

# Budget reform and legislative control in Sweden

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**ABSTRACT** The literature on fiscal institutions argues that there is a pro-spending bias in legislative budgeting, which can be mitigated by institutional arrangements. In the mid-1990s Sweden carried out reforms to the budget process that fundamentally restructured parliamentary decision-making, including the voting process and the role of different committees. This paper assesses the impact of these reforms on legislative budgeting. It concludes that the new process helps to safeguard fiscal discipline, but also cautions against a simplistic interpretation of the fiscal institutionalist literature that treats institutional arrangements as exogenous. The constraints of the revised legislative process are essentially self-imposed, which in the final analysis makes it difficult to argue that the Swedish Parliament has lost budgetary control. Moreover, separate reforms of external audit and improvements in the provision of performance information provide an opportunity to strengthen accountability for results.

**KEY WORDS** Budgeting; fiscal policy; legislative committees; parliament; public expenditure; Sweden.

Legislatures have a poor reputation in much of the literature on public finance. In Niskanen's (1971) classic public choice model the legislative sponsor is too powerless to act as an effective check on budget-maximizing bureaucrats, while the literature on budget institutions regards constitutionally unfettered legislatures as fiscally dangerous (Kirchgässner 2001). In the case of Sweden prior to its budget reforms in the mid-1990s the *Riksdag*, the country's unicameral Parliament, was widely blamed for contributing to poor fiscal performance. Commentators describe the role of the *Riksdag* in the old system as 'undisciplined' (Blöndal 2001: 37). At the time, the need for change was strongly felt among parliamentarians and executive officials. Ensuing reform efforts culminated in the introduction of a new budget process in 1996 that also fundamentally reorganized the way the *Riksdag* deals with the state budget (Molander 1999, 2001).

The Swedish budget reforms are now approaching a ten-year anniversary and hence can be subject to an interim assessment. While there are good overviews of

the Swedish reforms (Molander 1999; Blöndal 2001; Hallerberg 2004: 153–68), this study is the first to provide a more detailed assessment of the impact of the reforms on the budgetary role of the *Riksdag*. It focuses in particular on whether there is a trade-off between legislative control and fiscal discipline, i.e. the ability to contain public spending within affordable totals. This paper further makes a contribution to a neglected area of inquiry, namely the impact of legislative organization on fiscal policy. Fiscal institutionalists typically consider the effects of only a limited set of legislative variables, notably powers to amend the budget. They argue that restrictions on parliamentary amendment powers are conducive to fiscal discipline (Von Hagen 1992; Alesina *et al.* 1999). On the other hand, the effect of legislative organization has not been widely studied. An exception is the work of Crain and Muris (1995) on committee structures and fiscal policy. The Swedish reforms did not alter Parliament's formal powers over the budget, which remain unconstrained, but they re-engineered the process by which the *Riksdag* makes budgetary choices. This allows us to study the impact of a change in institutional arrangements on legislative budgeting, holding constant a number of other factors.

The case study method has advantages and disadvantages. Cross-national quantitative research is often better suited to produce results that can be generalized. However, in this context the case study approach has several strong advantages. First, Sweden stands out among Western European countries in the extent to which it has re-engineered the budget process and improved its public finances in the past decade (Hallerberg 2004). The reforms resemble a natural experiment 'where a single unit undergoes unmanipulated change through time that approximates a true experiment' (Gerring 2004: 350). This makes the Swedish case particularly suitable for studying how institutional engineering may improve fiscal performance. Second, the empirical efforts of fiscal institutionalists focus on quantitative comparative research, where institutions are largely treated as exogenous (Poterba 1996: 10). Case studies are better suited to explore exact causal mechanisms and to tackle the problem of institutional endogeneity that bedevils the fiscal institutionalist research programme. Third, case studies can complement quantitative comparative research when they use more precise data than are available for larger samples of countries (Lieberman 2005: 440–1), as in part 3 of this paper.

This analysis draws on official documents and a set of interviews conducted with senior budget officials in Stockholm during May 2005, who are cited under condition of anonymity. In addition, the paper evaluates primary data on legislative amendment activity and its impact on public spending prior to and after the reforms, covering the period 1985 to 2005. I proceed as follows. In section 1 I consider sources of a legislative pro-spending bias in budgeting. Section 2 reviews Sweden's pre-reform setting and the main elements of the reforms. The impact of the reforms on the budgetary role of the *Riksdag* is assessed in the third part. In the final section, I briefly discuss whether the reforms have been accompanied by a broader shift in parliamentary emphasis from *ex ante*

influence to ex post scrutiny and accountability for performance. While this is to some extent a separate discussion, a comprehensive assessment of the state of legislative control of public finance has to go beyond the approval stage. The conclusion draws together broader implications.

## 1. SOURCES OF A LEGISLATIVE PRO-SPENDING BIAS

This section considers sources of a pro-spending bias in legislative decision-making and looks at suggested institutional solutions. The debate on the common pool resource (CPR) problem in budgeting draws on the collective action literature (Olson 1965). Ostrom (1990) uses the term 'common pool resources' to refer to natural resources that are jointly used by a number of individuals. Such shared resources are threatened by overuse that would lead to their eventual destruction (Hardin 1968). The CPR problem can be understood as an n-person prisoners' dilemma game. Although each individual acts rationally, the outcome is sub-optimal in social terms. This result can be improved by co-operation that may emerge if the game is repeated.

