriations, thus receiving less in following years. Carryovers are least restricted for investment spending, where big projects make it necessary to budget over multiple years. Where carryovers are not entirely forbidden, there are usually some restrictions regarding certain spending categories, such as personnel. Countries differ, however, in the authorization procedures, with some relying entirely on the ministry of finance, others on

[10] In the United States, the conflict between the Nixon administration and Congress over the administration’s decision not to spend large appropriations for congressional priorities led to a major budgetary and political crisis. It was the cause of the Congressional Budget Act of 1974, the main legal basis of the contemporary US budget process (Caiden and Wildavsky 2004:74).

the legislature or some combination of actors. Only four countries give the entire authority to the finance ministry, while 28 countries forbid the practice altogether. The scores are awarded similarly to item (4), with possible scores of “0”, “0,33”, “0,66” and “1”.

Table 2: Descriptive Statistics of Micro-level Controls

Observations	Mean	Median	Standard Deviation	Minimum	Maximum
50	3.59	3.33	1.68	0.16	8.25

The scores of the micro-level index are broadly in line with similar research, with a few surprising results. France and Denmark are extreme outliers, each with a score of less than 0.5. Denmark’s score fits the account of Hallerberg (2004:170). The result for France is surprising and has to be further studied. Its high score in the original von Hagen index (1992) would suggest a different result, possibly the budget reforms of subsequent years explain this difference. Five countries have scores of higher than five. Mexico and Chile are also at the very top of the Alesina index for Latin America (Alesina, Hausmann et al. 1999), while Germany and Austria fit the description found in Hallerberg (2004). Germany is maybe the best example of a country with a good institutional basis for control where the finance ministry simply does not see the need to move away from a very traditional control setup (Sturm and Müller 2003). Romania’s high score and its fourth rank overall is unexpected and needs to be verified. Another surprisingly high score is that of New Zealand (4,64), suggesting that, at least in the budgetary sphere, its far-ranging NPM-type reforms did not result in a significant relaxation of micro-level budgetary controls. For a full picture, however, the results of the macro-level index have to be taken into account.

1.5 Index of macro-level controls

This index measures the controls a ministry of finance uses to extend its reach beyond the scope of bilateral relations with spending ministries. Similar to Schick’s use of “macro-budgeting” (Schick 1986), macro-level controls seek to predetermine the most important budgetary decisions before any given cycle of annual budget formulation begins. Conversely, they leave the internal operation of the spending bureaucracy largely alone. The underlying concept is that if a finance ministry relies on a sequence of bilateral negotiations for budgetary control, it might be able to rein in spending, but has few ways to address the bigger picture of

fiscal policy. For that it would have to develop tools that allow it to control the purpose and not just the level of budgeting, to lock in the budget framework years in advance, and link spending decisions to policy outcomes. In short, macro-level controls allow the finance ministry to take charge of the budget process, not just the budget.

In the terminology of Scartascini and Filc (2007), macro-level controls are both still hierarchical in the sense that authority is centralized in the ministry of finance, and restrictive, because all budgetary actors are constrained. It is possible to design budget institutions with the same restrictive power but less centralization of authority in the finance ministry by explicitly including legislative decision-making processes in the institutional design (Hallerberg 2004:32; Wehner 2007). While such a setup might result in similar fiscal outcomes, it would still score lower on this index, because it specifically measures institutions based on the finance ministry. The macro-level index contains six items that cover the entire budget process.

(1) The formulation of the economic assumptions used in the budget process is under sole authority of the ministry of finance. Assumptions about expected growth and revenues define the fiscal space available for the annual budget; the body that controls the provision of these numbers sets the framework of the budget negotiations. This instrument is most effective in a system where the finance ministry also uses fixed ceilings in its negotiations over the current and future budgets; in this case the country scores a “1”. If it only sets the assumptions without using ceilings, the score is “0.5”. 34 countries have the ministry of finance prepare the assumptions, out of which nine use these assumptions to enforce ceilings at the later stages of the budget process.

