Parliamentary Budgeting in Hungary and Slovenia

by

Lance T. LeLoup
Washington State University

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I. Introduction

One of the greatest challenges facing governments everywhere is developing national budget policies that maintain fiscal balances, provide essential services addressing the needs of domestic constituencies, allow sufficient resources for national defense, and promote economic growth. Nowhere are these challenges greater than in the newly democratized nations of Central and Eastern Europe (CEE), where the transition from a command to a market economy has required the radical transformation of budget systems and budget priorities. Many actors and institutions, both internal and external, have been key elements of the transition, including democratically elected Parliaments. It is often in legislative bodies that the human consequences and difficult policy choices of transformation are articulated. But is this the extent of the parliamentary participation or are there more concrete impacts? This study examines parliamentary impact in two of the more advanced nations in CEE – Hungary and Slovenia.

Once largely written off as subordinate to executive elites, more subtle ways of examining the policy influence of legislatures have been recognized.

> Through public debates, the private interactions of their members with the executive, the linkage activities that they performed on behalf of their constituents, and their activities in regard to oversight, legislatures as collective bodies and their members individually seemed to have a greater impact on the contours of public policy than had been perceived by the earlier generation of scholars[1]

The goal in this paper is to compare and contrast the roles of the Hungarian and Slovenia Parliaments in budgeting, developing conceptualizations and explanations based on common variables and hypotheses that facilitate comparative analysis. This will also allow more informed judgements on how to further strengthen legislative budgeting in these and other nations in the region.

Hungary was generally considered to be ahead of other CEE nations in terms of economic and political liberalization in 1989 but the budget remained largely an instrument for centralized allocation of resources. [2], Hungary followed a more gradualist approach to economic reform in the ensuing years[3]. Hungary emerged from the political transition with a strong parliamentary system. In the last decade, all three democratically-elected governments and their parliamentary majorities have faced daunting challenges in attempting to deal with a multitude of economic and budgetary problems. They initially faced these problems with an antiquated budgetary system and had to adopt not only new policy approaches, but new institutions and processes for making those decisions in both the ministries and Parliament.

Before its independence in 1991, Slovenia had been the trading arm of the former Yugoslavia, itself the most open economy in the region.[4] Under the Yugoslavian system of self-management, sometimes referred to as the “third way,” it was also relatively autonomous in terms of handling its own finances in a mixed market economy. Today, Slovenia has developed a budget system most closely resembling those of the European Union (EU) nations and the west, even when compared to the new NATO countries of Hungary, Poland, and Czech Republic. Slovenia and Hungary are especially useful for scholarly analysis of the region in helping to identify factors which tend to impede or enhance progress towards developing modern budgeting systems as part of economic liberalization and democratization.

This study presents the results of research conducted on budgeting in Hungary and Slovenia.[5] It provides an overview and analysis of the evolution of the national budget system in Slovenia and Hungary after the political changes, emphasizing the role of Parliament. Building on earlier work by the author, this study also provides some comparative analysis of budget systems in Hungary and Slovenia focusing on theoretically significant similarities and differences, working towards a broader analysis of systems and budget change in CEE nations.[6]

II. Parliamentary Impact on Economic and Budget Policy

Around the world, the role of legislatures in budgeting can range from independently setting broad taxing and spending priorities, such as the Congress in the United States occasionally does, to simply rubber-stamping the proposals established by the government. The majority of legislative bodies appear to come closer to the latter than the former. In most cases, the legislative role is more subordinate, but often important. In Hungary and Slovenia, the democratically-elected Parliaments achieved a stronger constitutional or statutory basis for participating in budgetary decisions than had existed under communist regimes. But how much in practice has it occurred?

Scholars have suggested three categories of relevant variables in analyzing legislative impact on economic policy: (1) relationships with external institutions and actors, particularly executive-centered elites and domestic constituencies; (2) internal structural features of a legislature including committees, staff, and parliamentary party organizations; and, (3) the nature of the policy arena. [7] A number of the hypotheses that they develop, along with other comparative legislative research, are helpful in formulating expectations about the Hungarian Parliament and budgeting.

External factors - relations with the executive. A legislature's ability to have an independent impact on policy depends in part on its capacity to help shape or modify proposals from the executive. In terms of shaping government proposals, legislatures generally have better access when the executive branch is more open and decentralized rather than more closed and centralized . Similarly, they suggest that a legislature's influence on policy also depends in part on the level of executive decisionmaking: policy activity and impact can be greater when issues are handled by lower level ministries and officials and may be reduced when it is made by highest level executive elites.

External factors - relations with constituencies: In addition to responding to ministers and cabinet members, the relationship between MPs, their constituents, and interest groups are important to their policymaking roles. In examining legislatures and monetary policy, studies have found that even in that often remote policy arena, legislators' activity increased notably with enhanced constituency concerns.[8] As has been well established in the literature, electoral incentives provide critical motivations for legislators but act in concert with other factors such as ideology and policy positions[9]. The strength of the electoral motive and resulting policy activity is tied to the nature of electoral and party systems: it is likely to be stronger in electoral systems that are more decentralized and candidate-centered compared to party-centered. In addition, the more that policy preferences of the electorate are at odds with the executive, the more likely it is that legislators will attempt to influence and change policy direction. Interest group pressure can also be an important trigger for legislative policy activity, particularly if groups fail to achieve their goals at earlier stages of the policy process.

Internal factors - Parliamentary parties: Duverger noted 40 years ago that in systems with strong extra-parliamentary party organizations, particularly parties of the left, the Parliamentary parties are often subordinate and display highly disciplined voting behavior.[10] The effect of more subordinate parliamentary parties is generally to reduce the independent policy activity of the legislature. Parliamentary party organizations also differ in the degree that they are hierarchically organized and able to maintain high voting cohesion[11]. In addition, the number of parties in the governing coalition can affect legislative policymaking. Generally, the policy activity of Parliaments is enhanced in cases where the government is made up of multiple parties rather than a single majority party, although it may reduce overall governing capacity [12].

