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The role of the parliament in establishing development policies

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Discussing the role of the parliament in establishing development policies requires a quick historical review of how the role of political representation bodies in economic and financial policies has evolved in democratic states. As we have seen in the European states since the Middle Ages, the democratic course was closely linked to the public finance affairs, mainly tax collection and the ways and scopes of spending by kings and princes. Looking at this democratic course in its early days, especially in the two French and British revolutions against royal oppression, we find that it took the form of the senior feudalists' efforts to constrain the behavior of kings and princes who imposed taxes arbitrarily and spent exorbitantly on their pleasures or on expansionist wars. After the French revolution, the function of approving tax imposition and public expenditure control became in the hands of the nation's elected representatives.

In this regard, the election of those representatives remained for a long period of time confined to the people who owned real-estates or who paid taxes. Therefore, the democratic strife aimed at enlarging the electoral base by removing the condition of real-estates possession or tax payment! Subsequent to this enlargement came the demand of granting women the right to vote to ensure the inclusiveness of the electoral body to all adult citizens, men and women.

Accordingly, we can understand the importance of the role of the parliament in providing control over public expenditure as well as the tax system and its implementation. The role of parliaments in fact was sometimes restricted to this function in view of the numerous difficulties that hindered its extension in a way to include the design and establishment of public economic policies. Governments kept on controlling this process for the reasons we will be explaining hereinafter.

In what follows, we will try to expound consecutively the role of parliaments in the control over the public finance; the design of financial, development and economic policies; and the way they oblige governments to abide by such policies.

First: Developing methods of parliaments control over state financial management

Parliaments faced several problems in ensuring effective control over the state financial management by governments. Numerous are the reasons for such difficulties:

1. <u>The state's heightened interference in the economy:</u> Previously, the role of the state's authorities was limited to maintaining internal and external security and enforcing the respect of the law through the judicial system. However, the huge advances that occurred in many aspects of the human life in the last two centuries led to a deeper role played by the state in developing infrastructures and establishing service facilities, notably in the sectors of education, health, transportation and mass communication. Moreover, the state started to build economic, productive and service facilities where needed to serve citizens. After the Second World War, many countries have nationalized many financial private companies (banks and insurance companies), along with other private strategic

and vital companies (production of arms). Actually, the theory of the great British economist John Keynes had had by then a great impact on the vision of the state's role in the economy as a decisive factor in ensuring public well-being, eradicating unemployment and preventing the occurrence of any economic recession. Thus, the state's economic and social bodies expanded hugely; and so, the financial inflows run by states became complicated and divergent to the extent that it became extremely difficult for parliaments to review all the data that give rise to such inflows.

The state budget itself became very complicated in most cases; and it no longer included the total expenses related to the public sector or the total revenues – the social security subscriptions were left outside the budget for example.

2. <u>The complicated technological advances in many fields of the economy:</u> In the light of technological advances, it became even more difficult for parliaments to provide effective control, especially when these parliaments do not include highly educated members in various technical fields (the electronics industry, the wireless communication techniques, the industry of satellites, the industry of sophisticated arms and weapons of mass destruction, the manufacturing of drugs and health techniques, the construction of dams, not to mention the development of financial techniques that influence the public debt management and financial markets.

Facing these critical developments that weighed heavy on the capacity of parliaments to ensure financial and economic management control, parliaments worked towards obliging governments to improve their budget law submission to enable all deputies to easily read and understand their figures. They also pushed governments to present a full explanation of their social, economic, and financial policies as a prelude to the budget; so that deputies would be able to evaluate the soundness of expenditure compared to the main goals of the government in the public economic policies, or to the vision of the majority of parliamentarians and the electoral promises they made to win votes.

Hence, the public budget abstract or the economic report joint to the budget has become an essential document that enables deputies to question the government regarding its social, financial and economic policies and its future estimates concerning the public economic situation. We will be examining this point in the second part of this study.