(2) The central budget authority is in charge of monitoring compliance with fiscal rules. Fiscal rules are the primary formal institution to constrain the scope of action of budgetary actors. The OECD database covers four kinds of fiscal rule, each targeting certain outcomes in terms of expenditure, debt, revenue or budget balance. The setup, and usually the target of the fiscal rule itself are defined either through law or by political commitment of governing parties or coalitions. The day-to-day monitoring of compliance with the rule could rest with the legislature, an independent body such as the supreme audit institution, or with the finance ministry. This is a composite item covering all fiscal rules of a country. If the finance ministry is in sole charge of one fiscal rule, a score of “1” is awarded, if supervision is shared, the score is “0.5”. The final score is the average of all fiscal rules in that country. In the OECD survey, a bewildering variation of different fiscal rules can be found. Irrespective of the number of fiscal rules in use,

24 countries have the ministry of finance solely in charge, another five see a shared supervision with other actors.

(3) The finance ministry is in charge of multiannual budgeting. A medium-term framework is often hailed as a core element of modern budgeting, in the absence of which government policies could not be properly translated into an annual budget (Holmes 1998:32). However, medium-term elements look differently in many budget systems and often get confused in international reform discussions. Most modern countries use some sort of medium-term planning instrument at least for investment budgeting, simply because so many large-scale investment projects require fiscal implications to be budgeted several years out. Medium-term budgeting becomes a control instrument only if hard targets for outer years are set and if necessary enforced by the finance ministry. This is a composite item, as the OECD database gives two different options that count as a medium-term budget framework. The stronger version has expenditure ceilings set not just for the immediate budget year but also for several years in advance. Especially in combination with other control instrument this would allow the finance ministry to severely constrain budgetary decisions of other actors in advance. It scores as a “1”. If the ceilings for outer years are set at the aggregate level for the entire budget, but the finance ministry also has the power to set firm ceilings for each ministry each year, there is more room for ministries to maneuver, therefore it is scored as a “0.5”.

(4) The finance ministry has the authority to limit legislative changes to the executive budget proposal. The strongest finance minister is ultimately powerless if his budget is “dead on arrival” in the legislature. The budgetary relationship between executive and legislature has been well covered elsewhere (Wehner 2006). For a finance ministry to exercise strong control over the budget, the legislature cannot be allowed to increase spending beyond the overall framework set by the finance ministry through its other control instruments. A country in which the legislature can only vote for or against the budget as it is introduced by the executive without the ability to amend it is scored as a “1”, where the legislature can only vote to reduce spending it is a “0.66”, where it can make amendments as long as the overall budget balance remains intact, a “0.33”, and where it can amend the budget as it sees fit, a “0”. This reflects the decreasing desirability of different settings from the finance ministry’s perspective.

(5) The finance ministry is in charge of performance targets. To allow spending ministries more freedom to organize their operations (“let managers manage”) and in return hold them accountable for their performance is one of the central elements of the New Public Management. Budget reformers see the corresponding move towards performance budgeting

as another crucial step to link policies to the budget. In doing so, the finance ministry would shift the focus of control from the execution of the budget to its feedback phase. This item is a composite that measures the degree to which the finance ministry is in charge of the performance measurement system. If a country has the finance ministry define performance targets in practice (alone or in cooperation with other actors) and if spending ministries then report on their achievement against those targets to the finance ministry, a score of "1" is given. If the country has only one of those two elements in place, the score is "0.5'. Effective use of performance budgeting is very fashionable among budget practitioners, yet very hard to do in practice (Curristine 2007). It is therefore necessary to check these results systematically against other sources. Those countries well covered in the literature on performance budgeting (Chile, Denmark, South Korea, UK) seem accurately captured by the survey.

(6) A significant proportion of the entire budget is explicitly linked to performance targets. For budgetary decisions to shift from a concern over detailed line items to policy outcomes, the budget document itself must show an explicit linkage between performance targets and resource allocations. Few countries do this for the entire budget, as some categories, such as entitlement spending, are not subject to discretion and management and therefore very hard to include in a performance regime. For the purpose of this index, if more than 41% of the budget are linked to such targets, a score of "1" is awarded. This is the case in fifteen countries of the survey.