Internal factors - committees: Another key structural variable for comparing legislative policymaking is the committee system [13]. A stronger committee system generally is seen to enhance the policymaking role of Parliaments, both in terms of affecting the content of policy and in overseeing implementation of policy by the bureaucracy. Stronger committee systems are associated with permanent rather than temporary committees which produces greater expertise and lower turnover, the availability of some staff assistance, and a committee organization that roughly parallels the organization of ministries.

Internal factors - rules and procedures: Another key element of the internal structure and organization of a legislature that affects its policy impact is the institutionalization of rules and procedures[14]. This is particularly important in budgeting where, in most nations, an annual budget process lends itself to routinization and stable practices for consideration and approval. Some parliamentary systems have budget rules that strongly favor the government such as a rule that allows the government to demand a vote on its original proposals regardless of changes made by parliamentary committees. Other rules, such as the requirement for offsets - that budget amendments must be “deficit neutral” - are self-imposed constraints on legislative activity that reduce discretion but may enhance fiscal responsibility. In general, the lack of institutionalization of regular, systematic procedures for considering and modifying budget proposals would tend to reduce legislative influence.

III. Analyzing Budgetary Decisions

The rapid transition from command to market economy would likely increase uncertainty, resulting in repetitive budgeting - inaccurate forecasts and the need to frequently revise taxing and spending decisions during a budget cycle. [15] Repetitive budgeting has consequences for policy in terms of the ability to maintain fiscal balances, shift relative priorities, and achieve specific objectives. A political culture cultivated among both the mass public and governing elites under 45 years of communism with centralized resource allocation, artificially low prices, and few taxes on individuals would make it more difficult to adopt new budget processes and policies, particularly in the short-run. More recently, an examination of budget reform in CEE also highlighted the importance of the old "financing culture" developed over four decades as an obstacle to accommodating prescriptions for budget reform. [16] To the extent that Slovenia had more experience with markets and developed a different political culture under a less centralized process of resource allocation would lead us to predict an easier transition than Hungary and other nations in the region.

A key development in budget theory in recent years has been the differentiation between "microbudgeting" and "macrobudgeting" and the inherent tension between them.[17] Macrobudgetary decisions include choices on broad-based aggregates, the size of the public sector, deficits and debt, all of which are influenced by economic trends and external constraints. They represent more centralized, top-down processes and decisions made by high level officials. Microbudgetary decisions include lower level choices on programs, ministry budgets, influenced by specialized interests and constituencies. Decision-making tends to be more fragmented and decentralized, more bottom-up, focusing on middle- and lower-level officials and legislators. The dichotomy between the two should be particularly important in Hungary, Slovenia, and other countries in the region. The rapid economic transition and the importance of external actors such as IMF, the World Bank, and the EU is likely to lead to an even greater emphasis on macrobudgeting in terms of policy making and budget process reforms. This will tend to increase domestic dissatisfaction and the conflict between claimants and conservers in the budget process.

Although there has been considerable published research on economic transformation and political reform in the former eastern bloc, the literature on budgeting *per se* is just emerging. Caiden found budget processes beginning to take on the rudimentary characteristics of more developed democracies.[18] Straussman identified steps to strengthen finance ministries, diversify revenue sources, and properly classify outlays, despite a slow fiscal learning process.[19] Mikesell found resistance to budget reform and external pressures in Ukraine.[20] Both Vanagunas looking at Lithuania,[21] and Straussman and Fabian looking at Hungary,[22] noted problems of local government finance related to national budget change.

IV. Political and Economic Contexts

Significant variations exist between nations in the region in terms of political and economic systems as well as budget systems. One key difference is in the size of government and the public sector, and a nation's fiscal balances as measured by budget deficits and external debt. Differences between Hungary and Slovenia are notable. Table 1 shows how the two nations and other "middle economies" compared in 1994 when various economic and budget reforms were beginning to be undertaken. Although Slovenia had a public sector greater than the OECD average, the size of government was significantly smaller than Hungary. Hungary, in contrast had a larger public sector, more government employees, a record of deficits, and high external debt

(Table 1 here)

Hungary and Slovenia are among the most prosperous of the transitional democracies. Both are among the first tier of nations slated for EU membership, which has had profound influences on budget policy. Table 2 compares Slovenia to Croatia, Hungary, Czech Republic, and Poland on a number of economic indicators. The level of GDP per capita in Slovenia is roughly double that of other Central European states in dollar terms. Even in purchasing power parity (PPP) which controls for relative price levels, Slovenia is the most prosperous country in the region. Slovenia's per capita income was 68% of the EU average in 1997.[23]

(Table 2 here)

Slovenia has been helped significantly by a fiscal policy that has maintained balanced budgets and avoided high levels of external debt. Low levels of external debt have made budget policy in Slovenia more independent of the IMF and World Bank, since massive loan or bailout packages were not needed. Slovenia became a member of the International Monetary Fund in January 1993. While Hungary's GDP is more than twice as large, its external debt has hovered around $26-27 billion over the last three years, five times larger than Slovenia's $4-5 billion. Hungary, for example, had an annual budget deficit as high as 6 percent of GDP during the mid-1990s Lower levels of outside interference have allowed for the strengthening of internal mechanisms and institutional capability for managing market mechanisms, system shocks, and budgetary pressures. This might also reduce the potential influence of Parliament in Hungary compared to Slovenia by placing greater constraints on cutting taxes or increasing spending.

The political context is equally important for both nations. Overall governing capacity of the political system will help determine the ability of nations to achieve budgetary goals. Weak or unstable governments, uncertain election results, parliamentary fragmentation, or minority coalitions, serve to obstruct budget reform.[24] Hungary appears to have relatively high government capability given its strong parliamentary system. Of the three post-communist governments, Hungary has had a single majority party government or relatively unified governing coalition.[25] Slovenia, on the other hand has been governed by more fragmented and diverse governing coalitions. This study will examine whether the somewhat greater fragmentation in Slovenia has affected the capacity for budget reform.[26]

In 1989, the Hungarian Socialist Party (HSWP) negotiated away its monopoly powers with the opposition, accepted multiparty democracy, and on October 23, 1989, Hungary was declared a republic. The former communists were badly beaten in the first free elections held in 1990 and a new government was formed by a coalition of Christian/Nationalist parties. The government was afforded stability by the requirement of a constructive vote of no confidence, along the lines of the German model, with a weak presidency. In 1994, the Socialists made a political comeback, winning an absolute majority in Parliament. To enhance their legitimacy, they formed a coalition with the Free Democrats under Prime Minister Gyula Horn. In 1998, however, the Socialists were defeated by a coalition led by the Young Democrats and Victor Orban who formed a government that included the conservative Smallholders party.

