

# **The Value of a Nonpartisan, Independent, Objective Analytic Unit to the Legislative Role in Budget Preparation**

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## **A. Introduction**

Legislatures in different countries play a wide variety of different roles in the budget formulation process.<sup>2</sup> Some are very actively involved, and some are not involved at all. Moreover, the role that the legislature plays in many countries has changed over time and should continue to change in the future.<sup>3</sup> These changing roles call into question the sources of information that are or may be made available to assist the legislature participate in the budget process. Legislatures require reliable, unbiased information to be able to participate in a constructive manner in formulating the budget. This paper discusses the value of a

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<sup>2</sup> Carlos Santiso, "Budget Institutions and Fiscal Responsibility: Parliaments and the Political Economy of the Budget Process", paper prepared for the XVII Regional Seminar on Fiscal Policy, United Nations Economic Commission for Latin America, Santiago, Chile, 2005.

<sup>3</sup> Allen Schick, "Can National Legislatures Regain an Effective Voice in Budget Policy," OECD Journal on Budgeting 1(3), 2002.

nonpartisan, independent, objective analytic unit to the legislative role in the budget preparation process.

The paper begins by discussing the potential value of a nonpartisan, independent, objective analytic unit to the legislature. The next section lists and discusses each of the core functions that such a unit can perform. Other possible functions of the unit are also discussed. Next, the characteristics required to make the unit nonpartisan, objective, and independent are described. Other characteristics that can enhance the effectiveness of the unit are also listed. The next section lists countries with specialized legislative research organizations, and discusses in some detail—including specific staffing functions—three legislative research organizations within the United States. The last section contains some concluding remarks.

## **B. Potential Value**

In its most basic terms, an independent analytic budget unit can provide information to put the legislature on a more equal footing with the executive. This information is critical if a legislature is to play a real role in budget formulation. But as important as this information is, such a unit can do much more than just eliminate the executive's monopoly on budget information.

- **Simplifies complexity.** Budget information is frequently not made available by the executive's budget office, but even when it is, it may be so complex that the legislature has difficulty understanding it. An independent unit must have the expertise to be able to make complex budget information understandable to the legislature, as well as to the media, academia, and the public.
- **Promotes transparency.** Because of the knowledge and expertise found in an independent budget unit, budgetary legerdemain can be discouraged and transparency promoted.
- **Enhances credibility.** By encouraging simplification and transparency, an independent unit also has the effect of making all budget forecasts—even those of the partisan executive—more credible.
- **Promotes accountability.** The accountability of the estimates used in the budget process can be enhanced by an independent budget unit because of the scrutiny such a unit provides to the executive's budget office.
- **Improves the budget process.** The combination of a more simple, transparent, credible, and accountable budget can promote a budget process that is more straight forward and easier to understand and follow.
- **Serves both the majority and minority.** A legislative budget unit—if it is truly nonpartisan and independent—should provide information to both the majority and all minority parties of the legislature.

- **Provides rapid responses.** As a unit that is part of the legislature, an independent budget unit can provide much more rapid responses to budget inquiries from the legislature than an executive budget unit.

The additional values of an independent legislative budget unit mean that it is much more than just an instrument to assist the legislature in the budget process, or one to help check the executive's budget power, but also serves the society at large and actually can help improve the whole budget process. Note also that the value of an independent unit can change over time. At first, the information produced by the unit may be more valuable to the legislature as whole as a means to balance the executive's budget power. But as the unit ages and as the executive adjusts to the presence of the independent unit, the information it produces may be of more value for minority parties in the legislature vis-à-vis the majority party.

### C. Core Functions

There are many possible functions that an independent analytic budget unit can perform, but to best assist the legislature in the budget preparation process, it should perform at the very least the following four core functions.

