If legislative budgeting suffers from a pro-spending bias, what is the empirical evidence that institutional arrangements can contain this tendency? Since the 1990s, a number of studies, using different variables and datasets, have claimed that certain institutional features are conducive to maintaining fiscal discipline during the budget process in the legislature. This chapter provides an overview of the theoretical and empirical literature on the fiscal effects of legislative institutions and adds empirical evidence. While existing studies tend to focus on selected variables, the intention here is to present a more comprehensive overview and to provide additional assurances of the robustness of the findings through the use of multiple datasets and empirical approaches.

The most common empirical strategy in the fiscal institutionalist literature involves the use of composite indices of budget institutions (e.g. Von Hagen 1992; Alesina et al. 1996). A potential problem with composite indices is that they can obfuscate the impact of individual variables. Hence, this chapter adopts a more focused approach that puts individual variables at the centre of the analysis. I start with a summary review of the relevant literature and an initial look at empirical relationships between the identified institutional variables and the size of government. Such replication is increasingly acknowledged as essential for the credibility of research in the social sciences (Dewald et al. 1986; Herrnson 1995; King 1995). It provides a check whether results ‘travel’ through time and space, and thus supports the search for underlying general results. I use this initial overview to set up a more detailed analysis of the relationship between legislative...
budget authority and public spending using a global sample of countries both in the cross section as well as over time.

5.1 A review of institutionalist hypotheses

The literature on the fiscal effect of budget institutions builds on the basic insight that spending will be higher when decision makers do not internalise the full costs of their actions (Weingast et al. 1981). This suggests that the spending bias in a legislative setting is potentially substantial: democratic legislatures are large decision-making bodies that typically encompass many special interests. For instance, individual legislators elected by geographical constituencies can internalise the benefits of a project, such as a bridge or road built in their district, while distributing the costs across all taxpayers. The same effect can occur in contexts where party discipline is strong, in which case political parties rather than individual legislators constitute the relevant decision-making units. For these reasons, the fiscal institutionalist literature generally regards powerful legislative bodies as fiscally dangerous and propagates institutional arrangements that centralise decision making in the hands of the finance minister or chief executive (Von Hagen and Harden 1995; Alesina and Perotti 1996). Here I take a closer look at the hypotheses about the fiscal impact of legislative institutions put forward in the literature.

In his groundbreaking and widely cited paper prepared for the European Commission, Von Hagen (1992) argues that institutions that weaken the role of special interests in the budget process affect fiscal performance. He develops three different versions of a ‘structural index’ that consist of up to four different items. Based on fiscal data for European Community countries in the 1980s, his empirical analysis finds support for the ‘structural hypothesis’ that a budget process with a dominating role of the finance minister vis-à-vis spending ministers, restricted parliamentary authority and limiting adjustments to the budget during implementation is strongly conducive to fiscal discipline. Item two of the structural index combines several components to assess the ‘structure of the parliamentary process’. These indicate whether amendment powers are limited, changes to the budget are required to be offsetting, amendments can cause the fall of the government, all expenditures are passed in one vote and the process commences with a global vote on the size of the total budget.