As a matter of fact, it is difficult for parliaments to audit directly the government's accounts and its different administrations especially when it comes to the numerous facilities the public sector encompasses. This role in fact has become mostly incumbent on a governmental public institution called in many states the Accounting Department, the head of which is normally appointed by the executive authority itself. This department works on drafting periodical reports, then submit them either to the President of the Republic or to the parliament according to the different regimes. In most countries, the Accounting Department became a very important and essential institution in controlling the sound public expenditure and tax collection. It is usually divided into 2 sections: the investigation and control section and the judicial section to which are referred the civil servants who breach the financial regulations in force. The annual report published by the Accounting Department constitutes normally a document very rich in information on the government's financial performance in implementing the budget correctly without any legal violations, squandering, or fund wasting. Nevertheless, in some countries, such as in Lebanon, these reports attract no serious attention as far as parliamentarians are concerned, and they end up as abstracts or excerpts published in newspapers. Besides, parliaments do not take them into enough consideration during the ratification of the law settling the budgetary implementation accounts (Accounts Settlement), knowing that it is very arduous and exhausting to study them profoundly trying to compare implementation with the credits allocated initially in the budget, and tax revenues estimates with the actual collection during the year.

A specialized parliamentary committee makes sure to study all the laws with financial aspects or consequences before referring them to the parliament for ratification. It also undertakes a valuable and useful task by examining the budget, scrutinizing its different parts and putting a detailed report that allows the rest of the deputies to know its contents as well as the economic orientations of the government. However, despite the efforts deployed by the financial committee, during the discussion of the budget items, the members of the parliament show quasi exclusive interest in the credits allocated to the region or district they represent or to the field that concerns them most (the judicial system, health, roads, etc…). In most constitutional systems, the parliament cannot increase the allocated credits unless it comes up with new sources of revenues, i.e. new types of taxes. This limits in effect the capacity of the parliament to manipulate expenditure; especially that deputies avoid any suggestion of new tax creation in fear for their popularity.

Most of the times, we see that governments take on the elaboration of financial draft laws. One of the most important of these laws is the Public Accounting Act that accurately regulates the ways, phases, and administrative procedures of expenditure, along with the ways of creating taxes and collecting them. In most public financial systems, the Accounting Department performs something called pre-auditing on some kinds of public expenditure, namely regarding tenders, biddings, and the rules of granting contracts. In fact, many sources of squandering and corruption stem from the process of granting work contracts to the private sector companies that execute the infrastructure projects run by the state. Numerous are the scandals that were registered in this field in many countries, even in the most developed ones. In truth, politicians including parliamentarians, ministers and members of municipal or regional councils, manipulate the systems to grant the parties they belong to financing from the private companies that won the bids. In return, this has weakened the moral and ethical authority of the deputies in their function of controlling public expenditure.

One should pay attention to the development that occurred in the economic thinking during the last decades. The new liberalism school emerged calling for stopping the state's role in the economy from further expansion, for limiting this role to the regulation function through competent bodies, and for selling the main economic facilities belonging to the public sector to the private one. In addition, this school asks for fighting inflation; limiting social protection forms that increase the cost of work, and in consequence, restrain competitiveness; controlling public expenditure so that the budget deficit won't exceed 3 % of the net domestic product; and alleviating the tax burden on incomes and private companies' profits to encourage investment.

Many countries adopted this theory and went for privatizing a big number of public companies, which led to numerous scandals and to a regression in the services provided for the public. This is what happened in the railways sector in England or in the Swiss Air company which was completely mismanaged by the private sector leading to its bankruptcy after being one of the greatest symbols in the Swiss economy air services. Actually, most parliaments failed to control privatization processes effectively even though some laws were promulgated in this respect.

Under the influence of the new liberalism theory, central banks gained absolute independence from governments or parliaments; became a monetary power totally independent from any other authority; and no longer received directives from governments or parliaments. Central banks laws were amended in many countries - parliaments ratified these laws – to cut any relationship between the central bank and other authorities; and to charge central banks with one exclusive mission: to fight inflation and preserve prices stability through interest rates since they are the sole authority to fix those rates and to apply them in running the local financial market. At the same time, under this new liberalism theory, all the means that used to be in the hands of the government's financial bodies were cancelled – including central banks – to direct financial markets and bank credits in a way to serve development or fight inflation when accentuated. Furthermore, the privatization wave came to hit the governmental authorities that used to run the stock exchange market (bourse). Today, we see that private companies run the stock exchange market in many countries.

In most cases, parliaments did not resist these developments that robbed the state of effective means to control and active tools to run the economy in the direction that serves best the society as a whole. Parliaments, as well, lost their role and capacity to apply pressure on governments in order to change the economic policies when needed.

