

The Case for a Parliamentary Budget Office in India

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It remains notable that the quality and comprehensiveness of the budget scrutiny process through the debate and the standing committees is weak. Parliamentary scrutiny of public finance is a very important aspect for holding governments accountable to the people. Strengthening Parliament's oversight apparatus calls for proper attention and requires a thorough overhaul. Establishing a Parliamentary Budget Office, an independent and impartial body linked directly to Parliament, is a fitting response to this concern.

The budget session 2017 came to an end on 13 April. It brought in a few reforms, such as advancing the union budget to 1 February instead of 28 February, merging the railway budget into the general budget, merging plan and non-plan allocations, and the passage of key reforms in the Goods and Services Tax Bill. It is notable that the quality and comprehensiveness of the budget scrutiny process, through the debate and the standing committees, is weak. Due to the lack of analytical knowledge support, members of Parliament (MPs) are unable to properly scrutinise the demands for grants in the respective standing committees. On occasion, MPs seek to reach out to external experts for credible analysis and inputs. Such practices help in adding depth to the committees' work and their reports. While this results in better assessment of demands, it is an ad hoc way of bridging the gap in knowledge and analysis. An institutional mechanism, such as a parliamentary budget office (PBO), is necessary to provide continuous assistance to MPs and their committees.

The above example suggests that, in India, the effectiveness of parliamentary oversight in public finance is an unsettled concern. Strengthening Parliament's oversight apparatus calls for proper attention and requires a thorough overhaul. Establishing a PBO is a fitting response to this concern. A PBO is an independent and impartial body linked directly to the Parliament.¹ It provides high-quality technical, objective and non-partisan analysis of budgets and public finance to the Parliament and its committees. A PBO is an instrument for addressing bias towards spending and deficits and, more significantly, for enhancing fiscal discipline and promoting accountability. Further, it can generate quality public debate on budget policy and public finance (OECD 2014),²

enabling parliamentarians to engage more meaningfully in the budget process.

State of Fiscal Governance

The budget is an extremely important political expression affecting every citizen. Budgets can be seen as contracts between citizens and the state, or better seen as treaties among citizens negotiated through politics (White 2015). The budget, as a socio-economic and political document, primarily involves a legitimate process of raising revenue and (an equitable) distribution of public resources amongst various sectors. The budget is the clearest expression of the direction of a government's priorities and targets, reflecting its fiscal plans, and social and financial commitments. The budget is also a primary instrument through which the elected representatives can exercise influence on economic and social development policies of the country. Elected representatives must be able to both debate and express the views of their constituents on matters of budgetary concern in a representative institution.

Parliament is considered to be "the guardian of the public purse" (Barrow 1838: 976) and must play a greater role in budgetary governance. As a budget-approving body, it oversees the following: presentation of the budget; scrutiny of the budget proposal and demands for grants of various ministries; debate; and consideration and approval of the budget. To carry out such functions effectively, the Parliament requires institutional, analytical and technical competence. However, the budget research capacity is negligible in Parliament. Consequently, Parliament appears unable to perform the aforementioned functions effectively, often resulting in the executive acting in accordance with its own preferences.

The requirement for parliamentary approval of fiscal measures lies on statutory footing. However, the practice of obtaining such requirement appears to be a mere formality, lacking substance and sincerity. Parliament's failure to exert meaningful influence often results in arbitrary taxation policy, burgeoning fiscal deficit, and an inequitable allocation of public resources among various sectors. Many ordinary laws have been

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piggybacked as money bills and included within the Finance Act, 2017, while the Parliament remained entirely oblivious. The establishment of a PBO would eliminate such malpractice as MPs would have been alerted and appropriate action would follow.

Democratic Necessity of PBOs

Effective legislative participation in the budget process establishes checks and balances that are crucial for transparent and accountable governance, and for ensuring efficient delivery of public services.³ Some critics have argued that a “budget-approving” parliament does not call for a functioning PBO.⁴ This is a very typical and unsound argument. Even when the parliament is a budget-approving body, it is clear that its members must be well-informed for a legitimate approving process.