This basic idea has also been applied to budgetary decision-making (e.g. Strauch and Von Hagen 1999; Poterba and Von Hagen 1999). Here, public revenues constitute the common pool of resources. When the benefits of spending can be targeted at particular constituencies and costs distributed across a broader spectrum of taxpayers, this creates a bias away from economically efficient outcomes (Weingast *et al.* 1981). As a result, public spending is likely to be higher than when decision-makers internalize the full cost of their actions. The literature suggests that centralized or hierarchical procedures can mitigate tendencies to increase public spending (Von Hagen and Harden 1995). Notably, several studies conclude that limitations on legislative powers to amend the budget help to safeguard fiscal discipline (e.g. Von Hagen 1992; Alesina *et al.* 1999). As will be discussed in section 2, the Swedish reforms did not affect the formal powers of the *Riksdag* to amend the budget, but they included a number of other institutional adjustments. Some of these are also discussed in the literature.

Another institutionalist hypothesis is that the size of budgets is influenced by the way the voting process is sequenced. Von Hagen (1992) initially suggested that fiscal discipline is enhanced when a vote on aggregate spending precedes allocational decisions. However, this is contradicted by the work of Ferejohn and Krehbiel (1987) who show that such a process may sometimes result in relatively large budgets. Subsequently, Von Hagen revised his initial claim and argued that it is not a reordering of the voting sequence that is decisive, as it has no impact on the share of the tax burden that actors consider, but rather the centralization of decision-making (Hallerberg and Von Hagen 1997). Still, many practitioners strongly believe in the effectiveness of a 'top-down' process, arguing that it forces politicians to acknowledge the implications of their decisions by making trade-offs more explicit (Molander 2001: 42). The empirical evidence is mixed. Helland (1999) presents tentative results for

European countries that challenge Von Hagen's initial intuition. However, based on data for Latin American countries, Alesina and colleagues (1999: 270) conclude that 'a voting procedure in which the level of deficits and in some cases the size of spending come first leads to more fiscal discipline than the alternative procedure in which the budget balance is determined at the same time or after the discussion on composition'. This debate is set to continue.

Less well-known work has investigated the impact of legislative committee structures on fiscal policy. Crain and Muris (1995: 319) argue that 'consolidating control within one committee is an institutional means to overcome the common pool problem; it establishes a mechanism to contain spending pressures.' With a balkanized committee setting, where partial spending decisions are distributed across a number of different committees, no one committee is responsible for the overall level of expenditure, which encourages free-riding. Using state-level data from the US they present empirical evidence that the centralization of spending decisions in a single committee restrains expenditures compared with systems where decisions are balkanized across different committees.

To illustrate the argument put forward by Crain and Muris, Figure 1 presents stylized versions of the three main types of committee structures that parliaments in the industrialized democracies use for the budget approval process (see Organisation for Economic Co-operation and Development [OECD] 2002: 164). In what I call the 'dispersed' model, depicted on the left-hand side of Figure 1, the different sectoral committees (labelled SC) make separate spending decisions over the parts of the budget that fall under their jurisdiction. With sectoral committees I refer to legislative committees that have responsibility for a specific sector of government activity, such as health, education or defence. This is in contrast to some types of committees that have a government-wide remit, such as budget committees. In the absence of binding constraints, such as hard expenditure ceilings imposed by law or limitations on parliamentary amendment powers, the work by Crain and Muris suggests that the dispersed committee structure encourages spending increases.

Figure 1 also illustrates two possible institutional fixes for the CPR problem in the form of centralization. The 'hierarchical' model imposes a finance committee

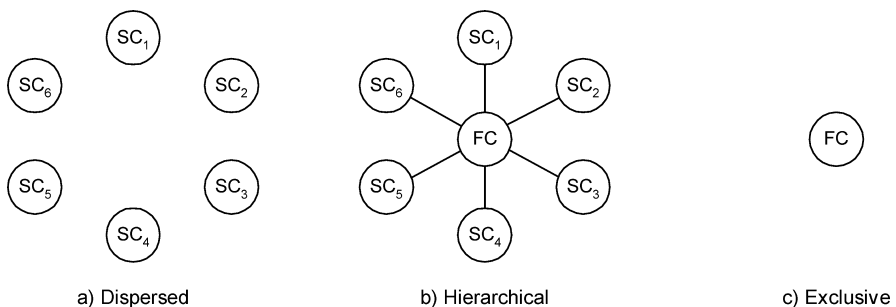


Figure 1 Three legislative committee structures for budgetary decision-making

(labelled FC) at the centre of decision-making that has the power to determine a total expenditure ceiling as well as sectoral ceilings, which are binding for the sectoral committees. The latter still play a role in legislative budgeting, but in considering allocations within each sector they are forced to adhere to the ceilings established by the finance committee. A second solution is the 'exclusive' model, in which a finance committee is the sole budgetary decision-maker, and sectoral committees are excluded from the process. Following Crain and Muris, the latter two models introduce centralization and therefore would be expected to contain the CPR problem in the legislative arena.