Table 2: Descriptive Statistics of Macro-level Controls

Observations	Mean	Median	Standard Deviation	Minimum	Maximum
50	3.49	3.33	1.98	0	9.17

A first look at the index shows that macro-level controls are more widespread, but more unevenly distributed (see Table 2), with three countries (Belgium, Hungary, Switzerland) even scoring a flat zero. Eleven countries have scores of five or higher, most of which have been covered in the literature on budget reforms in recent years, such as the United Kingdom (Parry, Hood et al. 1997; Noman 2007), Brazil (Blöndal, Goretti et al. 2003; Alston, Melo et al. 2008), South Korea (Park and Kim 2007) and Chile (Blöndal and Curristine 2004; Rojas, Mackay et al. 2005). The high, but not very high score for Sweden, where the finance ministry emphasizes macro-level controls, but also relies on strong legislative involvement, also fits the literature

(Wehner 2007). The very high score for the Slovak Republic surprises, because it has not received much attention in the literature so far. Among the very low scorers there seem to be countries where the institutional conditions for executive high control are absent, such as the United States (Blöndal, Kraan et al. 2003), or Hungary (Bergvall, Hawkesworth et al. 2007). Other countries, such as Germany seem to have chosen not to use macro-level controls, even though the preconditions for high control in general exist. Here a comparison between both indices will be instructive.

1.6 The Two Indices Compared

22 countries have macro scores higher than their micro scores, slightly less than half of the survey. The fiscal institutionalist literature suggests that in countries where the institutional conditions allow high levels of finance ministry control, these controls will eventually develop. The literature on practical budgeting and public management, on the other hand, suggests that once a country has reached a certain level of (budgetary) development, the finance ministry will strive to build up strong macro-level institutions and most likely dismantle at least some of the micro-level controls because they are either too burdensome to bother with, or actively hinder the effective use of macro-level controls.

The practitioners seem to be right insofar as the macro-level controls are very widespread today and few countries score very poorly on that index. This does not go hand in hand, however, with a dismantling of the traditional control apparatus. As the fiscal institutionalists would suggest, where control is possible, it is exercised by all means possible. In this survey, the United Kingdom looks quite exceptional among NPM-reform countries. The examples of Germany and Austria (high micro, low macro-level controls) show that a long history of successful centralization of authority does not automatically lead the finance ministry to develop macro-level controls. Chile shows furthermore that a country does not have to dismantle the traditional controls at all to have very strong macro-level controls as well.