Slovenia's first democratic elections in nearly fifty years were held in April 1990. The election brought victory to a coalition composed of the Green Party of Slovenia, the Social Democratic Union of Slovenia, the Farmers' Union, the Christian Democrats, and the Slovene Democratic Union.[27] Following the declaration of independence in June, 1991, a limited armed conflict took place between Slovenian troops and the forces of the Yugoslav federal government. In December of 1992 new Parliamentary and presidential elections were held and a Liberal Democratic (LDS) coalition led by Janez Drnovsek took power .[28]Following the 1996 elections, a slightly different governing coalition, still led by LDS, was formed. The presence of a pensioners party (Desus) in the governing coalition since 1996 presents certain problems for the government in confronting one of the major budgetary problems, the sustainability of the social security system as it is currently financed. The governing coalition since 1996 is characterized by some fundamental differences among the parties over policy, which has often led to stalled or a relatively slow decision-making process. While the role of president is largely ceremonial, the president is responsible for nominating the prime minister in consultation with the political parties.[29] The legislature is bicameral, with direct elections for the 90-member National Assembly every four years.

Political culture in both nations is an important contextual variable in budgetary politics. Slovenes have escaped the brutal violence that has plagued the Balkans and their former Yugoslavian partners in the 1990s. However, attitudinal surveys have found a persistence of ethnocentric and xenophobic attitudes in Slovenia, tempered by growing underlying support for democracy.[30] The movement toward a free market economy has not removed the traditional expectations of much of the population. Citizens expect services from government, particularly social services, pensions, health care, and family services. In Hungary, continued public cynicism toward government in general and suspicion of authority help foster extensive tax avoidance and reliance on the informal economy. Both nations are relatively homogeneous. In Slovenia, it has been suggested that the preference for consensus-building has come at the cost of delaying decisions on key reform issues,[31] but eventual reforms of the economy and changes in budget policy are likely to be more broadly accepted and not be overturned by subsequent governments. In Hungary, policy change may be more rapid and dramatic with changes in governments.

The economic and budget context has important implications for the role of Parliament. The attentiveness of the government to guidelines established by external actors places an even greater emphasis on macrobudgeting than in other democratic nations. Because of the unpopularity of the hard budget choices, the governments in Hungary have sometimes formulated major packages, such as the 1995 proposals, in a closed, secretive fashion, not even consulting the full cabinet let alone rank and file members of Parliament. While MPs of various parties are often highly critical of the specific budget recommendations of international organizations, they are usually reluctant to renounce the broader national goals of economic integration with the west.

V. Budget Systems and Processes

Despite the greater comparability of data since 1992, one of the key difficulties of budget research in the region continues to be definition and measurement, particularly for purposes of comparison with other nations. Neither Hungary nor Slovenia have “unified” budgets in the U.S. sense. In Slovenia there are separate budgets for pensions, health insurance, central budget expenditures, local government, and a “galaxy” of extra-budgetary entities.[32] Inconsistent classification and multiple counting of expenditures is also a problem, although less so than Hungary. The four main components of the Slovenian budget are: Central Government Budget, Pension and Disability Insurance Fund, Health Insurance Fund and Local Government. The four main components of the Hungarian budget are the Central Government, Chapters and Ministries, the Social Security budget, and the Local Government budget. Hungary had even greater decentralization and required more drastic reform of budgetary institutions than Slovenia at the start of the transition.

These structural features have several important consequences for parliamentary control and policy influence. In Hungary, inadequate information systems, and rapid economic changes, forecasting both revenues and expenditures has been inaccurate. The high level of uncertainty has led to repetitive budgeting. Supplemental budget proposals were sent to Parliament every year since 1990, including major revisions, as early as 10 weeks after the fiscal year began. When the government by choice or necessity submits major policy changes through supplemental budgets, the time and opportunity for parliamentary input is reduced. Despite having less uncertainty and fewer supplemental budgets in Slovenia, the time for parliamentary consideration is often attenuated.

Second, the fragmentation and autonomy of budget subsystems reduces the possibility of parliamentary oversight and control, regardless of legal requirements. In Hungary, each of the four budgetary subsystems is responsible to Parliament, operates on an annual budget, and is required to not exceed their estimates in terms of specific categories such as wages, social security contributions, earmarked tasks, or capital spending. Nonetheless, many entities run deficits, such as some local governments and the social security budget. Others legally run surpluses. Under their parliamentary charter, they may not only charge user fees but may engage in for-profit business activities. Many of the more successful ones currently have substantial sums on deposit in financial institutions, to date immune from parliamentary control. Budget subsystems in Slovenia are much less independent and because of the more centralized and powerful Finance ministry, but this also tends to reduce parliamentary influence.