The main alternative to the fiscal institutionalist approach emphasizes partisan dynamics. Notably, several studies present evidence that minority government impacts on fiscal performance by delaying adjustment to economic shocks (Roubini and Sachs 1989; Edin and Ohlsson 1991; Alt and Lowry 1994). Other authors find that the design of the electoral system influences fiscal outcomes (Persson and Tabellini 2003; Hallerberg and Marier 2004). These contributions are important, but they are not particularly relevant for the present study, since these variables can essentially be treated as constants over the period under investigation, i.e. 1985 to 2005. Governments consisted of Social Democratic minority administrations, with the exception of the interval between 1991 and 1994, when the party briefly lost power to a centre-right minority coalition. Similarly, the electoral system has been based on proportional representation, although there were some modifications (Bergman 2004: 205–6). Therefore, the focus of this study is firmly on the effect of the redesign of the budget process.

To conclude, the CPR problem in legislatures is potentially large and gives rise to a pro-spending bias in decision-making. The literature on budget institutions suggests that institutional devices can help to protect fiscal discipline, notably limitations on legislative powers to amend the budget. Another suggested solution is to sequence the legislative voting process so that a vote on aggregates precedes allocational decisions, but the effectiveness of this device for containing public spending is disputed. A third suggested solution is to centralize the committee structure for budget approval. In practice, as will be shown, the latter two may go hand in hand, which makes their separate effects impossible to disentangle. These last two mechanisms were important ingredients of the Swedish reforms, to which we now turn.

## 2. REFORMING THE SWEDISH BUDGET PROCESS

This section reviews the institutional arrangements for legislative approval of the budget both prior to and after the reforms in the mid-1990s. The pre-reform arrangements were highly fragmented and lacked co-ordinating mechanisms. The government introduced parts of the budget in January. Over the following months, it would introduce further appropriations, sometimes comprising about a third of the overall budget, as they were being finalized. Appropriations were parcelled out to various sectoral committees of the

*Riksdag* for consideration. The government typically tabled a supplementary budget to update its budget proposal at the end of April, based on revised macro-economic forecasts. This kicked off a second round of scrutiny that again involved various sectoral committees with no overall co-ordination. Parliamentary approval proceeded on an item-by-item basis and was typically concluded in June, before the beginning of the fiscal year in July. As a result, aggregate spending and the deficit were unpredictable until the very end of this process.

The piecemeal structure of the pre-reform process was also reflected in balkanized committee authority. The various committees of the *Riksdag* have responsibility for both legislation as well as appropriations relating to their particular jurisdiction. A finance committee existed under the old system, but it had no special responsibility apart from scrutinizing broad guidelines for budget policy. However, these did not contain any detailed expenditure targets. No single committee had responsibility for fiscal aggregates. Rather, sectoral committees deliberated without a hard budget constraint and consistently generated proposals to increase appropriations under their jurisdiction. As one official interviewed for this study put it, under the old system members of sectoral committees felt a 'loyalty' towards their spending areas. Moreover, expenditure decisions were poorly co-ordinated with revenue measures that were mainly introduced in the autumn and dealt with in a separate committee on taxation. In short, prior to the reforms the committee process in the *Riksdag* was highly balkanized and resembled the 'dispersed' model in Figure 1.

The Secretariat of the *Riksdag* Finance Committee illustrates the outcome of budgetary decision-making under the old system with the hypothetical example that is reproduced in Table 1. For simplicity, it is assumed that the legislature consists of three parties with none of them having an outright majority of seats. Moreover, any two of them can form a coalition that commands a majority of seats. Table 1 details hypothetical proposals of the three parties and their net effect. Items that increase the deficit are given a negative sign, and vice versa. In this case, all parties have deficit-neutral preferences, i.e. the net effect of their proposed changes is zero. However, because each party represents different constituencies, they disagree about allocational decisions.

Table 1 Hypothetical budgetary outcomes with item-by-item voting

|                      | Government<br>40% | Party A<br>35% | Party B<br>25% | Outcome |
|----------------------|-------------------|----------------|----------------|---------|
| Expenditure increase | -1000             | -1000          | -500           | -1000   |
| Revenue increase     | 400               | 0              | 200            | 200     |
| Saving one           | 300               | 300            | 300            | 300     |
| Saving two           | 300               | 0              | 0              | 0       |
| Saving three         | 0                 | 700            | 0              | 0       |
| Net change           | 0                 | 0              | 0              | -500    |

Source: *Riksdag* Finance Committee.

Given the preference constellation in Table 1, we can derive the outcome of a voting process that proceeds on an item-by-item basis. The first result is that the governing party and party A agree to increase expenditures. However, party B only consents to half the increase in revenues that the government proposes; the median wins. Third, all parties agree on the desirability of a saving on item one, but there is no majority for any further savings elsewhere in the budget. The overall outcome of the item-by-item voting process is given in the final column. Additional revenues and the saving on item one cover only half of the new expenditures. The net effect is an increase in overall spending and a higher deficit, even though all parties agree on the desirability of fiscal discipline.

Efforts to reform the budget system took several years and were propelled forward by economic crisis. In October 1990 the *Riksdag* established a commission to review parliamentary procedures. Soon after, the country was hit by a pronounced macroeconomic crisis. Figure 2 shows the dramatic deterioration of the general government financial balance. Against this background, the investigation greatly gained in urgency. In its deliberations, the commission also considered the unflattering findings of a study prepared by a Finance Ministry official (Molander 1992). It assessed Sweden's budget institutions on the basis of a framework developed in Von Hagen's (1992) work on budgeting in the European Community, and found that Sweden had the second worst institutions among thirteen countries, only slightly ahead of Italy (see also Molander 1999: 202–8). The commission produced recommendations in June 1993.