Representative democracy demands an active role of the parliament in budgetary governance and budget decision-making alongside a well-thought-out legislative-executive balance of power (Bhanu 2016). The role of the parliament cannot be restricted only to budget approval and oversight functions. A democratic constitution provides the necessary scope to accommodate the legislature’s participation in fiscal governance. Within the parliament’s constitutional framework lies the potential of such effective legislative tools to engage in budgetary decisions. Executive-led budgetary governance has not been successful in India for many decades, and one is able to see clear manifestations of such failures. Despite high economic growth, India suffers from income inequality, widespread poverty, high unemployment, high presence of malnourished children, shocking prevalence of preventable diseases such as tuberculosis, systemic corruption, and underinvestment in key social services such as health and education. These stand as a clear account of budgetary allocation failure resulting in unequal distribution of public resources.

An adequate and inclusive role of Parliament or the state legislatures in public finance management is not sufficiently dealt with in the political economy

literature in India. There is a visible deficit, a “knowledge gap,” between Parliament and its members in India, which requires a radical revamp in order to address and remedy the aforementioned problems. Parliamentarians do not have access to detailed evidence that may allow them to pass judgment on budgetary decisions. However, it is naive to suggest that all parliamentarians lack the knowledge to discuss such budgets. Minimal motivation for discussing such budgets may be present, especially if acquiring the appropriate information to question the executive’s decision proves to be an arduous task. A body that is independent of the executive is necessary in order to provide “independent costings, fiscal analysis and research to all MPs, especially non-government members” (Kelly 2011).⁵ A PBO could provide the essential substantive information and knowledge support services for parliamentarians and committees. Such timely, accurate, objective, responsive, and non-partisan information is vital for the productive working of the parliament and its members.

There is an imminent need to establish a PBO, not only as an indicator of good governance, but on the premise that an independent, non-partisan, transparent body can bridge the gap between executive decision-making and parliamentary involvement (Straussman and Renoni 2009). In order for the development of a PBO to be effective, there must be momentum for change. Parliamentarians must seek to hold the executive to account regarding fiscal governance, and the PBO is an appropriate mechanism with which to do so. Legislatures may require greater sensitisation to the knowledge gap issue in order to develop an impetus for change.

Trends in PBOs

According to a training module of the World Bank Institute,⁶ there is a growing trend among the legislatures, especially among the Organisation for Economic Co-operation and Development (OECD) countries, to establish specialised budget research units. PBOs are being established across both presidential and parliamentary systems (Anderson 2009). Traditionally, independent budgetary units are

more common in developed countries,⁷ but many developing countries are now establishing such entities, for example, Benin, Ghana, Kenya, South Africa, Morocco, the Philippines, Uganda, Nigeria, Liberia, Thailand, Afghanistan, and Vietnam.⁸ The other functioning PBOs are in countries such as the United States (us), Canada, Australia, Austria, South Korea, Italy, Mexico, etc. There are PBOs established in subnational legislatures as well such as California, Ontario, Scotland, and New South Wales. In the us, New York City also has a well-functioning Independent Budget Office (IBO).

Core Functions of PBOs

The functions of PBOs vary from country to country.⁹ Some have a wide range of tasks and responsibilities, while others play a more limited role. Most PBOs have four core functions: independent and objective economic forecasts; baseline estimate survey; analysing the executive’s budget proposal; and providing medium- to long-term analysis. A role in costing is also typical for PBOs. Many PBOs evaluate the real cost of implementing government policies and programmes. Additionally, PBOs are capable of supporting parliamentarians in engaging in pre-budget processes. Budgets generally start with an economic forecast. A PBO can present its own independent forecast or it can merely validate the government’s forecast. As Barry Anderson (2009) explains, while a PBO places its forecast, it should take into account the other forecasts, including private or international forecasters, and the central bank or other experts’ forecasts. The forecasts of spending and revenues should be projections, not predictions made while doing the baseline estimations. They should be based on laws that are currently in force, not on policy proposals. The forecasts should avoid judging the legislative intent of laws, but they should assume, for example, that the expiration dates mentioned in legislation will actually occur. The Australian PBO, for instance, was required to undertake fiscal examination in order to project the impact on the budget that would arise as a result of the decline in oil prices (Chohan 2015).