Budget Process in Slovenia

As part of the former Yugoslavia, Slovenia managed its own finances but did not have its own national budget. In 1993, the Rules of Procedure of the Parliament that regulate budget procedures were adopted.[33] Procedures were amended in 1994 and the budget process stayed essentially the same through 1999. Interviews with ministry and parliamentary officials indicated that they expected that the organic budget law which was submitted to Parliament in 1999 would pass in the near future. It would change a number of procedures, adopt prominent reforms, more fully integrate the treasury system and move Slovenia closer to IMF guidelines for budgeting.[34]

The budget process in Slovenia is as follows:

- March: It begins in March with the establishment of macroeconomic forecasts and overall projections for revenues, spending, and the deficit or surplus. The Ministry of Finance (MF) is assisted by the Institute of Macroeconomic Analysis and Development (IMAD).[35]
- April: Decisions are first made on overall targets for revenues, outlays, and deficit/surplus. This is contained in a memo that is sent out to the various ministries in April including the spending ceilings for each.
- May: Public agencies prepare their budget requests.
- June: Ministries submit their budget requests to the Ministry of Finance in June.
- July: The Budget division within the MF headed by the State Secretary (Budget director) represents the Finance Minister in negotiations with the ministries over their budget estimates. This process is completed by the end of the summer.
- September 15: The Finance Minister submits a draft of the state budget for the coming fiscal year to the cabinet. The cabinet has until the end of September to agree on the elements of the budget. This process includes the active participation of the Finance Minister and Prime Minister.
- October 1: The budget is submitted to Parliament.
- October/November: After initial consideration, Parliament votes on whether to accept the broad outlines of the government's budget. If not, it is returned to the MF to submit a revised version.
- December 31: Parliament has three months to approve the budget. Meetring this deadline has proven difficult to achieve in Slovenia since 1992. Final approval has

been several weeks to months late in almost every year, requiring temporary stop-gap funding measures similar to continuing resolutions adopted in the United States.

- January 1: Start of the fiscal year.

Budget Process in Hungary

Even with the uncertainty and repetitive budgeting that has occurred since 1990, both the government and the Parliament have followed a regular annual budget cycle. The timetable of the Hungarian budget process is as follows:

- May 30: the Finance Minister presents the guidelines for the budget that begins January 1 of the following year to the government.
- June 30: The government informs Parliament of the overall guidelines of the budget for the coming year and provides individual ministries and budgetary entities with guidelines for the preparation of their estimates. This parliamentary notification is a step that is not practiced in Slovenia, giving Hungarian MPs more advance information on the government's plans. Ministers must then begin to prepare detailed budget estimates and requests, negotiating with various actors within their organizations, to meet the deadline of submitting their requests to the Finance Ministry in August.
- August 31: The Finance Minister presents to the government a more detailed bill specifying the budget for the next year. During the next month, intense negotiations take place within the government concerning specific additions or reductions from the original Finance Ministry blueprint.
- September 30: The government is required to submit the budget for the coming fiscal year to the Parliament. In the next month, the Parliamentary Budget Committee holds public hearings on the budget and members propose modifications (amendments) to the budget. Once it is introduced, the government itself cannot change the proposals.

- November 30: Parliament must approve the overall totals for revenues, expenditures, and deficit. Negotiations take place between the government, primarily the Finance Ministry, and MPs over specific modifications to the budget.
- December 31: Parliament must approve the budget.
- January 1: Start of the fiscal year.

Several factors characterize the budget process in the Finance Ministry before it is submitted to Parliament that have consequences for legislative influence. Early estimates of aggregate levels of spending, taxes, and deficit become “corner numbers” that serve as a de facto spending ceiling for ministries. Despite these guidelines, the process is characterized by negotiations between claimants and conservers that are typical of executive budget preparation in other nations[36]. If disputes cannot be settled between ministries and the Finance Ministry, the prime minister and full cabinet may be called on to resolve them. In Hungary, this often results in delays in finalizing budget proposals to be submitted to Parliament. Only in 1993 was the September 30 deadline for sending the budget to Parliament met. The result is that Parliament’s time to consider and influence taxing and spending proposals, already constrained, is reduced even further.

The executive-centered process of budget formulation in Hungary has been more fragmented because of high levels of uncertainty, the lack of a budget office, and deficiencies in the budgetary information systems. This fragmentation, however, advantages ministries rather than providing opportunities for Parliamentary influence during the preparation stage. In terms of the legislature, the budget preparation stage remains largely closed. In Slovenia, the Finance Ministry has much more centralized control over ministries and an unusual degree of control over expenditures during the implementation stage of the budget.

VI. Parliamentary Rules and Procedures

Hungary

The Hungarian Constitution provides a strong basis for the legislative authority of the Parliament in budgeting: "Parliament endorses the balance of public finances, and approves the state budget and its execution."[37] In the post-communist period, the laws dealing with the national budget have been amended and revised on a number of occasions. Parliament originally operated on the Act of 1979 on state finances. In 1992, Parliament approved a new Act on Public Revenues Administration that changed the rules for passing the annual Finances Act and other parts of the budget. In the face of many formal and informal changes, the parliamentary process has never developed a stable routine. The Standing Orders (rules) of Parliament dealing with the budget process have been changed a number of times. Depending on when the budget is submitted, Parliament often acts simultaneously on the various budgets of the subsystems, including a revenue act.

In theory, the Hungarian Parliament uses a two-step process, in principle not unlike the U.S. congressional budget process, that requires separate action approving totals followed by legislation detailing program subtotals and line-items. Virtually all members of Parliament are involved, including not only the Budget Committee, but all of the standing committees, as well as the plenary sessions. The measure setting aggregate budget totals of expenditures, revenues, and deficit is supposed to be passed by November 30. Parliament technically then has only 30 days to debate, amend, and approve the detailed budget before the start of the fiscal year.

Since 1990, in practice, the Parliamentary process does not maintain a clear distinction between consideration of the global budget and its more detailed parts. A debate in the plenary session on the aggregates starts as soon as the budget proposals are submitted, beginning with the introductory speech of the Minister of Finance followed by remarks by the spokesperson of each of the Parliamentary parties. With all 387 members eligible to speak, this debate can take many weeks and is more for public consumption than policy modification. Time for floor debate is allocated to the parties in rough proportion to their number of seats so that the debate can be accomplished in about three weeks. The Standing Orders were changed in 1991 in an attempt to enforce time constraints and limit the plenary debate. In practice, the main restrictions on debate are self-imposed limits agreed on by party factions, somewhat akin to unanimous consent agreements in the U.S. Senate.

The rules for how the committees and the Parliament are to deal with the budget, specified in the 1992 Revenues Administration Act and the Standing Orders of Parliament, lack clarity and precise differentiation of roles in many crucial areas. For example, despite the statutory requirements, Parliament has formally approved overall budget guidelines only once, in 1992, in the form of a resolution[38] . This means that the debate on the budget totals has virtually no impact on the more specific decisions on revenues and expenditures. Even if Parliament passes a resolution approving the budget totals, the Budget Committee begins reviewing the budget and considering modifications while the first debate in the plenary session is taking place.