Table 3: Overview of Micro and Macro Controls

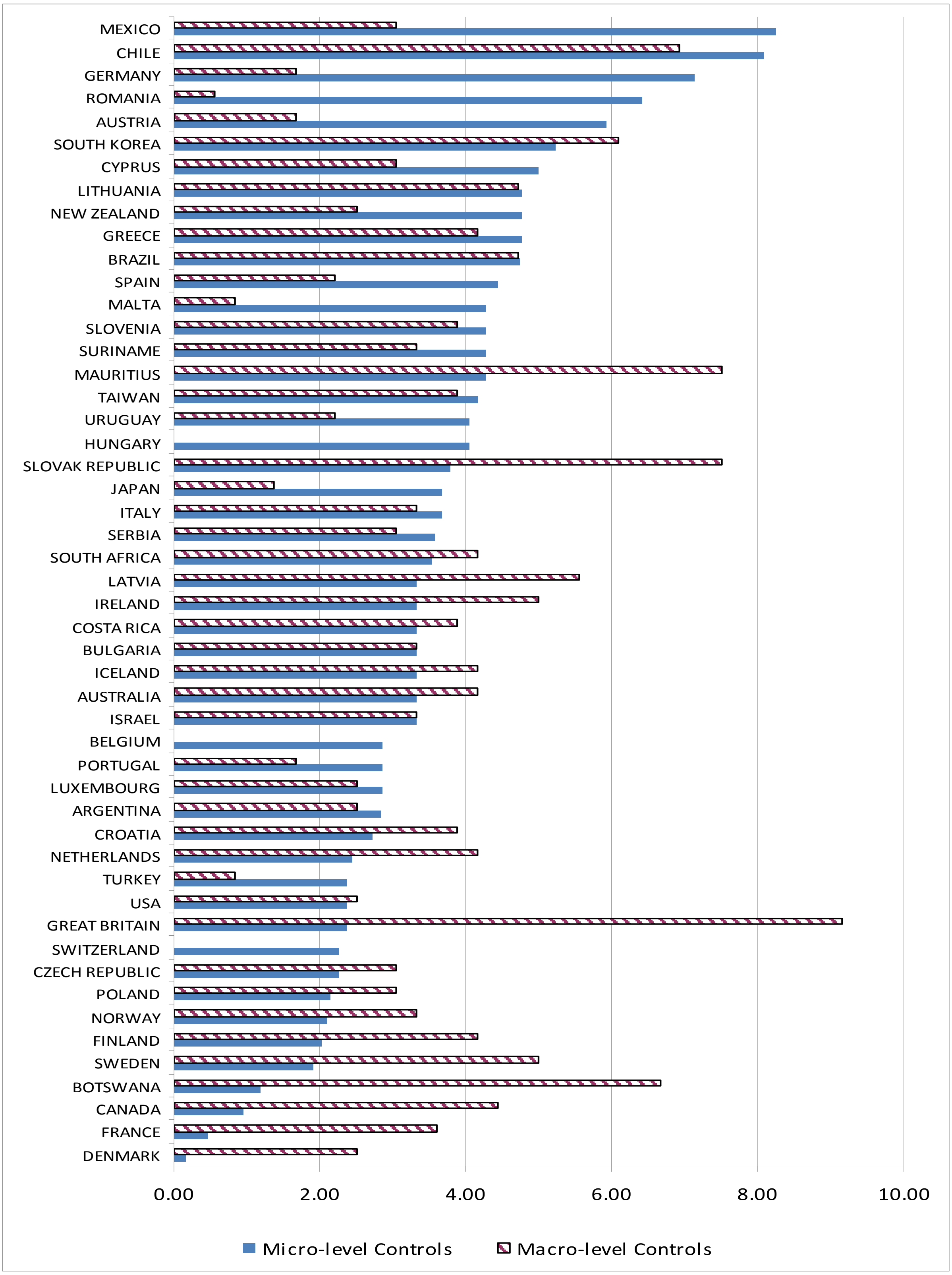
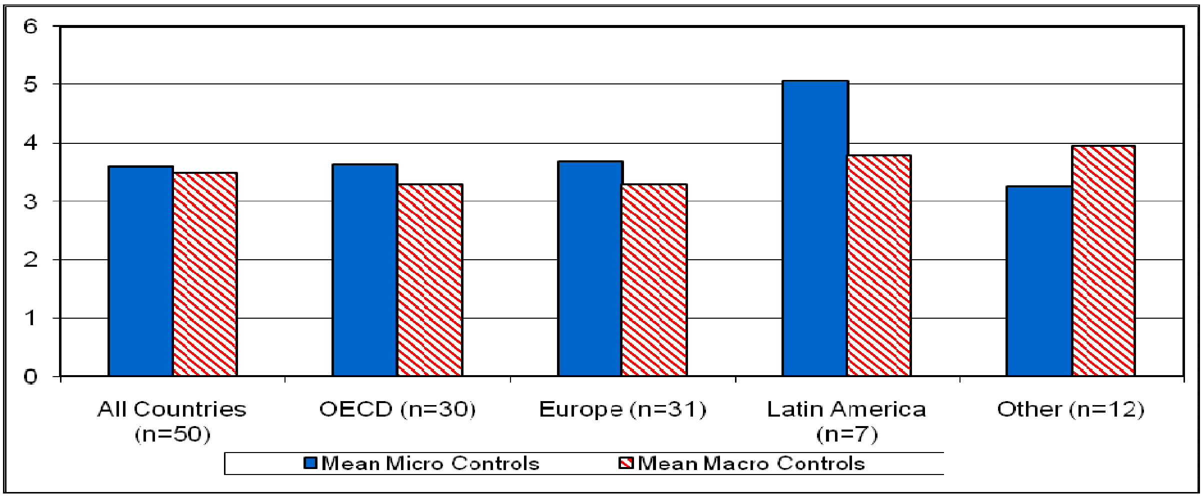