The third core function of a PBO is to perform an assessment of the executive's proposed budget. This should not be a programmatic evaluation, but rather a technical review of the budgetary estimates contained in the executive's budget. Such a review can enhance the credibility of the executive's budget. The core functions mentioned above should be performed over, at least, the medium term, which can then highlight the out-year consequences of current and proposed policy actions. The medium-term analysis allows consideration of various fiscal risks, and also provides the basis for a long-term analysis.

A PBO can perform many other tasks depending on its mandate, resources, and requirements of parliamentarians or committees. These may include general economic analysis, analysis of various policy proposals, analysis of regulations built into the legislations, tax analysis, long-term analysis, options for spending cuts, outlining a budgetary framework that reflects the priorities of the government, and bespoke policy briefs, among others.

Necessary Establishment of PBOs

A potential PBO is different from the finance committee, including the Public Accounts Committee, and general parliamentary research services and information wings. A PBO is comprised of independent and specialised staff, including, but not exclusively, budget analysts, economists and public finance experts. To be successful, the PBO requires the broad support of all the parliamentary political parties. In order to maintain this support, the PBO must be non-partisan, independent and mandated to serve all parliamentarians. Furthermore, the core functions of the PBO, including the access to government information and appointments of staff, should be codified in law. The output of the PBO, and the methods by which they are prepared, must be transparent, accessible and understandable. The PBO should also follow the values of scholarship, impartiality and timeliness, which form a part of most parliamentary services.

Establishing a PBO in Parliament will have a positive impact on its ability to carry out budgetary oversight and fiscal

decision-making. However, this will not be an easy task. It is likely to attract prime opposition from the bureaucracy or the executive. Universally, any aspect of strengthening the parliament (or the state legislatures) is contentious. It is generally unwelcome and met with reluctance from the executive. Public pressure and political will is needed to overcome such opposition. Parliamentarians spanning all political parties must form the nucleus of the action for change.

Conclusions

The goal of the PBO is to render budgets more transparent and accountable (Page 2008). PBOs can help parliamentarians understand the complex nature of the budgeting process and provide the parliament and its committees with the capacity to contribute to the budget process. Parliamentary scrutiny of public finance is a very important aspect for holding the government(s) accountable to the people. However, the Parliament as well as the state legislatures are institutionally fragile and ineffective in fulfilling their oversight and scrutiny functions. There is a legitimate democratic need in this country to strengthen the capacity of Parliament and its members. An unprecedented change has taken place in the way citizens view the government's stewardship of taxpayer resources. This change demands new and emerging global standards and best practices to promote financial and budgetary transparency. Parliamentarians have a legitimate role in contributing to the PBO's establishment. As representatives of the people, they can assist in improving budget policies by providing input on public needs and priorities. Similarly, a PBO can ensure that parliamentarians remain informed well enough to perform their budgetary and oversight responsibilities effectively.

NOTES

- 1 For further discussion on PBO, see OECD (nd).
- 2 OECD Recommendation of the Council on Principles for Independent Fiscal Institutions, adopted by the OECD Council on 13 February 2014.
- 3 PBO course training module prepared by World Bank Institute (WBI Module 1).
- 4 WBI Module 2.
- 5 Speech made during the debate on the PBO Bill in the House of Representatives in Australia.

- 6 WBI Module 2.
- 7 See John K Johnson and Rick Stapenhurst (2008) for more discussion on the non-partisan legislative budget offices in countries.
- 8 WBI Module 2.
- 9 See Barry Anderson (2009) for detailed discussion on the PBO functions.

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