Budget Politics in Germany and Japan (2001-2005)

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1 Introduction

This paper draws a two country comparison of the formulation process of the early budget law (general account) in Germany and Japan between the years 2001-2005\textsuperscript{1}. The main question I want to address is why saving is hard in times of a stagnant economic development. Comparatively I want to analyze which characteristics of the formulation process hinder reform in the policy field of budgeting. Confronted with similar challenges, both countries, Japan and Germany, tried to strengthen top-down components of the budget formulation process. However, bottom-up orientation is still inherent and needs to examined closely. While I see the specific characteristics of the formulation process as one of the reasons for a lack of competences to push through expenditure cuts; the preferences of the main actors of the formulation process contribute as well to this situation. The broad perspective of this analysis is to identify how successful the different actors are in reaching results closest to their preferences. So one task is to find out what budgeting actors want and what rules (institutional) restrict their actions. The third complex of reasons cannot be examined in this paper, but need to focus on veto players in the political system of both countries.

Per definition (Sturm 1989) budget policy consists of tax and state spending policies in their entirety. In my study, I will concentrate analysis of budget politics to the spending side of the policy. This is justified by the subject of the budget law in Germany and Japan which only addresses the spending side in detail; the legal basis of revenues and expenditures can not be changed with the budget law. In addition, actors influencing tax policy which make up most revenues in Germany and Japan are different to the ones deciding on the spending side of the budget.

\textsuperscript{1} The paper introduces first results of my PhD project. The study is a qualitative case study and will draw mainly on results from interviews with the relevant actors. The German field research has been finished but not yet completely analyzed; the Japanese field research will follow within the next 6 months.
The goal of a balance between revenues and expenditures which is inherent of budgeting all over the world seems to have been neglected during the last 5 – 10 years in Germany and Japan. The gap between them has been filled up with credits. Several reasons for this have to be taken into account, including; the severe economic condition during these years, the development of social security costs, and special challenges for each country like the burst of the bubble economy and reunification costs. Despite these strong external influences, I expect to find a correlation between the process of budgeting (budget politics) and the result of it. The comparison of the budgeting process between Germany and Japan will allow me to identify the variables which will be most important for explaining the policy result. The reaction or non-reaction of actors to the situation, their restrictions and capabilities, preferences and perceptions will explain how budget politics is conducted in Germany and Japan.

Due to the progress of my research, I will introduce results from the German field research, contrasting them with knowledge about the Japanese case drawn from literature review. Theoretical basis of my study is the Actor-centered Institutionalism (Scharpf 1997) (section 2). Following I will outline the budget situation and budget structure of Germany and Japan within the last 5 years (section 3). This is the result of the budget formulation process which I will explain in detail in section 4. Reporting from field research in Germany I will then focus on two key actors in the process: the Ministry of Finance and the parliamentarians in the budget committee (sections 5 and 6).
2 Theoretical Basis of Analysis

Explaining policy processes and their effect on policy results while looking at restricting institutions and actors’ preferences the heuristic of Actor-centered-Institutionalism introduced by Scharpf (1997) will be most helpful. According to this design the following steps of analysis will be necessary:

1. **Identifying the interaction that produced the policy result to be explained**: The policy result in this project is the yearly budget law. The interaction involves the Ministry of Finance formulating guidelines for the following year’s budget; the spending ministries and agencies formulating their budget requests. In both countries negotiations between the resort ministries and the Ministry of Finance follow. The cabinet finally approves the budget draft which is introduced to the parliament (the lower house). Readings in the house and debate within the budget committee then last several months. The whole formulation process ends with the approval of the budget law through the parliament (cf. section 4).

2. **Identifying the actors with their characteristics: capabilities (action resources), perception and preferences (action orientation)**. This step of analysis is necessary in order to understand the policy result and the interaction between the different actors. Capabilities, perception and preferences are strongly connected to the rules (institutions) by which an actor is restricted (see Figure 1 and 2). In addition to the above mentioned main actors I will also have to look at party organs like PARC (the LDP’s Policy Research Council) which is involved in different stages of the bill and has a great deal of influence on the result.\(^2\) Influential party organs in the German case are the “coalition

\(^2\) This influence is expressed through a system of “advance inspection” (yotō shinsa) and “prior approval” (jizen shōnin) of bills at PARC and its Executive Council before they become cabinet proposals. The LDP itself describes this procedure as the regular policy-making process on its homepage: [http://www.jimin.jp](http://www.jimin.jp).
group” and even more important the working groups “budget” of the two governing parties (cf. section 5 and 6).

3. **Analyzing actor constellation and mode of interaction:** Figure 2 shows the possible variations within these variables. Here the characteristics of the involved actors are put into perspective and compared with each other. The result is the knowledge about the level of conflict (actor’s constellation) that can be found in the interaction. This allows conclusions about the process and the result of decision making. The mode of interaction describes the existing mechanism to resolve the conflict. Here the interaction orientation of the actors plays a crucial role in explaining the process. Regarding the claim of the heuristic, knowledge about actor constellation and mode of interaction will also explain policy results. This stage of analysis is situated on a more abstract level; therefore, all results of the previous analysis have to be taken into account. I will not refer to actor constellation and mode of interaction in this paper.