Second: the role of parliaments in elaborating economic policies

The previously mentioned developments did not help parliaments at all in exercising their second central role which lies in piloting social, financial, and economic policy. Of course, parliaments can propose draft laws in all fields; yet, the course of things and the increase in technological and technical complication in all economic sectors have limited the capacity of parliaments to take initiative in promulgating laws. We can see that most of the times governments take on the responsibility of submitting draft laws to parliaments because they are solely capable, through their administrative bodies, of elaborating draft laws in fields that now require a high technical capacity which parliaments lack despite the presence of numerous parliamentary committees specialized in many fields (foreign affairs, financial affairs, public works affairs, justice affairs, social affairs, etc…)

Most parliamentary systems provide their members with personal assistants and aides to facilitate the performance of their functions. Still, parliamentarians and parliamentary committees do not have the same expertise that governmental authorities which formulate draft laws enjoy.

Furthermore, some active parliaments go for establishing special committees to work on certain cases. The duty of such committees is to seek the opinion of the people of expertise from outside the parliament, then constituting an independent report based on all the details of the subject or issue in question. These reports become an important reference for the parliament itself and the public opinion in having a clear idea on the different aspects of the case and the way to deal with it. Parliaments in developing countries rarely conduct such studies, which loosen their real influence on the public life.

In view of the secondary role parliaments play nowadays in elaborating and establishing economic and development policies, some state, with France on top, set up a social and economic council specialized in studying public development affairs in all their aspects. These councils have a consultative function only, and they usually gather the representatives of the main social and economic sectors in the country, who are elected by civil society bodies, employers associations, trade unions, and liberal professions unions. The role of these councils differs in importance according to the strong personality of the president and the members, and to their reputation amidst the public opinion. These councils can also express their standpoint regarding social and economic draft laws. They present as well periodical reports on the evolution of the economic and social situation, and they conduct studies from time to time on a given case or problem burdening the society. However, these councils were not able to make up for the relative failure of parliamentarians to ensure effective contribution in designing and deciding on the global economic policies in the state.

Historically, the Fascist Italian regime had attached great importance to the establishment of a representative council or system in which power is given to the main civic assemblies that run the economy (corporatism). In fact, the rise of fascism in Europe between the two world wars was to a great extent the result of parliaments' failure in confronting major social and economic problems, where parliamentarians were distracted by absurd political maneuvers and their personal interests. Therefore, fascist regimes decided to rely on trade unions, organizations of farmers, associations of employers, and unions of liberal professions to show that it is looking after the vital interests of these categories and that it does not trust the role of the traditional parliaments with democratic appearances.

Regarding the democratic regimes, one should not forget that the big political parties, the parliamentary representatives of which form the ruling majority, carry in most cases a socio-economic vision that distinguishes them from each other. When the parliamentary majority changes after elections, the new majority - especially if dominated by a big political party - brings draft laws concerning particular fields. But then again, we find that, even in such cases, the new prime minister who belongs to this party or that, or the competent ministers assume the mission of submitting the future draft laws to the new parliament to be ratified.

So, the parliament in this context represents a tribune for debates and contests between the majority and the minority rather than being a real source of social, financial and economic legislations.

In this assessment of the role of the parliament, we should not overlook two important factors, through which the parliament plays an influential role:

- The introduction of some amendments to the constitution to consolidate a certain social and economic vision. Many countries opted for this after the Second World War, especially France with the 1946 constitution. We have seen the preamble of this constitution stipulating clear principles that were binding on the legislator and the government in the field of social justice, human rights, and the right to have job opportunities and receive social protection.

  Lately, the Lebanese legislator introduced the principle of balanced development to the Lebanese constitution pursuant to the Taef Accords. This introduction constituted an important step even if the subsequent governments did not establish or implement economic policies based on this principle. The problem in this regard is that governments might not respect the big constitutional principles in the field of economy and social protections for several reasons, namely the aforementioned development in the economic theories. Besides, parliamentarians did not object or resort to the constitutional council in case the latter existed.

- The presence of active parliamentary committees competent in the economic and social fields. Such committees can have a great impact on the legislation process if they were competent, qualified and eligible; and provided that they won’t be totally subjected to the rule of the dominating majority in the parliament.

Indeed, the absolute domination of a certain political majority over the parliament does not allow the parliament to play its already incomplete role, due to the developments we explained earlier in the field of formulating financial and economic policies.