Figure 2 General government revenues and expenditures, 1985–2005

Source: OECD (various).

The process for adopting the recommendations was cumbersome. The proposed reforms to the budget process required adjustments to the Riksdag Act, which meant that they also had to be considered by the Committee on the Constitution. In Sweden, parliamentary procedures have special importance and are more entrenched than in many other countries. Provisions fall into two categories, main and supplementary. Changes to the former require approval twice, before an election and thereafter, to become effective. The reforms entailed adjustments to several main provisions in chapters three and five of the Riksdag Act. The changes were submitted to Parliament in December 1993 and received approval. Following elections in September 1994, in which the Social Democrats regained power from the centre-right coalition, Parliament approved the amendments for the second time, thus paving the way for the implementation of the new process. The fact that approval was forthcoming despite a change of government underlines the broad consensus in favour of the reforms.

A range of reform measures were carried forward in the mid-1990s and these are more fully discussed elsewhere (Molander 1999; Hallerberg 2004: 160–6). The budget was reorganized into twenty-seven ‘expenditure areas’ that greatly systematized the presentation of appropriations (Blöndal 2001: 57). Sweden also moved from a ‘broken’ fiscal year, running from the beginning of July to the end of the following June, to the calendar year model (Tarschys 2002: 79). For transition purposes, the 1995/96 fiscal year was extended to cover eighteen months. The reform of the budget process was further combined with an extension of the electoral term from three to four years. Moreover, Sweden got its first organic budget law (Government Commission on Budget Law 1996). The law greatly improved legal clarity and transparency, for instance by limiting off-budget expenditures and introducing gross budgeting. Open-ended appropriations used in particular for social benefit programmes were abolished. Finally, the restructuring of the budget process introduced top-down decision-making, involving the determination of aggregate limits prior to allocational decisions.

The move to top-down budgeting changed the sequence of the parliamentary process. Parliament would from now on vote first on budget totals before deciding individual appropriations. The first step was for a Spring Fiscal Policy Bill to propose aggregate expenditure ceilings for the upcoming budget plus two further years, as well as indicative ceilings or ‘frames’ for the allocations across the twenty-seven expenditure areas. This bill was tabled for the first time in April 1996, preceding the presentation of the draft budget by five months. The Finance Committee received responsibility for scrutiny of the Spring Fiscal Policy Bill. Following parliamentary approval of the bill in June the executive would proceed to finalize a draft budget to be presented to Parliament in September, more than three months before the beginning of the new fiscal year. In short, the reforms changed the parliamentary voting order by requiring an aggregate decision prior to allocational choices.<sup>1</sup>

It should be noted that the role of the Spring Fiscal Policy Bill has since been adjusted. Many parliamentarians apparently felt that the process in the second



half of the 1990s was too cumbersome and amounted to making budgetary decisions twice a year (Finansdepartement 2000). In its report, the Parliamentary Review Commission (2001: 9) recommended refocusing parliamentary deliberations on the draft budget in the autumn. The Spring Fiscal Policy Bill now contains general guidelines for budget policy, but it no longer serves the purposes of fixing expenditure ceilings and indicating frames for the expenditure areas. The government now uses the Budget Bill in September to propose aggregate expenditure ceilings for the medium term. The ceilings are approved in nominal terms and cover all state expenditure and public pensions, excluding interest payments. While ceilings were initially approved three years in advance, in recent years the setting of medium-term ceilings has been delayed, officially owing to a pending evaluation of economic growth potential and possibly also to retain flexibility for the period following elections.

In conjunction with the two-step decision-making procedure, the reforms centralized the committee process along the lines of the 'hierarchical' model in Figure 1. The Finance Committee has responsibility for the aggregate spending total as well as frames for each of the twenty-seven expenditure areas. Based on the work of the Finance Committee, the first parliamentary decision in the autumn is now on the expenditure frames for the upcoming budget. Fifteen sectoral committees then have responsibility for between one and four expenditure areas and make allocational proposals within the approved ceilings. Sectoral committees may propose shifting funds between items within an expenditure area, but they may not breach the total set for that area. In effect, a hard budget constraint has been imposed on sectoral committees. Members on the sectoral committees initially resisted this change, but against the backdrop of fiscal crisis, the reformers assembled enough support for the new process to be accepted.

The specific voting procedure is crucial. The report of the Finance Committee contains a proposal as well as reservations from the opposition parties that cover total spending, the allocation of expenditure across the different areas as well as revenue changes. These are treated as packages, unlike in the previous system where shifting majorities could form on individual items. Under the new system, opposition proposals are eliminated until one main alternative remains (Molander 2001: 36). Opposition parties are ideologically fragmented and typically do not unite against the government, but only support their own proposal. Under these conditions even a minority government can obtain the support of more than half of the members voting.<sup>2</sup> In practice, pre-budget consultations between the Social Democrats and their legislative allies, the Left Party and the Green Party, have so far ensured broader support.