The process of modification of budget proposals is limited by a rule that after November 30, all changes must be "deficit neutral": amendments to increase spending or reduce taxes must be compensated somewhere else in the budget. This limits the power of the parliamentary parties but adds greater fiscal responsibility to the process. The Parliamentary rules also prevent the government from formally revising their budget proposals once they are submitted. In practice, however, the government simply uses supportive parliamentary party members to offer modifications that they desire, so this rule does not effectively protect legislative prerogatives.

Delays by the government in submitting the budget, the frequency of supplemental budget proposals, the simultaneous consideration of macro and microbudgetary issues, and the lack of institutionalized procedures for considering the budget all tend to mitigate against parliamentary influence. Members often simply do not have enough time or analytical capacity to systematically review government proposals and the time is often even less for supplemental proposals. The fact that global budgetary totals have been adopted only once, and decisions on the whole and the parts are considered simultaneously suggests the relative unimportance of Parliament in making these decisions.

Slovenia

The Slovenian Parliament enters budgeting relatively late in the process with the exception of the coalition party leaders who consult with the cabinet in the formulation of the budget. Parliament receives the proposed state budget by October 1 each year and has only three months to review it, propose amendments, and approve it. This relatively constrained schedule for consideration is one reason why the December 31 deadline has rarely been met. The government does not submit earlier macroeconomic estimates or other planning documents for the review or the approval of Parliament. Members of Parliament and standing committees then have an initial period to go through the budget documents and make comments and to propose alterations. Then, a general discussion is held on whether to continue parliamentary consideration of the state budget, or whether to turn it down at that point. If so (and this has not occurred since 1992), the government would be forced to submit a revised budget. If Parliament votes to continue consideration of that budget, committees convene within 25 days of the submission of the budget to hold hearings and discussions of the proposals.

One of the important budget rules is similar to the requirement in Hungary that any amendments that would take the budget out of balance by raising spending or reducing taxes must include offsetting spending cuts or revenue increases. This serves as a significant constraint on legislators in Slovenia, just as it does in other Parliaments where it is enforced. However, there are loopholes and a narrow definition of the "budget." For example, adoption of social welfare legislation that expands spending is not subject to required offsets. Parliament then holds a second general discussion of the budget as revised. On the floor, the introductory speech supporting the proposal is made by a representative of the government, followed by a member of the Budget Committee. Plenary debate focuses on the parts of the budget rather than the whole, focusing on specific amendments proposed by the government and by members. After amendments are debated and voted on, the Budget Committee must verify that the amended budget remains in balance. If so, Parliament votes on adoption of the budget proposal. If not, the process is delayed and a proposal for rebalancing the budget must be considered.

The procedure is often somewhat cumbersome and rarely completed in time, requiring Parliament to adopt a temporary funding measure. It has been the practice to continue fiscal discipline by allowing ministries no more in budget authority than they had been allowed in the previous year. The only other budgetary task for Parliament is to vote on the overall government financial statement, which is submitted before the June session. This activity is also centered in the Budget Committee, which is responsible for drawing up a report that comments on the financial statement.[39] This is generally pro forma, however, and at least to date, has not provided an opportunity for legislative influence or provide advanced information about upcoming budget choices.

A distinction is made in Slovenia between the budget passed by Parliament, which is not considered a law, and the law actually implementing the budget. This does not appear to have any substantive impact on budget outcomes. There are no special rules or procedures specifying supplemental budgets or stop-gap budgets when Parliament fails to meet the December 31 deadline. While Slovenia faces the same changing projections and faulty estimates of other nations in the region, it appears to rely on supplemental budgets less than it neighbors. Slovenia would seem to have a higher level of certainty and resemble Western Europe in its practices more than Central and Eastern Europe. Additionally, the ability of the Finance Ministry to reduce or eliminate outlays without parliamentary approval reduces the need to continually revise budgets and submit additional budgets to Parliament.

Generally, parliamentary rules and procedures, such as those requiring offsets, favor guardians over spenders. Proposed reforms in the organic budget law will emphasize fiscal integrity even more. These rules and procedures are buttressed by shared fiscal norms that favor keeping government spending in check or lowering the size of the public sector and balancing the budget. Among the respondents of the questionnaire for Budget Committee members, 85 percent stated that holding down spending was more important than adding new programs. Significantly, the responses cut across parties. While the Parliament considers and approves macrobudgetary totals, this is more the domain of the coalition party leaders and chair of the Budget Committee. Most of the attention of rank and file legislators is on microbudgeting: decisions on roads, bridges, and other investment projects.

Reflecting the lingering fragmentation and lack of a truly “unified” budget, one of the Parliament’s greatest powers lies in passing legislation outside of the normal budget process that has profound budgetary implications. A good example is the measure enacted by Parliament in 1998 to increase children's and family benefits. Despite the fact that it was opposed by the main governing parties, one of the coalition partners joined with the opposition to enact the law. It significantly increased spending during the fiscal year and required the Finance Ministry to require cuts in other programs to keep the budget in balance. While this may be the exception rather than the rule, it offers a possibility for significant parliamentary impact on taxing and spending priorities. It also reflects a major flaw in budgeting since all policy actions that affect revenues or expenditures should come under the control of the national budget process.

The organic budget law proposed in 1999 would prohibit such actions by Parliament. It would prohibit any such increase in spending from taking effect during the fiscal year in which it is passed.[40] The new law would also limit the time that Parliament has to consider the budget from 90 days to just over 70 days. Considering that Parliament could not pass the budget in the time allotted during the 1990s, this may be of questionable utility. While parliamentary consideration of the budget may be "inefficient" and time consuming, it is critical to establish the legitimacy of the process. However, at least one member of the opposition commented that since all their amendments were turned down, the process might as well be shortened.