Third: attempts to improve the performance, control and evaluation of public expenditure

The attempts to introduce more democratic procedures allowing parliaments a greater margin of influence on the public finance, as in the elaboration of social and economic policies; have taken two different but complementary directions:

1. <u>Adopting the principle of public finance management by objectives</u>

Public financial administrations in developed countries have been working for several years now on introducing new methods that ensure more clarity in the budget drafting process, which permits in return to evaluate performance and verify that public expenditure is reaching its targets. Many attempts were made in this field, especially in the United States of America, France and Britain, without achieving any considerable results. Budget laws and joint figure tables that enumerate the numerous and detailed budget items or that take different forms (combining items according to an economic or a financial classification) remained complicated documents hardly readable but by competent civil servants who run credits.

Recently, the French state proposed a new law to regulate the public finance and prepare the budget according to the "Management by Objectives" principle. It was issued in 2001 and entered into effect in 2006. The new French law adopts an approach to rationalize public expenditure and define their forms of use. Accordingly, these expenditures became classified according to the state's major missions; and within each mission, they were divided into programs with clearly set goals to be realized within a given period of time. As for the criteria of success in the public expenditure, they were defined according to the different components of the chosen goals within each of the programs that fall within the state's different missions (health, higher education, local development, industrial development, etc…)

A single mission can involve, along with its programs, more than one ministry, which consequently calls for close cooperation and coordination between the different administrations to achieve the set objectives and to succeed in meeting the criteria that was defined as indicators of success in expenditure. In order to simplify the ways of expenditure, the new French law introduced a greater flexibility to administrations in transferring credits from one item to another within the same program. Furthermore, the financial control over expenditure focused more on the implementation of the set criteria when realizing objectives rather than focusing on the strict compliance with the details of the legal and administrative procedures in expenditure as it used to do before.

This experience is still in its early days; therefore, we cannot judge its success yet. However, this comprehensive modification in the regulations of the public finance and in the approach of elaborating the public budget along with the ways of spending it; is expected to rationalize public expenditure and limit squandering and useless expenses. The parliament as well is expected to become able to easily read the budget and assess the objectives of public expenditure and to better assume its function of control.

Several countries started now to prepare their administrations to adopt the management by objectives principle.

2. <u>Developing financial decentralization and the role of local bodies representation councils</u>

As we mentioned before, many developments occurred in the field of public finance and developmental policies in the last decades. One of the most important forms of these developments was that central governments conceded over the exclusiveness of their role in tax creation and collection and expenditure in all fields to the local bodies such as municipalities and regional councils. Subsequently, the process of transferring some of the financial powers from the central level to the local one has become an essential part in the process of developing democracy at the local level. The goal was to enhance the competences of municipal councils or the elected councils at the level of districts and regions. To ensure the success of this important process, the local bodies should have enough human capabilities to perform their missions in different developmental domains such as health, social protection, environment protection, development of infrastructure and the necessary public facilities at the local level.

Attaining financial decentralization is definitely one of the vital components to strengthen the democratic practice in general. In fact, the elected members to run municipalities and other local bodies are more aware of the rural and urban needs of the regions that fall within their geographical jurisdiction. It is easier for them to evaluate the local budget prepared by the financial department of the local body and control its good implementation, something that parliaments are unable to do with regard to the central level. Moreover, other forms of financial control can be increased such as the control over the granting of bids and other aspects of expenditure taking place within the scope of local bodies. The developed countries experiences in this field show that realizing financial and administrative decentralization motivates the democratic life and helps very much in ensuring a regionally balanced development.

Transferring competences from the central level to the local one in the various developmental issues requires a clear and strict legal framework that provides transparent rules to realize financial decentralization. Otherwise, corruption would spread in expenditure, especially if the local economic and political actors practice a feudal-like hegemony over the wealth of the different regions in the country. Therefore, France has set up local accounting departments related to the Central Department to make sure that the financial control methods are not lost between the central and the local levels.

The success in realizing financial decentralization calls as well for setting up a clear system to transfer financial resources from the central level to the local one, and from one local body to another to guarantee the evenness of available resources between regions with abundant economic facilities and regions that have none. The system of resources equality between the local bodies that differ in development and prosperity is a vital element to ensure the success of financial decentralization.