**Figure 1:** Relationship between Actors and Institutions

![Diagram of institutional setting and interaction](source: Own representation based on Scharpf (1997))
**Figure 2**: Relevant Actors in the Budget Formulation Process within a Framework of Actor-centered-Institutionalism

Source: Own representation based on Scharpf (1997)
3 Results of Budget Policy and Budget Politics: Budget Situation and Budget Structure of Japan und Germany (2001-2005)

For Germany and Japan conducting budget policy in the last 5 years is a decision between “saving, taking on credits or raising taxes”\(^3\). This shows the components of budget politics: the revenue side, the spending side and dealing with the gap between them. Due to economic slowdown, neither country raised taxes during the last 5 years, despite not saving enough, so deficit spending grew (see Diagram 3).

I will shortly interpret the main figures of the general account budget in both countries. Diagram 1a and 1b show the main variables of the national budget in both countries (settled general account). Striking is the ratio between government bond issues and overall budget in Japan. This means dependency on credits is much higher in Japan than in Germany. We also see the strong connection the German Basic Law (Article 115) draws between investment and government bond issues and how the rule was not followed in recent years. I will explain the rule and equivalents in Japan at the end of this section. In both countries, the overall size of the budget has not changed dramatically during the last years.

The structure of the budget explains where the focus of government spending lies. However, the structure is, of course, a historical result. Because in its main parts the budget refers to expenditures which are set by laws (95% in Germany), the possibility to change the structure from one year to the other is essentially nonexistent in developed industrial countries. This is true due to several reasons: reliability is a serious value in the countries, compromises have to be negotiated with a long term perspective, cuts in subsidies can be hindered by veto players in the political system. All in all, the overall budget structure is not mainly a result of budgeting but rather of social systems, international duties and conditions, and the economic situation of the state. We can see this for instance in the development of social security costs

\(^3\) Actually Germany has lowered income taxes and corporate taxes during the last 5 years.
between 2001 and 2005 (cf. Diagrams 2 and 3); the rise from 41% to 49% in Germany and from 21 to 26% in Japan has to be interpreted as a result of economical stagnation, rising unemployment rates and aging society. Due to the high percentage of expenditures which are based on laws and certain budget rules, changes in the structure of the budget in Germany can only be reached by a decision independent to the budget law. Nevertheless, it is important to look at the budget formulation process and the actors in order to grasp the possibilities of change and reform in this policy field.

Another figure, which needs to be looked at, is the national debt service share. Even though the overall deficit has risen in this period both countries were able to keep this figure constant. Still the amount of 15% (Germany) and 20% (Japan) of the overall budget which was paid in fiscal year 2005 for credit interest only is restricting both countries severely. With the possibility of rising global interest rates, these payments are at a high risk to grow further. In both countries, these high interest payments comprise a strong argument for moving towards deficit reduction.
Diagram 1a: Main Budget Data in Germany for the years: 2001 – 2005

Source: Own compilation with figures from: Bundesministerium der Finanzen (2006), Statistiken und Dokumentationen: Monatsbericht des BMF - Mai 2006.

Diagram 1b: Main Budget Data in Japan for the years: 2001-2005

Diagram 2a: Budget structure Germany: 2001

Source: Own compilation with figures from: Bundesministerium der Finanzen (2006), Statistiken und Dokumentationen: Monatsbericht des BMF - Mai 2006.

Diagram 2b: Budget structure Germany 2005

Source: Own compilation with figures from: Bundesministerium der Finanzen (2006), Statistiken und Dokumentationen: Monatsbericht des BMF - Mai 2006.
Diagram 3a: Budget Structure Japan: 2001

![Chart showing the budget structure of Japan in 2001.]


Diagram 3b: Budget Structure Japan: 2005

![Chart showing the budget structure of Japan in 2005.]

3.1 **Rules of Deficit Spending in Germany and Japan**

A formal rule concerning the issuing of government bonds exists in Germany, as well as in Japan. Article 115 German Basic Law allows only as many new government bonds as there are investments foreseen in the formulation of the budget. The logic behind that is that investments’ costs can be shared by all generations because benefits will be shared by future generations as well. There is one exception to this rule: if macroeconomic balance is disturbed, the rate of government bonds may be higher than the investments. This assessment, however, is a political one so that during the last 4 years, the budget law in Germany was interpreted by the opposition parties as unconstitutional, whereas the government coalition used the argument of the possible exception of Article 115 to justify bonds over the rate of investments.\(^4\) Regardless of which party is in power, the common government interpretation is that the rule only applies to the formulation process (so has to be applied within the budget law) but not to the balance of the fiscal year (when accounts are settled).

Also, Japan makes a distinction between construction bonds (*kensetsu kokusai*) to finance capital spending and deficit financing bonds (*akaji kokusai*) (Wright 2002:209). Construction bonds are defined by Article 4 of the Public Finance Law as those financing public works such as construction of roads, bridges, and other facilities, as well as for financing equity investment and loans. This interpretation is roughly equivalent to the definition of investments in Germany. The logic behind is exactly the same as in Germany. On the other hand deficit-financing bonds for non-investment purposes have been used since FY 1975. The formal foundation was a law applying specifically to the budget. Despite its incessant use, the issuing

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\(^4\) In 1982 the opposition party (Christian Democratic Union) appealed to the German High Court and claimed the unconstitutionality of the budget for fiscal year 1981. The High Court decided in 1989 as described above that the issue is subject to political evaluation and therefore that the budget law was not unconstitutional.
of such government bonds is still seen as an exception; or at least, reasoned to be an exception.\textsuperscript{5}

As we see in Diagram 4, the provisions did not stop the growth of the deficit in both countries during the years of economic slow down. This means the drop in revenues was financed by credits and not by cutting expenditures accordingly. Both governments wanted the automatic stabilizers to work as would be logical in an anti-cyclical economic approach.