This overview shows that the reforms fundamentally reorganized legislative decision-making in a way that appears conducive to containing the CPR problem. A central change was to institute a vote on aggregates prior to allocational decisions. At the same time, the committee structure for budget scrutiny was centralized by giving the Finance Committee an overall co-ordination function, thus ending the balkanization of the previous system. The budget

proposals of different parties are now considered as packages, which enables an overall perspective on fiscal policy and strengthens the agenda-setting power of a minority government. In the following section, I consider the impact of the reforms on the budgetary role of Parliament.

### 3. ASSESSING THE IMPACT ON LEGISLATIVE BUDGETING

By any standards, Sweden managed an impressive fiscal turnaround in the second half of the 1990s. Figure 2 shows the widening gap between general government revenues and expenditures at the beginning of the decade, with the deficit exceeding 11 per cent of gross domestic product (GDP) in 1993. By the end of the decade, macroeconomic conditions had stabilized and the government was back in surplus. Previous studies suggest that the new budget process should be more conducive to the maintenance of fiscal discipline (Molander 1999: 207–8) and present tentative conclusions regarding its impact on the role of Parliament (Blöndal 2001: 42). At the time of writing, nine budgets have been passed using the new process outlined in the previous section. This provides a critical mass of evidence to allow an initial assessment of the impact of the reforms on legislative budgeting. I first consider whether and what kind of changes can be observed, before discussing in greater detail to what extent any changes may be attributed to the new budget process.

Most studies on the effect of budget institutions use broad indicators of fiscal performance as the dependent variable, typically public debt or deficit measures. This makes sense for studies that consider the overall effect of budget institutions and use indices that combine a number of structural variables (e.g. Von Hagen 1992; Alesina *et al.* 1999). However, such broad indicators of fiscal performance make it difficult to isolate the effect of parliamentary institutions. With case studies it is possible to use much more fine-grained data than are typically available for quantitative cross-national research (Lieberman 2005: 440–1). Here, I use dependent variables that are very specific to the legislative budget process and allow a comparison of the budgetary role of the *Riksdag* prior to and after the budget reforms of the mid-1990s, namely the number of legislative amendments to the government's proposals as well as the net effect of parliamentary amendment activity on spending.<sup>3</sup>

One indicator of the budgetary role of a legislature is the number of amendments made to executive proposals (Lienert 2005). While governments may anticipate legislative reactions and incorporate many of them into the budget prior to introduction, in particular in parliamentary systems where the executive relies on legislative support, the persistent absence of any amendments typically indicates a rubber-stamp legislature (Wehner 2006). Figure 3 reveals that the number of amendments to the government's proposals for eleven budgets passed prior to the reforms (1985/86 to 1995/96) is substantially different from the following nine budgets (1997 to 2005). Prior to the reforms the *Riksdag* made on average thirty-three amendments, ranging between sixty-three in 1991/92 and fifteen in 1995/96. Under the new process the mean is

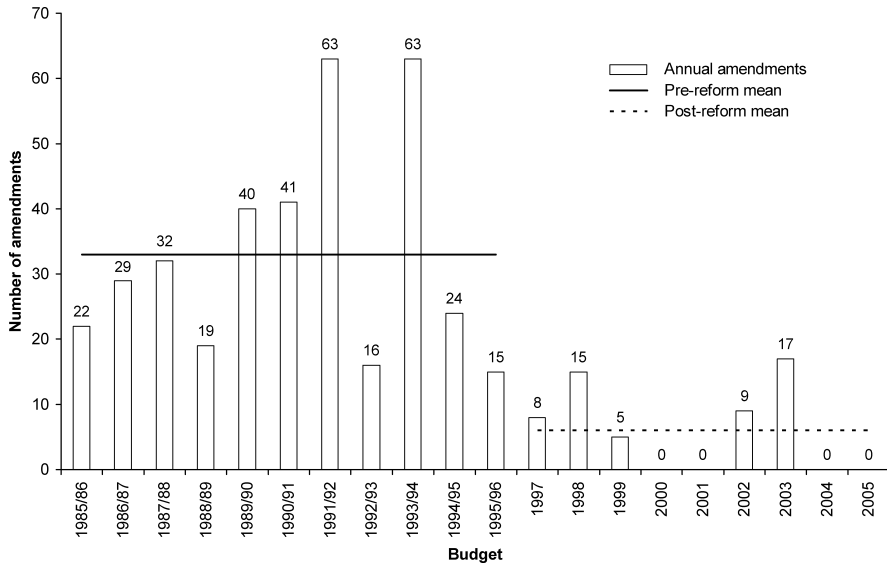


Figure 3 Parliamentary amendments to government budget proposals, 1985/86–2005

Source: Data from the *Riksdag* Finance Committee.

six, ranging between seventeen in 2003 and none in four other instances including the two most recent budgets included in the analysis. This indicates a substantial decrease in amendment activity following the reforms.

When considering the difference in the number of amendments, some adjustments have to be borne in mind. On the one hand, the number of appropriations has been halved from a previous total of roughly 1,000 to about 500 (Hjalmarsson and Jonsson 2003: 2). The reduction in part preceded the reform of the budget process. The smaller number of appropriations reduces the scope for parliamentary amendments to budgetary details. Nonetheless, even when post-reform amendments are double-weighted to compensate for the halving in the number of appropriations, the adjusted level of amendment activity is still two-thirds below the pre-reform average. Moreover, pre- and post-reform amendments are not fully comparable. Prior to the reforms almost all changes resulted in increased appropriations. Since any increases now have to be balanced by cuts elsewhere, this augments the number of amendments that are necessary for adjusting the budget. In short, the decrease in amendments is striking even when the reduction in the number of appropriations is taken into consideration.

