Paper title: The Effects of Crises and EU Fiscal Governance Reforms on the Budgetary Institutions of Member States

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Abstract:

The goal of this paper is to explore how the experience of the crisis and the EU-level fiscal governance reforms have influenced budget processes in the member states. Drawing on the literatures of Europeanization, fiscal governance, and public (crisis) management, the paper first outlines a series of propositions about what kinds of shifts in the budget process we would expect to ensue from the crisis experience and EU-wide reforms. The empirical part of our paper explores the validity of those theoretical conjectures in three different member states: Portugal, Austria, and Finland. Our analysis finds that the crisis experience and EU-level reforms have led to increased centralization of the budgetary process in all three countries. Although we would have expected Austria and Portugal to move closer towards the contracts approach of fiscal governance, this has not happened in practice since the medium-term expenditure frameworks are not viewed as binding.

Key words: crisis, fiscal governance, budgetary institutions, Fiscal Compact, Europeanization

1. Introduction

One of the core questions in governance research is: when and how do institutions change? Given the increasing importance attributed to *budgetary institutions* in the scholarly discussions and the growing significance of fiscal issues in the European context, it would be insightful to explore whether the European countries have experienced changes in their budgetary institutions during the past decade. In this paper we focus on those aspects of budgetary institutions that pertain to budget process: the rules of the game that govern the preparation, adoption, and implementation of the budget (Hallerberg et al. 2009). The members of the Eurozone have faced two major "shocks" during that period: the experience of various

crises (financial, economic, and fiscal) and the reforms of the EU-wide fiscal governance frameworks whereby the Stability and Growth Pact (SGP) has been reinforced by the Two-Pack, the Six-Pack, and the Treaty on Stability, Coordination and Governance (including the Fiscal Compact). In light of the existing studies on institutional change (e.g Kingdon 1984; Schmidt 2002), it can be expected that these two factors are likely to induce changes in domestic budgetary institutions as well. Thus, the core interest of this paper is whether this has actually happened. More specifically, our research question is: What kinds of changes have the experiences of the crisis and EU-wide reforms of the fiscal governance framework brought about in member states' domestic budgetary processes at the central government level?

Although there is an increasing number of studies that have examined how the EU-level fiscal governance reforms came about (e.g. Iannou et al. 2015; Laffan and Schlosser 2016) and how to interpret their nature within the framework of EU integration (e.g. Dawson 2015; Fabbrini 2013; Schimmelfennig 2015), there has been only limited research on how these EU level reforms have actually influenced budget processes and practices in the member states. While there have been some studies that have discussed the resulting increased role of the European Commission in the EU economic and fiscal governance (e.g. Bauer and Becker 2014) and the impacts of these reforms on national parliaments (e.g. Crum 2018: Dawson 2015; Hallerberg et al. 2018), there have been no comparative studies that would systematically examine the *effects* of these reforms on the budgetary institutions of member states. Since the eventual impacts of the EU fiscal governance reforms depend on how they affect budgetary processes in the member states, it is important to understand what kind of domestic changes have been triggered by the EU level reforms. It is worth noting, however, that in this paper, we are not interested in the impact of the crisis experience and EU fiscal governance reforms on fiscal *policy* itself but focus on the influence these reforms have had on *budget processes*.

The experiences of the *crises* provided the general setting into which the EU-level reforms were inserted. Since these two factors − crises and the EU reforms − are strongly intertwined, it makes sense to examine their effects together. Drawing on the literatures of Europeanization, fiscal governance, and public (crisis) management, the theoretical part of the paper outlines a series of propositions about what kinds of shifts we would expect in the budgetary processes of the member states. The empirical part of our paper explores the validity of those theoretical propositions in three different EU member states: Portugal, Austria, and Finland.

The case selection was based on the following reasoning. As emphasized by Schmidt (2002), the changes produced by EU rules in the member states depend, inter alia, on the countries' vulnerability to global as well as European economic forces and the existing legacies. All three countries are small and hence relatively vulnerable. At the same time, they experienced varying degrees of crisis: Portugal went through a deep fiscal crisis, which necessitated the involvement of the Troika, while Austria experienced a moderate fiscal squeeze, and Finland an even milder one. They also represent different administrative traditions: Napoleonic (Portugal), Germanic (Austria), and Scandinavian (Finland). The sources of data for the case study countries included semi-structured interviews conducted with public officials (8-12 interviews per country) and policy documents.