Table 4: Micro and Macro Summaries

	Mean Micro Score	Mean Macro Score	Sum of Control Scores	Mean Budget Items[11]
Higher Macro than Micro	2.97	3.99	6.96	1282
Higher Micro than Macro	4.70	2.20	6.90	4398
All countries	**3.59**	**3.49**	**7.08**	**2596**

The two country groups are quite similar in several regards (see Table 4 for an overview). The overall average control score, measured as the sum of both micro and macro control scores differs very little between them. There is, however, interesting variation within the indices. The number of line items in a budget is a first test of the reliability of both indices, if the indicators in their sum actually capture the underlying concepts. The literature on budgeting strongly suggests that budgets in a mostly macro-control regime would be simpler. Finance ministries with higher micro-level scores seem to make the budget more complicated and more rigid, just as the literature would suggest. Here the top half uses on average about four times as many line items. In countries with higher macro-level controls, the picture is completely reversed and the top half uses only one third as many line items as the bottom half, which suggest that the budget does become simpler when macro-level controls predominate.

Table 5: Regional Comparisons



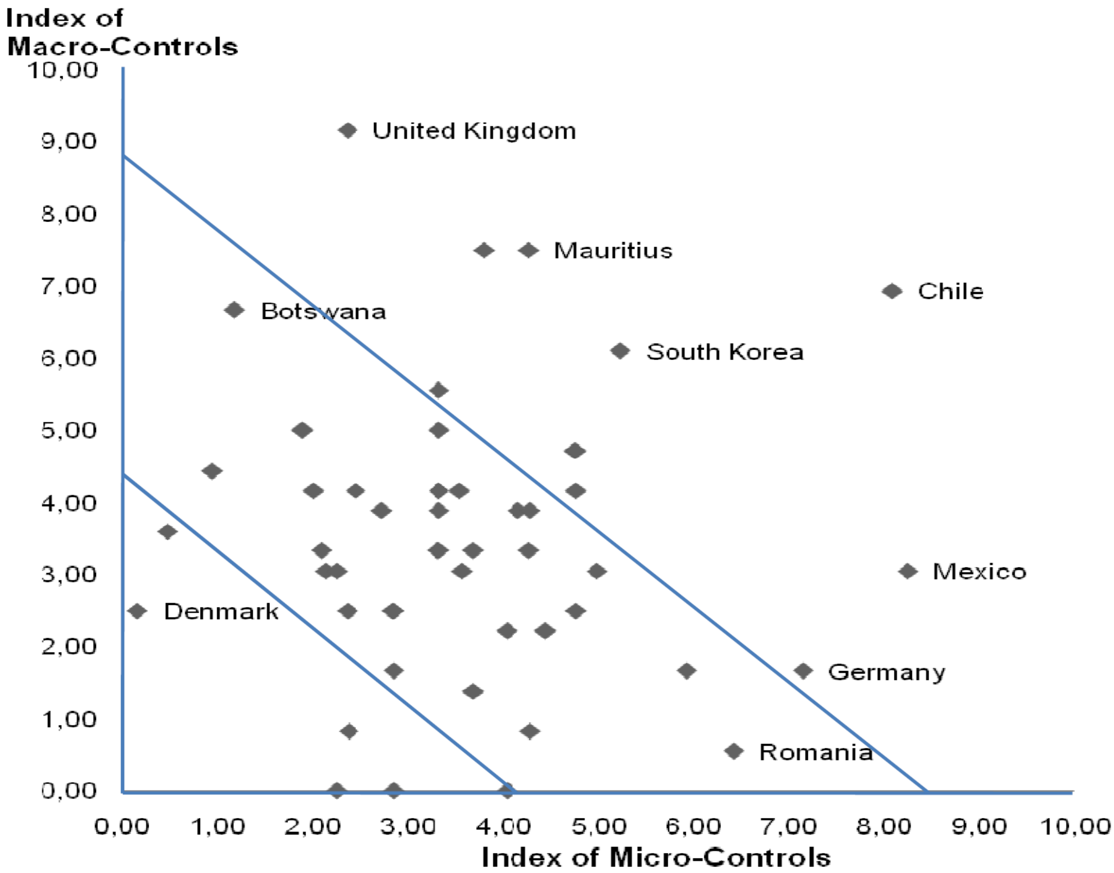
The regional comparison is also instructive, although the number of countries available for different regions certainly limits the usefulness of such comparisons. Nevertheless, the regional breakdown is most interesting for what it does not show: many significant differences. The