To assess the fiscal impact of the parliamentary process, Figure 4 indicates the net effect of amendments over the same period. Amendments to all of the budgets passed prior to the reforms resulted in net increases. The sums involved are relatively small compared to the overall budget, typically not exceeding

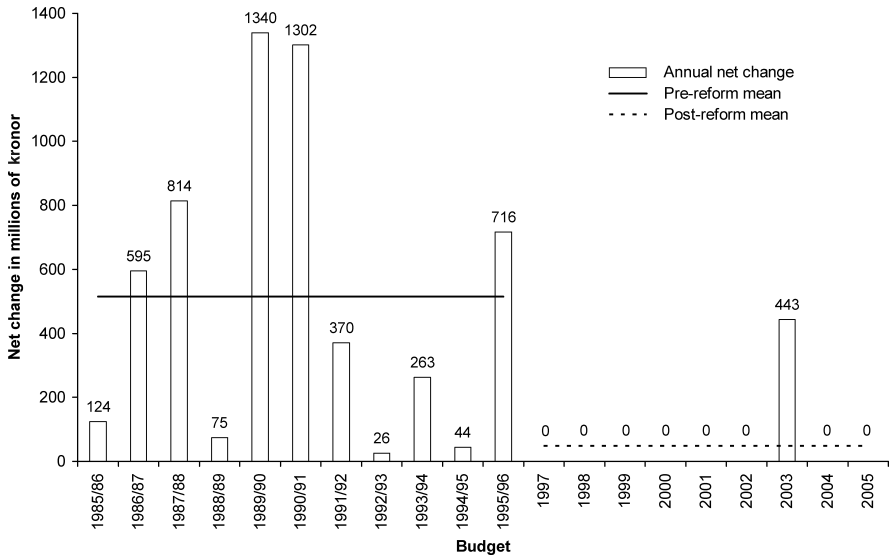


Figure 4 Net expenditure increases due to parliamentary amendments, 1985/86–2005

Source: Data from the *Riksdag* Finance Committee.

approximately 1 per cent of the total. However, the government in many instances had already anticipated Parliament's reactions and incorporated relevant demands into its proposals. The true net cost of parliamentary consent in the pre-reform period is therefore hard to determine but it is almost certainly not fully reflected in these data. Even without this caveat it is clear that the *Riksdag* was unable to maintain fiscal discipline prior to the reforms, as its amendments regularly increased spending. However, there are no net increases in all but one of the years following the reforms. The exception is the 2003 budget, which was passed after an election and had to be adjusted to reflect the co-operation agreement between the Social Democrats and their legislative allies.<sup>4</sup> In general, the parliamentary process following the reforms is characterized by greater fiscal discipline.

To what extent can these changes be attributed to the new budget process? The package voting procedure makes amendments more difficult. It compels opposition parties to be explicit about trade-offs by developing comprehensive alternatives to the government budget proposal. The impact can be illustrated with recourse to Table 1. In effect the new process proceeds column-by-column rather than row-by-row. Unless opposition parties unite and support a single alternative, the executive proposal emerges unaltered if it is pitched against any less popular opposition proposal. An evaluation of the new budget process by the Parliamentary Review Commission (2001: 8) confirms: 'The framework model has made it easier for a minority government to get

its budget proposal through parliament, since it has made it more difficult for varying majorities to increase expenditures without financing the expenditures at the same time.' Moreover, although the effects of the two-step voting procedure and the associated redesign of the committee process are difficult to disentangle, the centralization of aggregate decision-making in the Finance Committee allows the imposition of a hard budget constraint on sectoral committees, which previously generated regular expenditure increases.

In addition, the extension of the electoral period that occurred at the same time as the reforms to the budget process may also have contributed to greater fiscal restraint. Empirical work on electoral budget cycles points to a negative relationship between the length of the electoral term and levels of public debt, suggesting that an extended time horizon induces politicians to pay more attention to the medium-term implications of their fiscal policies (Franzese 1999). In Sweden, the budget reforms coincided with an extension of the electoral term from three to four years. It is not clear whether this was done deliberately on the basis of an assumption that a longer electoral term makes politicians more fiscally responsible. However, one official interviewed for this study highlighted that although this connection was not made explicit, 'those involved understood it perfectly well'. The data considered above cannot be used to conclusively pinpoint the separate effects of these simultaneous institutional adjustments, but on balance the evidence suggests a cumulative effect in favour of fiscal discipline.

However, while the reformed institutional arrangements support the maintenance of fiscal discipline, they cannot be regarded as its 'ultimate' or 'fundamental' cause (see Gerring 2005: 175–6). Rather, the reforms were initiated by politicians with strong preferences for more prudent fiscal policy. The new arrangements were deliberately chosen to achieve this objective in a process that included consideration of fiscal institutionalist evidence (Molander 1992). Because no party or group of parties controlled the required majority to reform the system on its own, institutional change would never have been possible without strong cross-partisan consensus about the aims of reform, which was forged in a context of economic crisis. As one senior budget official cautioned, it is problematic to relate the improvement of public finances to any specific instrument, but rather 'underlying attitudes and values that changed, and that influenced the result ... and the methods chosen'. In other words, budget institutions are endogenous; the current arrangements were shaped by the preferences of politicians across the partisan spectrum in favour of greater fiscal discipline.