One should pay attention in this regard to the important taxes that can be created and imposed at the local level. In many countries, we find that the capacity of local bodies to generate individual financial resources through a local tax system is highly limited. Thus, the local bodies become largely dependent on the financial resources transferred from central state's budget. In many countries also, we see that public finance laws consecrate the principle of allocating a share of the taxes and duties imposed at the level of the central state to the local bodies. This leads sometimes to a delay in the settlement of the local bodies' share of present taxes and duties when there is a budget deficit. This is what happened in Lebanon in recent years and what was subject to a serious political tug of war in 1988, where the Minister of Interior declared that the funds of municipalities in the Treasury have evaporated (In reality, they were not settled which caused an accumulation of arrears in the Treasury for municipalities).

One of the best criteria that help assessing the extent to which financial decentralization is applied is the ratio of revenues and expenditures at the local level to the overall revenues and public expenditures or to net domestic product. It seems that Scandinavian countries were the best in achieving financial decentralization; and that was one of their secrets in realizing high social and economic development. In federal states, such as the United States, Germany, and Switzerland, there is the highest level of financial decentralization and participation of the federal state's parliaments in elaborating and establishing local developmental, social and economic policies.

As for the Arab states, there is a low level of financial decentralization not exceeding 8 to 12 % of the overall public expenditures (against 25 to 30 % in the more developed states), and around 1 to 3 % of the net domestic product (against 10 to 20 % in the states advanced in applying financial decentralization). These states lack global statistics on expenditures or revenues collected at the local level. Hence, there must be a great development in this field in order to consolidate the institutional frameworks necessary to lay the basis of a regionally balanced and sustainable development.

Conclusion: globalization and its negative impact on the mechanisms of democracy

So, these are the most important developments that occurred in recent years in the field of states' financial management, parliaments' control over public expenditures and influence on global development policies.

However, it seems obvious from the review of these developments that the role of parliaments in controlling the financial performance of the state and in designing and establishing the overall developmental policies did not gain further efficiency despite the strengthening of democratic regimes by granting freedoms and implementing the power rotation principle; two fundamental principles in any democratic regime. It is showing as well that the government authorities and the different economic pressure groups representing the interests of important economic actors in the main sectors of the economy, take on the mission of channeling the public economic and financial policies.

Undoubtedly, the new liberalism theories have had a negative impact on the role of parliaments. They laid the foundations of financial markets dictatorship and caused huge changes in the mechanisms of income distribution, consequently leading the major capitalist categories to grab the largest part of the Gross Domestic Product, unlike the situation that prevailed during the first three decades after the Second World War. Parliaments did nothing to counter this dangerous development; nay they went along with it by ratifying all the legislations that were submitted by governments and that created a new economic environment where equal chances between citizens are shrinking and income distribution mechanisms are changing completely.

It is clear that the globalization movement deprives parliaments to a great extent of their influence in elaborating developmental policies. Moreover, it subjects the parliamentary representation to the major economic pressure forces, as happens under the American model where congressmen and senators have become mere representatives of political and economic pressure forces. Add to this the rise of big economic blocks, namely the European Union. The bureaucratic system in Brussels has actually become the system that establishes and implements the main social and economic policies based on the principle of generalizing free exchange; and the European Parliament has not been able to practice real control and guidance over this bureaucracy. A backlash against these developments was registered lately at the European scene for France and the Netherlands both voted against the European Constitution project in their public referendums.

As far as Arab parliaments are concerned, they rarely discuss developmental, economic and financial matters, for discussions are limited to pure political affairs. In fact, we see no Arab governments face vote of no confidence in parliaments, and no Arab governments obliged to modify their economic policies or to improve their financial performance under the pressure of those who represent people. Nay, as it is known, many of the economic policies adopted in the Arab world are subjected to the pressures of International financing organizations such as the World Bank and the International Monetary Fund within the framework of structural adjustment programs. Sometimes, some parliamentarians express their disagreement with these organizations' huge influence on national economic policies; but no objection has ever led to any change.

Finally, it ought to be mentioned that the right way to adjust this situation lies in realizing economic and financial decentralization; and consolidating the practice of democracy in the necessity to promote the public economic culture amongst the civil society and the media in the Arab states. Actually, the economic literature spread in the Arab region is still very weak and divided into two schools. One of them supports the reforms imposed as a result to the expansion of the globalization movement, while the other criticizes that and holds on to some economic principles with socialism or Keynesianism characteristic. In addition, there is a blatant shortage in statistics, and an obvious absence of transparency and accountability in most economic and financial affairs in the Arab region, knowing that those are vital elements in enhancing the level of democratic discussions by parliaments or civil society bodies over public development affairs.