VII. The Role of Parliamentary Committees

Hungary

In creating a committee system in 1990, the Hungarian Parliament considered several approaches. The Alliance of Free Democrats argued for a small number of relatively large committees (Soltesz, 1995: 66). The Hungarian Democratic Forum wanted a system with 10 to 15 committees mirroring the organization of the ministries. In the end, they created 10 standing committees and four special committees that for the most part parallels ministries but with several committees responsible for overseeing several. In 1993, a standing committee on European Community Affairs was added, reflecting the importance of eventual EU membership.

The most important committee in the parliamentary budget process is the Budget Committee which reviews budget totals and ministry budgets, and more importantly, where parliamentary modifications must be channeled. The Constitutional Committee also must review all amendments for constitutionality. Neither of these panels have much staff support or funds to assist in their tasks. The influence of the Budget Committee is also tempered by the practice of having the Budget Committee chaired by a member of the opposition party. This, in theory, is intended to provide an alternate or bipartisan parliamentary perspective on government proposals. While this would appear on the surface to simply reduce the relevancy of the committee, informants suggest it has mainly had the effect of changing the nature of negotiations between the government and the committee. Instead of working closely with the chair, the government relies on certain key members of the governing coalition parties on the committee.

The Budget Committee holds hearings on all aspects of the government’s budget proposals. Various ministers or their representatives appear before the committee to discuss their allocations. Although the Finance Minister occasionally appears, it may be an indication of the limited importance of these hearings that most frequently lower level officials represent the Ministry. In addition to the Budget Committees, all other standing committees play some role in reviewing government budget proposals in their own area of responsibility. In terms of relationships between Parliamentary committees and executive elites, the fragmentation and decentralization of the executive budget process is revealed in hearings before various committees.

There is no "unity" of the government's budget in a conventional sense. While representatives of the Finance Ministry present and defend their estimates of aggregate totals to the Budget Committee, other ministries attempt to pursue their specialized interests with the standing committees, urging budget increases not necessarily consistent with the official government proposals [41]. While this adds considerable confusion to the process, the standing committees lack any real power since modifications to the budget must be channeled through the Budget Committee, where the Finance Ministry focuses their attention. M.P.s appear to act primarily as program and constituent advocates -- claimants -- in the process of proposing budget modifications.

Virtually all of the proposals for cuts originate from the government, external actors, or from the Finance Ministry. Parliamentary representatives, in contrast, tend to propose modifications that would restore cuts, or increase funding for constituent groups

The Budget Committee is the conduit for amendments to the government's budget. Any member of Parliament may propose a modification of the budget. It is not uncommon to have nearly one thousand amendments ranging from minor, technical changes in language to major policy changes. The sheer number of amendments can become a crushing burden on the process given the short time available for parliamentary consideration. The importance of Budget Committee action on modifications was negligible until 1994, since even the most minor change in past years could be brought to a vote in the plenary session, whether it had won approval in the Budget committee or not. In 1994, the committee's role seemed to be enhanced when the rules were changed requiring that a proposed amendment receive the support of at least one-third of the members of the Budget Committee in order to reach the floor for a vote. However, party factions or any 20 M.P.s who request so in writing, can circumvent the committee and demand a vote on a modification.

At one level, the committees are a focal point of parliamentary activity on budget proposals. Committee meetings provide an opportunity to challenge government assumptions and goals, to question ministers, and to propose substantive changes to the budget. Committee impact has been limited, however, by rules that prevent amendments that increase the deficit, by the fact that it is easy to circumvent the committees, and by the fact that committee action bears little relationship to what will be adopted by the full Parliament. Committees lack independent financial resources to provide their own professional support. Instead of through formal budget review by parliamentary committees, the most important parliamentary influence on the budget is through private negotiations between leaders of party factions and government officials.

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Although various committees consider the government's budget proposals, the most important committee is the Budget Committee.[42] It acts as a conduit for all proposed amendments to the government's budget proposals, and is a powerful gatekeeper within the Parliament. Virtually no proposal can be adopted that has not come through and been approved by the Budget committee. Representatives of the Ministry of Finance and cabinet officials appear at committee meetings to explain and defend the budget proposals. They also testify for and against proposed amendments to the budget and make any adjustments to economic assumptions. The Budget Committee, after considering the proposals of other committees and the Secretariat for Legislation and Legal Matters, draws up a joint report for the full Parliament to consider.[43]

The Budget Committee is the key unit in making changes in the content of the government's budget proposals. All MPs and committees may offer amendments to the budget, which can number as many as 400 to 500 per year. The vast majority of these are not accepted and do not even come to a vote before the full Parliament. Budget Committee members indicated that only 10 to 20 amendments per year, coming though the committee, were accepted. The vast majority of these were offered by the government itself or MPs in the governing coalition. On rare occasions, an amendment offered by an opposition MP may be endorsed by the ruling coalition and adopted. Despite the poor odds for passage, many MPs, particularly those in the opposition, believe it is important to offer amendments to the government's proposals and to discuss them. A number of members of the Budget Committee responded that these activities were key to their role in the budget process.

Another potential source of parliamentary influence is through hearings where testimony is taken from government officials explaining budget decisions. That avenue of influence in Slovenia is limited by a lack of capability and expertise. Parliament as a whole and committees in particular do not have much professional staff to help them in this process. The Budget Committee has only two staff members. Opposition MPs have even fewer staff members, making high quality, informed opposition more difficult. Although officials from the Finance Ministry appear at the request of Parliament, hearings are mainly an opportunity for the government to promote its budget or justify certain changes. Most hearings are held by the

Budget Committee but other committees also may hold hearings. Top officials from the Finance Minister and State Secretary for Budget on down respond to parliamentary questions in person and in writing. They discuss both macrobudgetary issues as well as specific program details. Parliament can also express its views through plenary debate on the budget. This provides a chance for government members and opposition alike to make a record and express constituency concerns. It is rarely an opportunity to restructure budget priorities.