- **Economic Forecasts.** The first core function of the unit is to perform an independent economic forecast. All budgetary analyses must begin with an economic forecast. Although the unit's forecasts need to be objective, they should take into account the forecasts of others and be based on current laws. They should not try to take into account the economic consequences, if any, of policy proposals. The assumptions used for interest rates and commodity prices should not be targets, but objective forecasts based on the best information available. To prevent outlandish forecasts, the forecasts of private forecasters, central bankers (if available), and panels of experts specifically organized to assist the unit's forecasters should be considered. It is also better for the unit's forecast to be a little conservative because it is much easier politically to use the results of a better-than-forecasted economy to reduce deficits and debt than it is to try to find last minute spending cuts or tax increases to meet a revised deficit target that results from a worse-than-anticipated forecast.
- **Baseline Estimates.** The forecasts of spending and revenues should be *projections*, not *predictions*. That is, they should be based on laws that are currently in place, not on policy proposals. They should not try to judge the legislative intent of laws, but, for example, they should assume that the expiration dates built into legislation will actually occur, and that the spend out rates of slow-spending capital projects are based on the best technical information available, not on biased political opinions.
- **Analysis of the Executive's Budget Proposals.** The third core function of an independent unit is to perform a budgetary assessment of the executive's proposed budget. Such an assessment should not be a programmatic evaluation, which is basically a time consuming political exercise, but rather a technical review of the budgetary estimates contained in the executive's budget. Such a review can actually

enhance the credibility of the executive's budget, if the difference between the two estimates is not great, and of the government's forecasts as a whole, if the difference between the assessment and the actual outcome is not great.

- **Medium Term Analysis.** All of the core functions mentioned above should be performed over at least the medium term. This alerts the executive and the public to the out year consequences of current and proposed policy actions. It is particularly important to do a medium term analysis to take into account various fiscal risks, such as those inherent in loan guarantee programs, commitments to provide pensions, public-private partnership initiatives, and other programs that contain contingent liabilities. A medium term analysis also provides the basis for a long term analysis, the importance of which grows as societies age and the impact of programs that involve intergenerational transfers expands.

Other functions that the independent unit could perform include:

- **Analysis of proposals.** Hundreds, perhaps even thousands, of policy proposals can be made each year by members of the legislature, and the executive often makes many policy proposals in addition to those contained in the budget. An independent unit can provide valuable assistance to the legislature by estimating the costs of these proposals. But because it can be very time consuming to estimate the budgetary impact of every proposal, it may be appropriate for the legislature and the unit to agree on a rule—such as estimating the costs of only the proposals with the largest budgetary impact or only those proposals approved by a full committee or significant subcommittee—that limits the number of proposals costed by the unit.
- **Options for spending cuts.** Legislatures can often benefit from having available a list of options for spending cuts prepared by an independent unit. The options should be based on program effectiveness and efficiency, not on political concerns. The unit should only list the options; it should not make recommendations for any option because to do so could raise questions about its independence. As valuable as such a list of options can be to empower the legislature, this function can also be time consuming, although its staffing impact can be mitigated if the listing of options is produced only at the beginning of a new legislative session.
- **Analysis of mandates.** Legislation can impact the economy through ways in addition to spending and taxing decisions; it can require actions on the part of corporations, individuals, or subnational governments through use of regulations, or mandates, written into legislation. An independent unit can provide valuable information to the legislature by estimating the economic impact of mandates, but again this can be a time consuming task depending on how many mandates are reviewed and how complex they are.
- **Economic analyses.** The expertise found in an independent budget unit can also be used to perform more extensive economic analyses. These analyses can contribute to

the legislature's understanding of the near term and long term budgetary consequences of related policy proposals and also assist the unit's staff in preparing the "core" estimates of budget proposals. The staff consequences of these economic analyses can be restrained if they are performed very selectively.

- **Tax analyses.** In addition to the types of budgetary and economic analyses mentioned above, a unit can also serve the legislature by performing various types of analyses of tax policies, such as estimating the impacts of proposed or enacted tax changes on economic growth, or measuring the distributional impacts of various different types of tax proposals. Again these analyses can be time consuming, and they can require specialized staff whose skills are not easily transferred to analyses of spending proposals.
- **Long term analysis.** As mentioned above, the value of long term analyses—that is, analysis of potential budgetary trends for as many as 75 years—becomes more valuable to legislatures because of the aging of the populations in many countries, and because so many countries have programs that transfer resources (and costs) from one generation to another.
- **Policy briefs.** The time demands placed on policy makers in both the executive and the legislature and the complexity of budgets have created a demand for short, straight forward descriptions of complicated budget proposals and concepts. Such descriptions, or policy briefs, can be of real value not only to busy members of the legislature, but also to the media and the public.

As valuable as each of these other functions can be to the legislature, the size of the staff required to perform them usually limits the number that can be performed. Examples of the staff required to perform various functions in three independent legislative budget agencies in the US are presented in Tables 1 and 2 below.