[11] Missing data for Brazil, Chile, Latvia, Luxembourg, Suriname.

averages for all countries and the OECD are extremely closely together, obviously in part because of their overlap. But if broken down into Europe, Latin America and the rest, the numbers are still relatively closely aligned. Latin American control levels are somewhat higher, and micro-level controls in the region are much higher that elsewhere, whereas only outside Europe or Latin America is the macro level somewhat higher. Overall, regional origin does not seem to determine the way countries score on either index.

A final question of interest raised by the comparison between the two indices is substitutability. While fiscal institutionalists are mainly concerned with the overall level of control a country can achieve, there is a strong trend in the budgeting literature suggesting, in some cases almost urging that micro and macro controls can be partially substituted. The simple scatterplot of the two indices (see Table 5) certainly does not offer any conclusive impression. However, it does suggest that, if one could account for the overall level of control, a very interesting question arises about the choices countries make between the two control types and what indifference curves could be drawn between them.

Table 6: Macro-Controls vs. Micro Controls



Conclusion

Overall, the two indices show a variation between countries that has not been captured by other efforts to measure budget institutions. In some ways, the distinction between micro-level and macro-level controls matches other indices. Countries with very high scores on either index tend to score high in other similar indices as well, such as the Alesina index for Latin America. Some countries that score low on the macro-control index score high on Wehner's index of legislative budgeting, notably the United States, likewise for the reverse case, such as the Slovak Republic. However, the two indices create some questions that have not been answered satisfactorily in the literature. Specifically, why some countries seem have very high scores on one index, but not the other, such as Germany versus Great Britain, and why a few countries, notably Chile, score high on both indices, needs further research to properly explain.

Historically, finance ministries have always sought to increase control over public spending. The two indices show that where they can, finance ministries tend to exercise control on both micro and macro levels and do not let go voluntarily, in line with both the literature on fiscal institutions and organizational culture approaches. Variations within the indices also show that high macro-level controls are less staff-intensive and come with a simpler budget, just as budget reformers would suggest. Some countries evidently undertood budgetary reforms that match the NPM framework. However, none of the perspectives reviewed earlier captures the whole story, and a number of country cases look decidedly troublesome for each account. Much is not yet known about the ways finance ministries structure themselves and their relations with other budgetary actors. The precise causal relationships between political, economic and organizational factors that shape the variation of finance ministry control institutions need further investigation.

Annex 1: Detailed Country Breakdown by Region

Europe	Latin America	Other
CROATIA	ARGENTINA	BOTSWANA
BULGARIA	COSTA RICA	ISRAEL
LATVIA	URUGUAY	SOUTH AFRICA
SERBIA	SURINAME	TAIWAN
SLOVENIA	BRAZIL	MAURITIUS
MALTA	CHILE	CANADA
LITHUANIA	MEXICO	USA
CYPRUS		TURKEY
ROMANIA		AUSTRALIA
DENMARK		JAPAN
FRANCE		NEW ZEALAND
SWEDEN		SOUTH KOREA
FINLAND		
NORWAY		
POLAND		
CZECH REPUBLIC		
SWITZERLAND		
GREAT BRITAIN		
NETHERLANDS		
LUXEMBOURG		
PORTUGAL		
BELGIUM		
ICELAND		
IRELAND		
ITALY		
SLOVAK REPUBLIC		
HUNGARY		
SPAIN		
GREECE		
AUSTRIA		
GERMANY		

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