VIII. The Role of Parties and Parliamentary Party Factions

Hungary

Political party organizations, inside and outside of Parliament, are critical to understanding the impact of Parliament on the Hungarian budget. Much of the most important policy debate in Hungary has taken place within the dominant governing party and its partners, both within the parliamentary factions and the external party organizations. Despite their majority, however, the government cannot simply dictate policy to its parliamentary parties. The main source of parliamentary influence on the budget is through negotiations between the government and individual MPs or factions in the parliamentary majority. Although the timetable is tight, and the standing committees are at a comparative disadvantage, parliamentary support is necessary for the government to succeed. Before the pro forma final vote in the plenary session takes place, there are often a number of significant deals and compromises that have taken place. Among MPs, influence on budget issues varies considerably. Leading members and wings of the majority party have the most potential influence, while members of opposition parties have the least.

The austerity measures and the more conservative budget policies begun in 1995 were highly divisive within the HSP with the left wing opposing cuts in social benefits, tuition for university students, and limits on pay increases for government workers. Some of these disputes between party faction members and ministry representatives were debated openly in committee. However, most were resolved in closed-door negotiations within the cabinet, between the Finance Ministry and parliamentary party dissidents, or other ad hoc majority coalition groups.

If a modification has the support of a majority of the members of the governing coalition in Parliament, the government must negotiate in earnest and generally makes concessions. In contrast, party discipline is sufficiently strong in Parliament so that the position of members and parties not in the governing coalition are largely discounted. The practice has been to make necessary concessions to members of their own party rather than reach out to opposition members to defeat an unwanted change.

The opposition parties have very little influence on the budget. Their main opportunities are to make a public record through floor speeches and submitting amendments to try to delay and obstruct the process. Occasionally, a technical amendment by an opposition member may be adopted in a gesture of good will, but no instances of significant substantive changes brought about by opposition members were found. The recent rule limiting floor votes to modifications that received the support of one-third of the committee has reduced the opportunity to obstruct as well.

A number of important modifications emerging from Parliament have been accepted by the government in recent years. In the fall of 1994, the Socialist and Free Democrat legislators were able to eliminate the government's unpopular proposal to raise the sales tax on wine. They were also successful in getting the government to change its position on the rules for firms paying social insurance taxes. In 1995, in response to parliamentary pressure, the government modified its proposal to begin charging tuition for university students by delaying its effective date.

The external party organization can also play a role in resolving intraparty policy disputes, although it is a far cry from the power of the HSWP before they relinquished their monopoly in 1989. The parties still have tools related to the electoral system to maintain party discipline. In 1996, the Socialist Party Congress in March was effectively used by Prime Minister Horn to build Parliamentary party support for the continued economic and budget reform program directed by the new Finance Minister. At the same time, the frustrations of minority status in Parliament were showing among the conservative opposition. At their March, 1996 Congress, disgruntled moderates in the Hungarian Democratic Forum left to form their own party, the Hungarian Democratic People’s Party[44].

The influence of constituencies and interest groups on budget policy is most frequently mediated through party factions or directly by the government rather than through parliamentary committees or actions by the plenary. Hungary has a tripartite electoral system where members are elected through a combination of single-member districts, party lists, and remaindering of votes in the single-member districts to reflect proportional representation. Intraparty divisions over budget issues often reflect constituency opposition and the position of interest groups such as labor unions. However, even with single-member districts, constituency interests rarely if ever disturb party discipline. Left-wing and labor union opposition to austerity measures have been resolved within the parliamentary faction or within the cabinet or both. Some informants suggested that interest groups may have as much or more influence on modifying budget proposals than members of the Budget Committee or rank and file party members.

In the end, after all the negotiations, plenary speeches, and votes on modifications, the government can count on strong party discipline and be assured of final passage of the budget. As a result, the deadline of December 31 has been met each year since 1990, although on occasion it has taken a frantic last 24 hours to complete action on time. Hungary's strong parliamentary system precludes a delay, as often happens in the Slovenia, and eliminates the need for emergency continuing spending resolutions to keep the government functioning. This reflects the limits of a parliamentary budget process that has only modest impact on both the overall shape of the budget and content of specific policy decisions.

Slovenia

Government versus opposition status is also critical in MP's impact on the Slovenian national budget. The answers to our survey of Budget Committee members depended strongly on whether members were in the governing coalition or the opposition. Those in the majority believe that Parliament has some substantive impact on the budget, as one member said, "particularly in constituency-related matters such as roads, bridges, and monuments." More broadly, he also noted the ability of Parliament to make changes in public policy, such as raising social benefits, that have significant budget implications. A number of other examples of "nonbudgetary" parliamentary actions in the 1990s that affected taxing and spending included increasing various social transfers, health insurance payments, and increases in a range of pension benefits. Opposition members tended to agree with the response that "Parliament is just the long hand of the government" and has little independent impact. Another responded that the governing coalition "blindly rejects all opposition amendments."

In addition to potential parliamentary influence on the government's budget proposals through the formal process – hearings, amendments, plenary debates, and final passage – members of the governing coalition may have influence by shaping proposals *before* the budget is submitted to Parliament. As discussed above, this is particularly true in Hungary and holds as well for Slovenia, but to a lesser degree. Informants reported that three or four key MPs, including the chair of the Budget Committee, negotiate directly with the Finance Minister in the weeks before the October 1 budget submission to "see what will go." Although the majority coalition in Parliament may be the "long arm" of the government, there are often differences in perspective and priorities between ministers and MPs. This is particularly true with a diverse governing coalition. One member of LDS, the largest coalition party, complained "coalition governments are expensive in a democracy," because some of their coalition partners were irresponsible in terms of spending. Nonetheless, some of the most critical decisions in Slovenian budgeting are those brokered between the government and legislative leaders before the budget is proposed, and while it is being debated. Parliamentary leaders, in turn, consult with rank and file members to determine negotiating positions or to lobby for acceptance of budget agreements.

Overall, the Slovenian Parliament has modest influence on the national budget. Compared to Hungary, the divisions within the governing coalition in Slovenia have resulted in a slightly greater degree of parliamentary influence. However, it is still a system dominated by a strong Ministry of Finance and proposed reforms are likely to restrict Parliament's influence, rather than expand it.