This is reflected in consistently strong support for fiscal sustainability at the highest political level. The reform was designed at a time when the then Finance Minister, Göran Persson, started emphasizing pre-budget consultations with opposition parties, an approach that has been sustained thus far, with the aim of stabilizing the budget process (Hallerberg 2004: 165–6). After becoming Prime Minister in 1996, Persson (1997) published a book that made a personal commitment to fiscal prudence. His government's objective is that public finances, comprising central and local governments plus the pension system,

show a surplus of 2 per cent of GDP over the economic cycle (Ministry of Finance 2005: 4). It remains to be seen whether the relative tranquillity of the new budget process is dependent on continuity of political leadership or whether the institutional changes have sufficiently embedded fiscal discipline so that a different government would find it hard to depart from that course.

Lastly, the focus of this paper is not meant to suggest that the improvement in overall public finances should be entirely attributed to the revised legislative process. Several other factors played a role as well. Favourable macroeconomic conditions in the second half of the 1990s certainly aided fiscal recovery. Moreover, the reforms also strengthened the role of the Finance Ministry during executive negotiations. Notably, since the introduction of expenditure ceilings they have always been adhered to. Compared with the pre-reform process the Finance Ministry is in a stronger position to contain demands from spending ministries. On the other hand, although the reforms coincided with Sweden's entry into the European Union, this played 'at best a secondary role' in spurring the reforms, which were 'a direct response' to economic crisis (Hallerberg 2004: 167). These and possibly other factors are all important for a wider discussion of public finances in Sweden, but they do not affect the conclusions reached here about the impact of the institutional adjustments on legislative budgeting.

Overall, the data show that the role of the Swedish Parliament in the budget approval process has become more predictable after the reforms. Parliamentary amendments have decreased sharply, and the approval process no longer produces regular increases in spending. The new process was deliberately designed by politicians with strong preferences for greater fiscal discipline, and the data support the conclusion that it facilitates more prudent decision-making.

#### **4. THE CHALLENGE OF A NEW ACCOUNTABILITY**

The more predictable role of Parliament in budget approval does not necessarily imply a loss of parliamentary control; it may also mark a transition to a qualitatively different type of control. One *quid pro quo* for less *ex ante* influence over budget policy could be greater accountability for results, by enhancing the provision of performance information in the budget as well as *ex post* accountability arrangements. While reforms in these areas were debated and carried out separately from the adjustments to the budget process reviewed above, they also affect the nature and quality of parliamentary control, and hence should be part of a comprehensive assessment of financial scrutiny. In this final section, I briefly consider separate developments relating to performance budgeting and *ex post* scrutiny to assess whether the Swedish Parliament has made a transition to a new kind of accountability, one focused on performance.

Efforts to move towards performance budgeting preceded the reform of the budget process in the 1990s. Already in the 1970s there were experiments with programme budgeting involving a small share of the central government administration. Since 1988 there have been renewed efforts by the government

to improve the performance orientation of the public sector (Hjalmarsson 2005). Performance reporting at present is largely focused on outputs.<sup>5</sup> Agency objectives are specified ex ante in letters of instruction (*Regleringsbrev*) that are issued to agencies following parliamentary approval of the budget. After the end of the fiscal year, agency performance information is presented in annual reports that cover financial as well as non-financial results. However, it appears that parliamentary interest in performance budgeting has been 'lukewarm', as one former official put it. Blöndal (2001: 41) also observed 'dissatisfaction' in Parliament with the quality of performance information, although the Ministry of Finance is working to streamline the process. This suggests that these developments have thus far not had a profound effect on parliamentary scrutiny and accountability.

The move towards greater performance orientation has gone hand in hand with a relaxation of input controls (Hjalmarsson 2005: 2). For example, agencies now receive a single appropriation for operating expenditures (Blöndal 2001: 45). Apart from solid performance information, strong ex post scrutiny is required in order to maintain parliamentary oversight under such circumstances. Until 2003, Sweden had two audit bodies that operated parallel to each other. The Parliamentary Auditors (*Riksdagens Revisorer*) were directly attached to the Parliament, but only had a small number of staff (about thirty). The main audit body with about 300 staff was the Swedish National Audit Office (*Riksrevisionsverket*), which was part of the government. This gave Parliament very limited capacity for ex post scrutiny, and the need for strengthened parliamentary control was widely recognized (Parliamentary Review Commission 2001: 4).

In 2003 the two old audit institutions were merged into a single entity. The new Swedish National Audit Office (*Riksrevisionen*) is independent from the government and headed by three Auditor Generals, who are appointed by Parliament. Its mandate covers both financial and performance audits, and the latter takes up an increasing share of audit activity. *Riksrevisionen* also has a board that is appointed by Parliament and consists of eleven representatives of all parties in the *Riksdag*. The board monitors audit activities and may make recommendations to Parliament on actions to be taken on particular reports.<sup>6</sup> Up to May 2005, the board had received thirty-six reports, of which nineteen were passed on to Parliament with proposals. No measures were taken in six cases, and five reports were passed on for information purposes only. There is no specialized parliamentary audit committee, such as the Public Accounts Committee in the UK House of Commons. Instead, audit findings are considered by any committee they are referred to.