Diagram 4a: Development of Deficit in Germany


Diagram 4b: Development of Deficit in Japan

4 An Overview of the Budget Formulation Process in Germany and Japan

Looking at the yearly routine budget formulation process reveals quite a lot of similarities between Germany and Japan. Of course, one reason for this is those similarities in the political (parliamentarian) system that give the executive the most prominent role in the process and a clear formalized agenda setting advantage – preparing the budget is in both countries a constitutional right of the executive (Article 110 German Basic Law, Article 73 Japanese Constitution). The Fiscal Law gives the Japanese Ministry of Finance (MOF) authority to form the government budget. How the budget proposal is compiled, including the way it takes until it reaches the parliament, is highly formalized in both countries. Both countries share a still-predominant, long-followed tradition of an incremental bottom-up process of budget formulation. The fiscal year in Germany starts in January, in Japan in April. Especially in Japan there were efforts in recent years (from 1999 on) to strengthen politician’s influence on the overall budget figures, and to emphasize a top-down approach in budgeting. Since the administrative reforms in 2001, a loss of formal powers for the Ministry of Finance (MOF) is postulated. It goes along with a loss of trust of the ministry, particularly from politicians (Wright 2002:137). Looking at how the process will ideally be working according to publications from the Ministry of Finance (cf. Diagram 5a), the task of reducing bureaucrats’ influence ought to be fulfilled by the 2001 established Council on Economic and Fiscal Policy (CEFP)⁶. It is situated and controlled by the cabinet office and is composed of “senior ministers including the prime minister and finance minister, the governor of the Bank of Japan, university professors and business executives” (Ministry of Finance 2004). Together with the Fiscal System Council the CEFP formulates the guidelines for budget request on

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which basis the ministries and agencies prepare their budget requests. The Council on Economic and Fiscal Policy is part of the newly (1996) created Cabinet Office. It advises the Prime Minister on macroeconomic and fiscal policy issues. Following recommendations by the Prime Minster, it initiates the budget process by proposing its total size and by prioritizing major spending items. The aim behind this change of responsibility for overall figures was to shift the essential function of budget formation from the MOF to the Cabinet Secretariat. Under Prime Minister Koizumi the first budget outline by the CEFP was announced in August 2001 (Holliday/Shinoda 2002:102). On first glance it looks like a top-down approach is introduced in Japan and the monopoly of the MOF to influence the final result of the budget has been broken. One needs to take a closer look in order to come to a real conclusion about the role of the council, and the independence and binding nature of its proposals. Taking into account that the CEFP has been introduced to “override entrenched MOF budgetary principles such as the balanced budget,”(Mulgan 2002:186) one might expect the CEFP not to be the proponent of reducing expenditures. But, the Japanese attempt goes even further: certain priority areas of spending are selected every year. Also, reform of the whole budget compilation process towards a top-down, executive-dominated approach is still on the reform agenda.  

Even though the Ministry of Finance has been reduced in its powers by the establishment of the CEFP, another player, the Fiscal System Council, is an organ of the Ministry of Finance. Additionally it is reported that the MOF was successful in securing its rights for detailed calculation and allocation of the budget and in final decision making which might contradict the set guidelines (Mulgan 2002:186ff.). Through deliberation and support the Fiscal System Council also exerts influence on the formulation of budget figures and guidelines. After the first rounds of negotiations between the spending ministries and the MOF have been concluded there is another cabinet decision on detailed budget guidelines. One has to take into

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account that cabinet decisions before 2001 have not been attributed a lot of importance (Neary 2002:11). Further empirical research will show how things might have changed since then.

The negotiation rounds close with minister level negotiations – the same process as in Germany. The budget proposal leaves the executive when the bill is introduced to the lower house and discussed in the budget committee. This procedure takes around two months in Japan, and at least four months in Germany.
Diagram 5a: Preparation of the Budget in Japan for Fiscal Year 2004

Source: Budget Bureau, Ministry of Finance, Understanding the Japanese Budget 2004, in:
The overall procedure is very similar in Germany; here also the circular by the Minister of Finance kicks off the budget process 13 months before the budget will enter into force (see Diagram 5b). This document however is not used for top-down decisions or for differentiating between ministries. It is a general circular for all Ministries with rather technical contents. There is no explicit cabinet approval of these guidelines (Interview with former Minister of Finance). Overall budget figures are not decided at this stage. However, every year the cabinet approves the 5 year financial plan. The financial plan is seen in the Federal Ministry of Finance (FMF) as the basis for negotiations with the spending ministries. It is a very detailed budget plan with every budget position in it (titles). This document is developed by the same bottom-up procedure as the departmental bids of the yearly budget proposal.

Political influence on the overall budget figures as the CEFP might have in Japan must be attributed to the coalition group of the two government parties in Germany or to the Minister of Finance alone. Here a decision on overall figures is taken, but at a moment when most calculations of the FMF have been completed. That means the decision will be dependent on the FMF’s bottom-up calculation of these figures (Interview with Parliamentary Secretary of state FMF). So the overall pictures for Germany evolves that top-down decisions are rather formal, the real decisions are based on a bottom-up procedures concentrated within the FMF.