IX. Summary and Conclusions

The primary goal of this paper concerned evaluating the overall impact of Parliaments on budgeting in Hungary and Slovenia. These results help provide a basis to answer the question, should legislative budgeting be strengthened? Assessing the impact of a legislative body on budget policy has an element of relativism in it. For example, the notion of Parliament having a truly *independent* impact on policy is mostly an American notion, appropriate to separation of powers systems. It is somewhat inconsistent in fundamental conception with parliamentary government. Nonetheless, the degree of influence of elected representatives does vary considerably among parliamentary democracies. For nations in transition from communist systems, even more open systems such as Slovenia's, one key element of democratization involves input on key policy questions, such as budgeting, by elected representatives.

In Hungary and Slovenia over the past decade, there were a number of factors which restrict parliamentary influence and a smaller number that enhanced it. In both nations, there was an emphasis on macrobudgeting, but for different reasons. In Hungary, deficits and a large external debt created the need to impose more stringent top-down restraint in response to external actors such IMF and World Bank and the desire to achieve EU accession criteria. In Slovenia, with balanced budgets and little debt, macrobudgeting was still practiced because of the strong norms of fiscal discipline and the institutional influence of the Finance Ministry. Slovenian Finance Ministry officials have extraordinary flexibility in the budget implementation stage to achieve macrobudgetary and fiscal objectives. The ability to adjust outlays late in the fiscal year by as much as 10 or 15 percent to maintain a balanced budget is largely unprecedented among the U.S., the nations of Western Europe, or Eastern Europe.

Hungary has a more fragmented, less developed budget system or central budget office, and more autonomy among ministries. This would suggest greater potential for parliamentary influence in Hungary than Slovenia. However, the differences seem to be mitigated by the fact that the ruling coalitions in Hungary have been more powerful with greater parliamentary party discipline than in Slovenia. Both of these factors limit parliamentary influence but do not eliminate it.

In both nations, Parliament has relatively little time to consider and influence the budget. The two stage processes on paper are not utilized in practice to a large extent. Rules such as the requirement for offsets for tax cuts or spending increasing constrains parliamentary policy options while maintaining fiscal discipline. In both nations, the Budget committees have relatively little staff and certain procedural restrictions that limit their influence. They are, however, the focal point of activity within Parliament for consideration of the budget. In both nations, cases of important parliamentary influences were found. In Slovenia, it was usually the result of party defection within the governing coalition. In Hungary, it was usually the result of divisions and negotiations within the governing coalition. In both cases, they are more the exception than the rule.

All this is not to conclude, however, that the role of Parliament is nonexistent or unimportant. Committee sessions provides opportunities for ministerial oversight. Plenary debate helps clarify national issues and articulate constituency concerns. But the most important impact of Parliament and individual legislators on the budget is through informal negotiations between the party factions and the government. When a significant number or a majority of members of the parliamentary governing coalition support alternatives to government proposals, the prime minister, finance minister, and cabinet must bargain and negotiate to maintain Parliamentary support.

Significant progress in budgeting has been made in both Slovenia and Hungary over the past decade. In Hungary, the introduction of a Treasury system for the central government budget in 1996, rules limiting ministries ability to keep surplus own-source revenues, and improvements in budgetary information systems are enhancing accountability and control. Rules restricting plenary votes on amendments focus parliamentary attention on more important issues. These achievements should help regularize the budget process, reduce uncertainty, and the need for repetitive supplemental budgets. They should help stabilize and institutionalize budget processes in Parliament, perhaps allowing more meaningful participation.

Slovenia is more advanced in budgetary evolution than any other nation in Central and Eastern Europe. That is manifested most clearly in the reform agenda of Slovenia compared to her neighbors. While Hungary, for example, has been working on developing a full Treasury system, computerized budget information system, and reigning in autonomous ministries that maintain their own budget reserves, Slovenia is moving towards more advanced reforms such as performance budgeting and reforms that attempt to determine value for cost.

Although Slovenia can be considered a model of sorts, it still faces a range of difficult budget issues and choices including privatization, pension reform, inflation control, and employment. In terms of its institutional capacity to deal with these problems, Slovenia finds itself between Eastern and Western Europe: more advanced than other nations in the East, but still adopting its processes and policies to catch up with the nations in the West.

How might legislative budgeting be strengthened in Hungary and Slovenia? Parliamentary participation could be important in tackling the many difficult budget choices that remain, but could also prove to be an obstacle to further reform if it allows narrow interests to obstruct collective action. Nonetheless, in the process of democratization and economic transformation, meaningful involvement of MPs as democratically-elected representatives of the people is essential for enhancing the legitimacy of new policy solutions. Additional professional staff would give budget committees a greater ability to hold the Finance Ministries accountable. Parliaments should perhaps be kept better informed earlier in the budget process. Parliamentary timetables should be adjusted to make it feasible for MPs to scrutinize proposals without unduly delaying the process. In neither the case of Hungary nor Slovenia will the legislative role ever approach anything like the U.S. Congress. Nonetheless, MPs have played a meaningful role during the democratic and economic transition, and could play an even more constructive role in the future.

Notes

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[4] Organization for Economic Cooperation and Development, *OECD Economic Surveys 1996-97: Slovenia* (Paris: OECD, 1997).
[5] The methodology of the study included review of secondary literature, analysis of primary data on the Slovenian budget and economy including budget reports and government accounts since 1992 and the Hungarian budget since 1989. It includes informant interviews (some for attribution and some anonymous) with members of Parliament and officials in the Finance Ministries in both countries, a written survey on budget procedures completed by Slovenian Ministry of Finance officials, and responses to a written questionnaire by members of the Parliamentary Budget Committee in Slovenia in 1999. The response rate to the survey of MPs was 50 percent. I wish to thank Mihaly Hogye, Budapest University of Economic Sciences, Bogomil Ferfila, University of Ljubljana, and Christina Herzog, Washington State University for their assistance. I wish to acknowledge Holger Gleich, Center for European Integration Studies, Bonn, who developed the questionnaire on budget procedures in Central and Eastern European countries that was supplied to me by Slovenian Ministry of Finance Officials (see Krizan and Zemljic, 1999).
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[41] Kraxner, 1995: 140.
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