As the institutional arrangements for ex post scrutiny are still very new, it will take some time before their effectiveness can be properly evaluated. On the one hand, the creation of a well-resourced audit body that is independent from the government is a definite improvement over the previous situation. The move is also in line with international standards that demand the independence of external audit (International Organization of Supreme Audit Institutions 1998). The

previous Swedish National Audit Office did not report to Parliament, which had to rely on its Parliamentary Auditors. The *Riksdag* should be a main beneficiary of the reform of external audit.

However, this requires sufficient capacity and interest in the legislature to absorb the flow of audit information. It is widely recognized that the interaction between supreme audit institutions and legislatures benefits from specialized audit committees (SIGMA 2002). Audit committees allow legislators to develop expertise for ex post scrutiny and to pay greater attention to audit findings than is possible in sectoral committees that are also concerned with a number of other pressing matters, in particular draft legislation. In Sweden, the transmission of audit findings to Parliament has not been fully effective. The audit board meets on average only about once a month and lacks capacity to engage with reports in detail. This results in delays in the referral of reports to the *Riksdag*. Moreover, instead of substantive proposals, in a number of cases the board generated only a general recommendation that Parliament look into a certain matter. Audit reports still receive little attention in Parliament, apart from the annual report, which is subject to a debate in the plenary.

The Swedish Parliament has not made a transition to a new kind of accountability following the redesign of the budget approval process. In some countries, in particular the UK and other Westminster systems, parliaments have largely withdrawn from influencing budget policy, but maintain substantial ex post scrutiny capacity in a Public Accounts Committee that focuses on value for money delivered by government departments and agencies (McGee 2002). The *Riksdag* may not want to follow this perhaps extreme example. Nonetheless, accountability for results through effective ex post scrutiny can still be improved substantially, for instance by setting up a dedicated audit committee or by greatly enhancing the capacity of the current board.

## CONCLUSIONS

Sweden's budget reforms have contributed to a containment of the CPR problem in Parliament, by instating a top-down voting process in conjunction with a revised committee structure that centralizes control of aggregates in the Finance Committee. In addition, the package voting procedure gives the government greater agenda-setting power. Overall, the new institutional arrangements make it more difficult for legislative deliberations to produce net spending increases and hence contribute to the maintenance of fiscal discipline. The Swedish case shows that, in addition to the formal powers of the legislature to amend the budget, a range of legislative institutions deserve attention in efforts to redesign the budget process in order to improve fiscal performance. This is encouraging, because the proposition that amendment powers have to be curtailed for the sake of fiscal sustainability is normatively problematic for those who regard the legislative power of the purse as a democratic fundamental. Moreover, this analysis cautions against a simplistic reading of the fiscal institutionalist literature. Budget institutions cannot always be treated as exogenous



variables. In the Swedish case, the preferences of politicians across the partisan spectrum in favour of greater fiscal discipline determined institutional choice. The message for budget reformers elsewhere is that legislative institutions matter, but more fundamentally important are the preferences of those who get to make institutional choices.

This analysis further raises complex questions about the exact nature of parliamentary control. The Swedish case implies an inverse relationship between legislative influence on budget policy and the maintenance of fiscal discipline. This suggests that effective parliamentary control has to entail that the legislature is able to control itself. In Sweden, the overall design of the reforms was in the hands of the *Riksdag*, and recent adjustments to the role of the Spring Fiscal Policy Bill again confirm Parliament's power over the budget process. In short, the constraints of the revised legislative process are essentially self-imposed, which in the final analysis makes it difficult to argue that the *Riksdag* has lost budgetary control. Nonetheless, it is evident that individual parliamentarians, in particular those on sectoral committees, have relinquished some influence over budget policy. I have argued that reduced ex ante influence can be compensated by greater accountability for results through improved performance reporting and an effective ex post scrutiny process. While full effectiveness in this regard has not yet been attained, this remains a significant opportunity for reshaping accountability in the post-reform environment.

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## NOTES

- 1 The relevant formal rules are contained in article 12 of chapter five of the Riksdag Act.
- 2 Articles 5 and 6 of chapter five of the Riksdag Act deal with the voting procedure.

- 3 Changes made by the *Riksdag* to the government proposal are documented in the Finance Committee report on the budget (FiU10) that is handed to the Speaker and forwarded to the government. Recent reports are available on the parliamentary website at <http://www.riksdagen.se>
- 4 When the budget proposal was submitted to Parliament in early October the Social Democrats had only reached an agreement with the Left Party. Negotiations continued and a few weeks later the Social Democrats, the Left Party and the Green Party presented a joint motion (2002/03: Fi230) suggesting a number of financially neutral changes. However, when the Finance Committee scrutinized these proposals it emerged that some of the indirect effects of an income tax change on local communities had been omitted, which amounted to 443 million kronor.
- 5 Refer to Kristensen *et al.* (2002) for an overview of performance-based management and budgeting.
- 6 Further details are contained in the 2002 Riksdagen Terms of Reference Act and the Auditing of State Activities etc. Act.

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