At different administrative levels negotiations between the Ministry of Finance and the spending ministries are conducted. As interview partners explained, the more the ladder of negotiations between the spending ministries and the Finance Ministry is climbed up, the more political issues are at stake, so the cutting of requests becomes less likely. Finally, the cabinet proposal of the budget is brought into the Bundestag and deliberation starts in the budget committee. During this phase the parliamentarians themselves (the group of

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Aspects are: overall economic situation combined with an appeal to safe money, what kind of automobile can be purchased by the ministries, how the complaints of the Board of Audit should be taken into account, etc. (Interview with head of division, FMF).
rapporteurs, one from every party) hold negotiations with the different ministries. This instrument of potentially strong influence is not a committee right in Japan.
Diagram 5b: Preparation of the budget in Germany for Fiscal Year 2005

2003
December
Circular to the departments for the preparation of the budget (2005) and the financial plan (2004-2008)

2004
January
February
Preparation of the estimates of the budget and the financial plan
Re-evaluation and planning of the budget titles
Fixing of macroeconomic benchmark data

March
Departmental bids sent to FMF;
Start of negotiations FMF/departments at technical level
For the draft budget (2005) and the financial plan (2004-2008)

April
Medium-term projection of economic development and medium-term tax revenue estimate;
Financial Planning Council

May
Start of budget negotiations at ministerial level
Cabinet resolution on draft budget and financial plan

June
Draft budget sent to Bundestag (BT) and Bundesrat (BR) for deliberation and financial plan for information

July
1st reading in the BT
1st reading in the BR
Start of discussions in BT committees

August
Short-term projection of economic development and short-term tax revenue estimate;
Final discussion in BT budget committee;
Financial Planning Council
2nd and 3rd reading in the BT

September
2nd debate in the BR
Promulgation of the budget statute

October
November

December
Start of budget execution

2005
2006
Rendering of accounts

Changes resulting from debate in the German parliament might be marginal by quantitative measures (sum of changes of overall figures)\(^9\). Qualitatively (changes within the departmental budgets) the changes are more recognizable, and if we take into account the inclusion of parliamentarians into the executive decision making process beforehand the introduction of the cabinet budget proposal, the influence becomes even greater but can be measured far less precise. This involvement is quite normal in parliamentarian systems which work according to the new dualism between governmental majority and opposition (Oertzen 2005:281ff.).

Parliamentarians taking part in, and exerting influence on, the formulation of executive proposals is established on a constant, institutionalized basis in Germany and Japan: contacts between administration and parliamentarians throughout the year, working groups within the fraction (Germany) or PARC divisions (Japan) inviting ministers or prime minister’s staff. Also the other way around, “taking care” of “their” parliamentarians (meaning the ones who will finally decide about the budget of a ministry) is a normal and often reported feature in the German democracy: e.g. inviting the group of rapporteurs (budget committee) for a meal at the ministry, or inviting them to a journey overseas (Interviews within FMF, Budget Representative of State Department, and with parliamentarians). However, there is no consensus among the parliamentarians I interviewed about their involvement in the formally executive budget formulation. One interviewee rejected his involvement at this stage all together; others explain how they exerted influence.

Both, Bundesrat in Germany and the Upper House in Japan, do not have a veto power over the budget law; however, their action could delay the enactment of the law. In Germany, another vote must be taken in the Bundestag if the second chamber does not agree with the budget. In Japan not even this is necessary (Art. 60 Japanese Constitution).

\(^9\) For instance the committee deliberations in the year 2004 resulted in higher expenditures of 2.3% (quantitative change). Overall changes (qualitatively) were conducted on a scale of 12.7%, measured for expenditures of the following year only (Bundestagsdrucksache 15/1923, p.30).
5 Powers and Self perception of Officials in the German Ministry of Finance

In Germany we can identify the following main formal rights the Minister of Finance enjoys concerning the budget:

- The minister can veto cabinet decisions concerning the budget (§26 GOBReg). Only if the chancellor and the majority of all cabinet members speak against this veto, the Minister of Finance is overruled.

- The Minister of Finance is able to put blocks on expenditures. If the concerned ministry wants to spend the blocked money during the fiscal year, it must fulfill special conditions which were formulated when putting the block into the budget law.

- The Ministry is involved in the legislative procedure of all draft bills which affect revenues, expenditures or taxes (§ 45GGO).

- The Minister of Finance decides over the issuing of government bonds (HgrG §21).

- With consent of the cabinet the Minister of Finance can block appropriations in the budget (§25 HgrG).

- Excess and extra-budgetary expenditure can only be granted with the consent of the Minister of Finance (§37 BHO)\(^\text{10}\).

On an international comparative basis these rights make the Finance Ministry and the Minister a strong actor in the German political system as a whole and especially in the budget formulation. However, following the above mentioned heuristic, which puts actors and their preferences in the middle of analyses, one also needs to look at how the officials working within the ministry see their task concerning budget formulation and negotiations.

Conducting interviews with officials within the Federal Ministry of Finance (FMF) it became clear that there is a consensus among all levels within the Ministry (from the Finance Minister himself to the division chief) that the formal rights of the Ministry are sufficient to control

finances, but that they are not the most important factors for successful budgeting. More, or different, formal powers would not help accomplish the Ministry’s preferences more effectively. But how can these preferences be described?