#### **D. Fundamental Characteristics**

Establishing and maintaining a nonpartisan analytic unit that provides independent, objective budgetary information to the legislature is not easy. There are certain fundamental characteristics of the unit that must be present if the unit is to be successful. Foremost of these is the nonpartisan nature of the unit. Note that *nonpartisan* is much different than *bipartisan*: the former connotes lack of a political affiliation; the latter connotes affiliation with both (or all) political parties. A unit that is bipartisan would attempt to present its analysis from the perspective of both (or all) political parties, where a unit that is nonpartisan would not present its analysis from a political perspective at all. Clearly a nonpartisan unit would be superior in presenting objective information. The director of such a nonpartisan unit may be a member of a political party himself, but this does not make the unit itself partisan as long as: he is more of a technician than a politician; he operates the agency in a nonpartisan manner; and the staff is composed entirely of technicians. Operation in a nonpartisan manner would require, among other things, that the same information is provided

to the majority and minority parties. Other fundamental characteristics of a nonpartisan analytic unit include making the outputs of the unit and the methods by which those outputs are prepared transparent (especially reports that are critical of proposed policies) and understandable.

Additional characteristics that are important for the successful operation of the unit include:

- Placing the core functions of the unit in law so that they can't be easily changed to suit political purposes;
- Avoiding recommendations;
- Briefing relevant members of the legislature immediately before a report is issued, especially if the report contains information that is negative to a proposal;
- Principally serving committees or subcommittees rather than individual members;
- Being willing to meet with lobbyists or other proponents—as well as opponents—of policy proposals, keeping in mind that a fair, balanced process—and the *appearance* of a fair, balanced process—is always important;
- Locating the unit's offices separate from the legislature, but always answering requests in a responsive and timely manner; and,
- Avoiding the limelight.

## **E. Examples of Independent Budget Units**

In 2003, the Organization for Economic Cooperation and Development (OECD) and the World Bank conducted a joint survey of 40 OECD and non-OECD countries on budget practices and procedures.<sup>4</sup> Question 2.10.e of the survey asked: “Is there a specialized budget research organization attached to the legislature that conducts analyses of the budget? (Note this organization may be part of the audit office.)” Thirty-nine countries responded: three (Korea, Mexico, and the US) had organizations with 26 or more professional staff; one (Japan) had an organization with ten to 25 staff; seven (Cambodia, Canada, Chile, Indonesia, Jordan, Netherlands, and Sweden) had organizations with less than ten staff; and 28 did not have such organizations.

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<sup>4</sup> OECD/World Bank, “Survey on Budget Practices and Procedures”, 2003. See <http://oecd.dyndns.org>.

The oldest and biggest of these organizations is the US Congressional Budget Office (CBO). The CBO was created primarily as a tool to check the growing power of the president.<sup>5</sup> In the views of many in the US Congress in the early 1970's, President Nixon had abused the powers of impoundment (the withholding from obligation funds that had been appropriated by the Congress) that all presidents before him had used. In addition, he had replaced the more technical Bureau of the Budget with a more powerful and less open Office of Management and Budget (OMB). Budgets were growing ever more complex, with off-budget financing schemes, and every year budgets contained more programs that effected the long term as much if not more than the short term. Moreover, for the first time in its history, the US had consistent peacetime deficits in a period of economic expansion. So Congress, which did not have a budget process that considered the fiscal situation in aggregate, passed an extensive budget law in 1974. President Nixon signed the new budget law just before he resigned. This law took the powers of impoundment away from the president, created budget committees in the Senate and the House with powers to consider and control aggregate tax and spending levels, and authorized a new Congressional Budget Office to provide the new budget committees with roughly the same information that OMB provides to the president. Although the director of CBO is a political appointee selected by the Speaker of the House and the President pro tempore of the Senate for a four-year term (which may be repeated), the law authorizing CBO explicitly states that all of the employees of CBO are to be selected without respect to political affiliation.

The law that created CBO provided only general guidance as to what its functions should be. Although CBO now performs all of the functions listed above, it was not clear at its inception exactly what work it would do and what work the staff of the newly created budget committees would do. In fact, a former CBO director who was present at CBO's creation said that one view was to severely limit CBO's role.

