

## Budget Processes and Commitment to Fiscal Discipline\*

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### Abstract

We present a framework of investigation into the political economy of the budget process. Our model suggests that institutional rules governing the budget process can be found to limit the importance of fiscal illusion. Empirical evidence supports that proposition. The choice of rules depends on the political environment as well as the dominant source of uncertainty in the budget process.

*Keywords:* Budget systems; Government expenditures and deficits; Collective choice

*JEL classification:* H61, H62, D71, D73, H72

### I. Introduction

High and rising levels of public debt and large and persistent government deficits are matters of concern in most OECD countries, casting doubt on the soundness of public finances and increasing debt service obligations that reduce the governments' ability to serve more pressing social needs. In Europe, they raise additional concerns as the EU member states have committed to avoiding 'excessive government deficits' in the upcoming Economic and Monetary Union.

Public spending, taxation, and borrowing are all results of the government budget process. Formally, the budget is a list of revenues and expenses during a certain time period. It conveys what the government expects and is authorized to do during the period considered. The budget process describes how decisions concerning public resources are made: It is the answer to the question, who does what, when, and how in the preparation and the implementation of the budget. The budget process is governed by formal and informal rules of behavior and

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