The negotiations with the other ministries are the most important tasks of the FMF in Germany, and also for the MOF in Japan. Here, the real strength and capabilities of the ministry are apparent. There is a consensus among my interviewees, who work at different levels of the negotiation process, that a confrontational approach towards the ministries is not the best strategy to reach the Ministry’s goal – to the foundation of which is to formulate a budget substantially in line with the five-year financial plan. The best strategy is good policy knowledge and “smart proposals” with regard to money saving policies (Interviews). The person in charge of formulating the rules for preparation of the budget clearly sees the role of the FMF subordinated to the spending ministries and their policies: “The ministry of finance is in charge of enabling policy not of hindering it. The best way of being successful in the ministry is by having good knowledge of the policies and being able of thinking of intelligent policy proposals.” A clear-cut understanding among all ministry officials of being the actor, who always has to stand for reducing expenditures, seems not to be the case in the German FMF.

The negotiations between the spending ministries and the finance ministry are based on the five-year financial plan, which is reviewed annually. The figures for each ministry in this plan have been approved by the cabinet. The finance ministry now tries to bring the spending ministries as close to the previously agreed-upon figures as possible. Negotiations on the working level (division chief) usually prove to be most effective. If the Minister of Finance has to intervene to settle a dispute (Chefgespräche) with a spending ministry, political issues are at stake; in Germany, concessions from the Minister of Finance seem inversely related to the level of support from the chancellor. Wisely the Minister of Finance would elaborate this situation beforehand and would not let budget issues enter cabinet meetings, where the
chancellor alone can overrule a veto by the Minister of Finance. Such a situation – of disputes over the budget entering the cabinet – was never documented during the years 2001-2005. There is one intermediate level of negotiations in Germany – these are talks between division chiefs. We see the same pattern of conflict solving in Japan where cabinet meetings are extraordinary short and conflict solving in almost all cases is conducted on a lower level (Wright 2002:124).

There seems to be no consensus among my interview partners what role the orientation of the formulation process plays for being successful in cutting back expenditures. One of my interview partners is convinced that the bottom-up process for formulating the budget is not appropriate in order to conduct serious cuts within the budget. In recent years, serious cuts have been publicly pronounced as necessity to prevent further deficit growth, also in order to meet the Euro Maastricht criteria, as well as Article 115 of German Basic Law (Sachverständigenrat 2004). According to one interviewee, when cuts are proposed by the Ministry of Finance, the Spending Ministries generally seem in a lot of instances to be better prepared and more predisposed to argue against cuts – interest groups, media, and sometimes the parliamentarians are on their site.. This particular interviewee sees top-down budgeting as the key for successful budgeting. Conversely, a different – rather policy orientated – interviewee, does not think a change in the process would enable the FMF better to reach its saving goals.

What Minister of Finance for the years 1999-2005 Hans Eichel in Germany tried to do in the beginning of his tenure in order to reach a certain savings goal was a top-down approach in connection with the classic fair shares budgeting. It has been identified by Campbell (1977) for Japan in the years of high growth as well but with the different inclination of fair distribution of higher expenditures. The Minister of Finance in Germany formulated a goal, how much he wanted to safe in the upcoming years (2000: 30 Billion €; 2001: 37 Billion €; 2002: 42 Billion €; 2003: 50 Billion €). He distributed the shares of this saving sum among
the spending ministries according to their share on the overall account. The logic was so easy and fair that all cabinet colleagues agreed to this cut in their expenditures within minutes and ordered their houses to think of proposals where to reach the according shares. As the interviewee reported, this approach had been successful during the first years. But with growing problems in revenues, a dissolving solidarity among cabinet members, and exploding social security expenditures, the possibility for the finance minister to push through his agenda and cut expenditures diminished. For a short time, however, the track of a bottom-up process was abandoned and a top-down process was successfully pursued. The difference to the normal bottom-up process was, that because the ministers in the cabinet had agreed to reach a certain saving goal, the spending ministries were not in the position to formulate their usual requests but were put in the position to make proposals were to save in their own houses. In the view of Ministry of Finance officials, one thing is clear: working together with the parliamentarians is not an easy task. One department head sees the preferences of the parliamentarians divided between two goals: one is saving and sticking to the budget rules, and the second goal is the policy they are watching over. From the ministry’s view, the policy goal – a matter closer to the politician’s heart – is easier to reach and better to sell so that the goal of saving and restricting expenditures and supporting the Ministry of Finance is not always pursued hard enough within the deliberations in the budget committee. It often happens, the official explained and which can be proved by data from the last years, that some ministries can better their departmental budget within the negotiations in the budget committee thus counteracting the negotiation results the finance ministry had with the spending ministry\textsuperscript{11}. Nevertheless, in the German case, if the overall figures of the cabinet proposal are changed towards higher expenditures or fewer revenues, the Cabinet may use a suspensive veto\textsuperscript{12}. They did not use the veto in these cases, which is a hint that the changes

\textsuperscript{11} C.f. Bundestags-Drucksache 15/574, p. 32.; Bundestags-Drucksache 15/1923, p. 30.

\textsuperscript{12} The Cabinet has a suspensive veto concerning parliamentary draft bills which would mean higher expenditures or lower revenues Art. 113 German Basic Law.
were reached in close cooperation with the concerned ministries and not an overall strategy of the parliamentarians to act against the executive.