“What the House wanted [when CBO was created] was basically a manhole in which Congress would have a bill or something and it would lift up the manhole cover and put the bill down it, and 20 minutes later a piece of paper would be handed up, with the cost estimate, the answer, on it. No visibility, [just] some kind of mechanism down below the ground level doing this ... non controversial [work], the way the sewer system [does].”<sup>6</sup>

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<sup>5</sup> Much of the history of CBO is drawn from “Gourmet Chefs and Short Order Cooks: A Policy History of the Congressional Budget Office, 1975-2001”, unpublished manuscript by Dwayne Day, 2003.

<sup>6</sup> Robert Reischauer, as quoted in Nancy D. Kates, “Starting From Scratch: Alice Rivlin and the Congressional Budget Office (A),” Case Program, Kennedy School of Government, C16-88-872.0, 1989, p. 3.

CBO was able to expand its functions far beyond what was stated in this quote in large part because of the efforts it made from its inception to explicitly structure itself as a nonpartisan, independent, objective analytic agency. CBO currently has about 235 staff to do all these functions, but it is relevant to review the distribution of CBO staff by “core” and “other” functions (see Table 1), as discussed above, and then compare this staffing with the staffing of core functions of two agencies (see Table 2) that provide information for “core” functions for the State of California (the Legislative Analyst’s Office {LAO}) and the City of New York (the Independent Budget Office {IPO}).<sup>7</sup> Core functions at CBO and LAO require about 50 staff in each. However, the size and complexity of the US and California budgets are so much greater than that of most other countries budgets that the 27 staff found in New York City’s IBO may provide a more appropriate comparison.

## **F. Conclusions**

If legislatures are to play a substantive role in the budget formulation process, they will be well served by an independent source of budget information. Examples in the United States and in a number of other countries establish that a nonpartisan, independent, objective analytic unit can provide budget information without polarizing the relations between the executive and the legislature. However, a requirement for the successful establishment of such a unit is the existence of, or the desire for, some kind of balance in the political environment—a balance between political factions and/or a balance between the executive and the legislature. Once created, such a unit must operate in a credible and impartial manner if its value is to be sustained.

## **References**

Day, Dwayne (2003), *Gourmet Chefs and Short Order Cooks: A Policy History of the Congressional Budget Office, 1975-2001*, unpublished manuscript.

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<sup>7</sup> See [www.lao.ca.gov](http://www.lao.ca.gov) for information on California’s Legislative Analyst’s Office, and [www.ibo.nyc.ny.us](http://www.ibo.nyc.ny.us) for information on New York City’s Independent Budget Office.



Schick, Allen (2002), *Can National Legislatures Regain an Effective Voice in Budget Policy*, OECD Journal on Budgeting 1(3).

**Table 1. Distribution of CBO Staff**

<b>Function</b>	<b>Core</b>	<b>Other</b>	<b>Total</b>
<b>Executive Direction</b>	<b>5</b>	<b>5</b>	<b>10</b>
<b>Macroeconomic Analysis</b>	<b>5</b>	<b>15</b>	<b>20</b>
<b>Tax Analysis</b>	<b>5</b>	<b>15</b>	<b>20</b>
<b>Budget Analysis</b>			<b>80</b>
<b>Baseline</b>	<b>20</b>		
<b>Analysis of Proposals</b>		<b>45</b>	
<b>Mandates</b>		<b>15</b>	
<b>Program Divisions</b>		<b>75</b>	<b>75</b>
<b>Technical &amp; Administrative</b>	<b>10</b>	<b>20</b>	<b>30</b>
<b>Total</b>	<b>45</b>	<b>190</b>	<b>235</b>

**Table 2. Staffing by Core Function**

<b>Core Function</b>	<b>CBO</b>	<b>IBO (NYC)</b>	<b>LAO (Calif)</b>
<b>Executive Direction</b>	<b>5</b>	<b>6</b>	<b>3</b>
<b>Macroeconomic &amp; Tax Analysis</b>	<b>10</b>	<b>4</b>	<b>5</b>
<b>Budget Analysis</b>	<b>20</b>	<b>12</b>	<b>36</b>
<b>Technical &amp; Administrative</b>	<b>10</b>	<b>5</b>	<b>9</b>
<b>Total</b>	<b>45</b>	<b>27</b>	<b>53</b>