Trying to hold the finances in check, the Ministry of Finance will receive the biggest support from the Supreme Audit Institution (Bundesrechnungshof). This independent actor audits all government expenditures and looks especially at the effectiveness of the appropriations. Every year a report is issued stating misuse or waste of taxpayer’s moneys. Not to be mentioned in this report is a real goal of the ministries, since the parliamentarians could draw consequences from this report, and distribute money differently or block expenditures for the next year (Interview with a budgeter from the German State Department). There is also a process of negotiations between the Audit Institution and the Ministries on solutions for money management problems. With this report, and due to negotiations with the ministries, the Audit Institutions helps to save money. Even though the Institution is not only seen positively???, a consensus exists among politicians and bureaucrats alike, that the Audit Institution is a partner of great importance. Some majority parliamentarians, and also the Parliamentarian Secretary of State in the FMF, criticized the institution for political judgment.

One interviewee saw the institution to be an instrument of the opposition. However, on the level of bureaucrats within the Finance Ministry, informal contacts are frequent, and ministry officials could use the informal instrument of even hinting at a case of inappropriate spending, which can be followed by the independent Institution to conduct audits (Interview with head of department within Ministry of Finance).

Summarizing the role and self perception of the German Ministry of Finance, one needs to assess a strong actor in the process with a lot of formal rights. In the relationship with the other actors in the budget formulation process, it is restricted while pursuing its own goals by rights of the parliamentarians, and by the support that spending ministries might be able to organize. It became clear during the interviews with officials that restricting expenditures and sticking to the rules of budgeting is not the singular goal of the ministry: there is an
overwhelming agreement that policy goals have their own right. Due to the stages of the negotiation process, a ministry has good chances of pushing through its own agenda either at the minister level negotiations or at the parliament negotiations. The role of the chancellor seems to be crucial, and a lack of support for the Minister of Finance and his preferences means that the Minister of Finance can not use his formal powers in order to keep the finances in check (Interview with former Minister of Finance).

During a comparative outlook on the Japanese MOF, it becomes clear that formal rights in Japan are less developed: the Japanese Minister of Finance has no veto power in the cabinet (cf. Hirashima 2002:40). The establishment of the Council on Economic and Fiscal Reform restricts the Ministry’s power formulating overall figures for the budget (Wright 2002:155ff.). But this might actually hint to the fact that also the MOF has not been the strongest proponent of expenditure reduction. The dependence on the parliamentarians might be less developed than in Germany because formal negotiations between committee members and spending ministries are not conducted in Japan. Informal powers of the Minister could be restricted by the LDP factions, and by the Minister’s usually shorter tenure compared to Germany.\footnote{While in Germany one Minister of Finance served form 1999-2005; there were 3 different Ministers serving in Japan between 2001 and 2005 (Kiichi Miyazawa, Masujuro Shiokawa, Sadakazu Tonigaki).}
6 Budget Deliberation in the Parliament

The following features are some of the special characteristics of the budget formulation process in the German and Japanese Parliament:

Table 1: Comparison of Budget Committees in Germany and Japan

<table>
<thead>
<tr>
<th>Feature</th>
<th>Germany</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair of Budget Committee</td>
<td>• usually occupied by the biggest opposition party (except for Great Coalition 1966-69)</td>
<td>• has always been occupied by the biggest ruling party</td>
</tr>
<tr>
<td>Committee Sessions</td>
<td>• not public</td>
<td>• public debates</td>
</tr>
<tr>
<td></td>
<td>• protocols can only be reviewed by the public 2 legislative periods later</td>
<td>• some meetings even recorded by video and made public soon after the conducting</td>
</tr>
<tr>
<td>Work within the Committee</td>
<td>• Opposition has no rights to block decisions by the majority</td>
<td>• the opposition has the possibility to use minority rights and prolong debates</td>
</tr>
<tr>
<td></td>
<td>• Consensus decisions are common</td>
<td>• agenda within the committee is decided unanimously</td>
</tr>
<tr>
<td></td>
<td>• Committee is regarded as the one with least party politics</td>
<td></td>
</tr>
<tr>
<td>Effects of Committee Action on Plenary Floor and other bills</td>
<td>• plenary floor action and other committees are not effected by budget committee debates</td>
<td>• during deliberations in the budget committee no other committee is allowed to conduct deliberations</td>
</tr>
</tbody>
</table>

14 This should be seen as a hint on the lack of real decisions in the committee. For instance Ishi (2000:115) does not attribute any relevance to the deliberations in the Japanese parliament.

In order to understand what role the German parliamentarians play when they are debating the budget draft bill from the executive I would like to stress the following powers:

1. **Reports** asking for an explanation of certain budget titles or anything else related to the bill can be ordered from any ministry or the ministry of finance on short notice.
   
a. These reports are taken seriously and allow a good basis for budget decisions (Interviews with parliamentarians).

2. There are no formal restrictions when **rewriting the government proposal** however higher expenditures could be vetoed by the cabinet.

3. The Committee majority has the **right to block expenditures** by a note in the budget law.
   
a. When the committee uses a so called qualified block the ministry wanting to spend the money needs to fulfil special obligations.

4. FMF independent **negotiations** are conducted **with the spending ministries**
   
a. An examiner group (rapporteur and co-rapporteur) consisting of one parliamentarian from each party is formed for every spending ministry.

5. All **bills with an effect on the budget** must find the consent of the committee and are deliberated within it (§96GOBT).
   
a. This means that throughout the year, the committee practically sees and has to agree to almost all bills which go through the parliament. The committee is asked to confirm the compatibility of the bills with the budget.

In Germany there is a strong sense on how the committee as a whole wants to be treated by the executive: this starts with the quality and speediness of reports, and goes on to information politics of the government. Press conferences concerning budget issues before the committee has been informed are constantly criticized and measures to discipline a ministry via the budget figures might be taken (Protocols of Budget Committee).

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16 One interviewee coined this instrument to be “the noble right of the parliament”.
Working together on a collegial basis with the opposition is a special feature of the German budget committee and can be observed in the protocols and the interviews as well. The workload and the time the committee members spend with each other, and the substantiability of the decisions contributes to this unusual climate. It is the group of rapporteurs consisting of government and opposition parties alike which tries to get the grip on the ministry’s budget. Together they look where “air might be put into the budget” (Sturm 1988). They are the ones who will decide which decisions will at all be put forward into the committee or which can be decided by unanimous consent between these 4-5 people. Nevertheless there are many examples when party politics arguments are used, and where an agreement between the rapporteurs will not be put into a unanimous decision because it does not fit in the greater picture of party politics (cf. committee protocols 13/60/200). The negotiation rounds with the ministries (Berichterstattergespräche) contributes substantially to the feeling of the parliamentarians to fulfil the “king’s right of budgeting”.

In order to keep finances in check during committee deliberation, and in order to hinder changes in the overall structure of the executive budget proposal, there is an informal consensus that proposals for higher expenditures in one title have to be covered within the same departmental budget. That means raising expenditure within one title must be financed by a reduction in a different title. In the motion of the parliamentarian, or his faction, one usually finds the explanation where the proposed higher expenditures will be met with cuts in a different title. My interviewees explained that they would sometimes make the ministry think of a way to redistribute the money, or save on one end in order to spend more according to the parliamentarian’s preferences. As mentioned above, and confirmed by interviews with officials from the Ministry of Finance, the informal rule is not always followed and departmental budgets might grow within the committee deliberations.

Even though the opposition seems to be strong in the German parliamentarian system due to the informal rule that they (the biggest opposition party) will be chairing the budget
committee, this leadership has more symbolic than substantive power. Indeed all decisions, including those concerning the agenda of the committee, closing of debate, and other questions of rules of procedure, can be decided by the ruling coalition by majority vote. The opposition therefore finds no utility – perhaps save media coups – in using obstructive tactics (Interviews with opposition parliamentarians). Prolonging debates within the committee by putting forward many motions or refusing to participate in the debate of the budget as a whole by leaving the committee have been tried in recent years, but never showed significant effect. Making the government start the fiscal year with a preliminary budget which restricts its possibilities of budgeting (Article 111 German Basic Law) is another tool for the opposition when it holds a majority in the second chamber, the German Bundesrat, as was the case from 1995 to 2005. (c.f. Kropp 2006:237). The result of a negative vote in this chamber often leads to delayed enactment of the budget law. It can be overruled by the first chamber without changing the content of the budget law and with a majority according to the one which had rejected the bill in the Bundesrat.

The relevance of the Supreme Audit Institution for the parliamentarians becomes clear when we look at the role the Institution plays within the deliberations in the budget committee. At least one representative of the Institution takes part in every committee meeting, and also in the negotiation talks with the ministries. There is a Subcommittee Auditing where half the Budget Committee parliamentarians will take a constant look at the proper use of government expenditures. Here financial control is conducted in close cooperation with the Supreme Audit Institution. The parliamentarians have the right to request audits which are normally followed up by the Supreme Audit Institution; legally the institution is an independent actor deciding itself on audits and related matters. The committee members will use their knowledge gained from the audit reports or requests while evaluating the executive proposal on the up-coming year’s budget (Interviews with Parliamentarians). The committee members would also use

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17 The interviewed parliamentarians see the minority right (right of a fraction) to call for a public hearing as important but not as leading to different decisions.
their instruments (blocks, cutting certain expenditures) when they see that a complaint of the Institution has not been followed during the last year (protocols 13/53/113). In Japan, the Committee on Auditing was just established in 1997; membership is independent from Budget Committee membership.

In general, control orientation is supposed to be vivid among parliamentarians of the German budget committee, both among the government party and particularly among the opposition (Horst 1995:331-335). However, complaints from the opposition parties were raised in the interviews that, during the period of the Red Green Coalition in Germany (1998-2005), the self perceived task, which is controlling the government and pursuing its own agenda, was been neglected by government parties’ parliamentarians. Opposition members stated it was often the case that the government proposal of the budget law was not even remotely changed, simply for the purpose of stabilizing the executive (Interviews with opposition parliamentarians). To put this evaluation in perspective, one needs to know that under the former coalition government (1982-1998), some titles in the budget draft of the executive were left open for parliamentarians to decide the amount of expenditure which they, themselves, would prescribe (Interview with FMF official). Due to the severe budget situation, this is no longer possible. So it may look as if there were more changes from within the parliament in earlier times, but this assessment is misguided. As some government parliamentarians explained, they now try to influence at an earlier stage when the executive formulates the budget.

A hint of the policy orientation of the German budgeting parliamentarians is their deputy membership in a committee dealing with the policy of the ministry which the rapporteur is watching over. So the rapporteurs for the departmental budget of the State Department would be deputy member in the committee on foreign affairs. It seems to depend on the parliamentarian’s personal attitude if he or she attributes a lot of meaning to this fact and if he

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18 The Christian Democratic Party (CDU) and the Free Democrats (FDP) formed the governing coalition then. Both were forced to go into the opposition between 1998-2005.
or she takes part in this other committee’s meetings (Interviews with parliamentarians). One can see how this institutionalized relation between policy and the budgeters ethos of restricting expenditures creates two ends of loyalty. It is a question of personal preference and institutional\(^\text{19}\) restrictions which goal is pursued with more vigor while deciding in the committee. Not only parliamentarian colleagues of the same party try to exert influence on the decisions of the committee members, but also myriad interest groups vying to win the member’s support. Also the spending ministries will start talking about their policy preferences to the parliamentarians deciding about their departmental budget. Nevertheless, interacting with interest groups and lobbyists is seen positively by all interviewees as an important source of information.

Another possible loyalty conflict could be created when we think of the importance the constituency has for the parliamentarian. This importance was admitted by all German parliamentarians – it is also often stressed when we talk about Japanese politicians. Within the scope of the existing expenditures, committee members can make decisions that will benefit their constituency. More likely, however, is that the “Haushälter”\(^\text{20}\) either from the government or the opposition side is so well informed about ministry programmes and government policies in general on a broad perspective, that they can use this information to support interest groups from their constituency in applying for certain monies. This explains partly why a seat in the committee is popular within the two big parties – CDU und SPD – in Germany (Interviews with Parliamentarians). Most interviewees agree that their membership in the committee contributed to long lasting electoral success.

These two big parties sent between 19 and 15 parliamentarians in the committee and have therefore the comfortable situation of each being responsible for one departmental budget only. The Socialists (SPD) follow the informal rule of changing responsibility for one

\(^{19}\) Also electoral logics have to be taken into account here.

\(^{20}\) “Haushälter” – budgeter is the German term (with a proud inclination) for the parliamentarians in the Budget Committee. It is sometimes also used for the officials responsible for the budget of a department.
departmental budget after 4 years in order restrict the policy orientation of the parliamentarian. A member of the smaller parties (Bündnis 90/Grüne, FDP, PDS) which can send between 2 and 4 members (1998-2005) must report on several ministries’ budgets. Possibilities to prepare for the rapporteurs’ negotiations are also restricted by the workload. These structural characteristics show that there are no equal powers of the parliamentarians to influence the budget proposal of the executive.

In Japan, budget committee members do not hold separate negotiations with the ministries once the executive proposal is brought into the parliament. But an equivalent to this characteristic can be identified by negotiations between LDP-PARC subdivisions and the corresponding ministry (Campbell 1977:125). I expect that, even today, there is a high percentage of LDP parliamentarians in the budget committee who are also members of the LDP-PARC subdivisions conducting negotiations with the ministries on their departmental budget. However, the situation has changed dramatically in Japan since the 1970s. PARC has lost some of its powers due to the 1990s political turmoil; nevertheless, it is referred to as one of the main actors in policy making of today (Holliday/Shinoda 2002:101). In addition, coalition government means the need for more coordination. The questions which needs to be addressed in my further research is therefore what parliamentary structures exist today in Japan in order to allow parliamentarians to influence the executive proposal of the general account budget and in which ways are they used.

I showed that the parliamentarians in Germany have several rights to influence the government proposal of the budget. Inherently conflicting loyalties that the budgeter is exposed to might make pursuing a strong saving policy within the committee a hard task.

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21 Mulgan (2003: 86) shows how LDP structures have been adopted by other parties as well. Other parties which were invited during the last years to form coalitions with the LDP (New Komeito, New Conservative Party) have simply adopted the LDP’s prior screening process in the inter-party coordination phase. Party leaders and policy executives reach a basic agreement on all major policies, including secretaries-general and PARC chairmen of the three parties.
7 Conclusion

This paper tried to answer comparatively for Germany and Japan why saving in times of a stagnant economic development is hard to achieve and which characteristics of the budget formulation process contribute to this fact. Firstly, I have shown how in both countries the result of the budget policy during the last five years manifested growing deficits and a budget structure with a very high percentage of legally-based expenditures.

Even though both countries tried to strengthen the top-down components of the otherwise strictly bottom-up budget formulation process, a long lasting success could not be identified. The efforts for top-down budgeting can be realized when looking at the Council on Economic and Fiscal Policy in Japan which, since 2001, works from within the Cabinet Office in order to strengthen the top-down function of budget guidelines. In Germany, for a short time the Minister of Finance has personally formulated top-down goals of saving expenditures. I showed that in general, his formal rights to control finances are sufficient and when he uses a top-down approach for reaching a certain saving goal, success is viable. On the other hand, there are informal structures which need to be supportive in order for the Minster of Finance to reach a budget goal approximating his long-run preferences. These include: cabinet solidarity, support from the chancellor, media (public opinion) support. The German Minister of Finance did not receive enough support through these channels during the last five years.

When I looked at the perceptions of the officials in the Ministry of Finance in Germany, I found most striking that fiscal and budget policy seems to be subordinated under the spending ministries’ policy goals. Also, that the final decisions in the budget negotiations, which are based on bottom-up developed figures, will be undertaken by politicians. In Germany the parliamentarians’ information rights are extensive and they are able to play a substantial role in budgeting. I was able to show that reducing expenditures is not their only goal. Policy orientation has been identified to be strong; and they have to act within a distributed net of
loyalties. Members of the Budget Committee do feel obliged to deficit restricting rules, but they are also deputy-members of a policy committee, and they act with respect for wishes of their constituents. For both actors, the Supreme Audit Institutions is the natural ally when they want to keep finances in check.
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