The paper is structured as follows. Section 2 gives an overview of the main changes in the EU fiscal governance framework. Section 3 outlines the theoretical propositions, which will be examined in the empirical analysis in section 4. Section 5 provides a concluding discussion.

2. Changes in the EU fiscal governance framework

The main recent changes in the EU fiscal governance framework have been introduced by the Six-Pack, the Two-Pack, and the Fiscal Compact. The Six-Pack (consisting of five

regulations and one directive), enacted in 2011, was introduced with the aim to strengthen the SGP, with stronger financial sanctions and a greater focus on debt. It also included a directive on national budgetary frameworks (including provisions that foresaw the adoption of medium-term expenditure frameworks (MTEFs)). It introduced the "reverse qualified majority voting" for sanctions when member states violate the EU fiscal rules. (Becker and Bauer 2014; Fabbrini 2013) The Six-Pack also institutionalized an important reform that had been introduced as part of Europe 2020 – the European Semester. The aim of the semester process is to ensure that member states coordinate ex ante their budgetary and economic policies – before the national budget plans are compiled. (Crum 2018; Fabbrini 2013)

The Six-Pack was followed by the Treaty on Stability, Coordination and Governance (TSCG),which was concluded in March 2012 and entered into force on 1 January 2013. The Treaty was concluded between all EU member states except for the UK, the Czech Republic, and Croatia. The Fiscal Compact, which constitutes a part of this intergovernmental treaty, is automatically applicable to the Eurozone countries, with the possibility for non-euro area EU member states to be bound by it on a voluntary basis (as Bulgaria, Romania, and Denmark have done). It required the members of the Eurozone to establish a general government structural deficit rule in their domestic legislation. The fiscal rule is considered to be respected if the annual structural balance meets the country-specific medium-term objective and does not exceed a structural deficit of 0.5% of GDP. The Compact also stipulates that a country may temporarily deviate from the fiscal rule only in exceptional circumstances. The Treaty foresees that if the structural balance of a country deviates significantly from the medium-term objective, an automatic correction mechanism will be triggered to correct these deviations. (Bauer and Becker 2014; Fabbrini 2013; Iannou et al. 2015; Schweiger 2014)

The Two-Pack (consisting of two regulations), adopted in 2013 and applicable only in the euro-area countries, sought to amplify the measures entailed in the Six-Pack and the Fiscal

Compact in order to strengthen the fiscal governance framework further and to reinforce budgetary surveillance and coordination in the Eurozone. For example, it gave the Commission the power to monitor and assess the draft budget plans of the member states before they are adopted and require revisions if the draft is viewed as violating the EU-obligations. It introduced a common budgetary timeline (e.g. requiring medium-term fiscal plans to be submitted by April 30th and annual draft budgets by October 15th each year), strengthened structural deficit rules, and established the requirement to establish independent national fiscal councils that would monitor the compliance with national fiscal rules. (Dawson 2015; Fabbrini 2013; Laffan and Schlosser 2016) In addition, the governments have to follow the "comply-or-explain" principle: if they do not follow the assessments of the independent monitoring institutions, they have to explain why.

In sum, all these initiatives sought to strengthen "the credibility and enforceability of the EMU's rules-based economic coordination regime" (Laffan and Schlosser 2016, p. 238) with "more rules, more sanctions, more regulatory control" (ibid., p. 241).

3. Theoretical discussion: impacts of crises and EU fiscal governance reforms on the budgetary processes of the member states

In the following, we first delineate (in section 3.1.) the different models of budgetary processes that have been proposed by the literature on fiscal governance, followed by the conjectures about what kind of shifts in those processes we would expect to ensue from the experience of the crises and the reforms of the EU-wide fiscal frameworks (in section 3.2.). In order to develop these propositions, we synthesize insights from the literatures of Europeanization, fiscal governance, and public (crisis) management. This allows us to develop a more nuanced framework than would be possible if we only relied on any of these research streams alone.

3.1. Models of budget processes

Budget processes comprise formal and informal rules that guide the decision-making process in formulating, approving, and implementing the budget (Hallerberg et al. 2009; Raudla 2010, 2014). In analyses of different kinds of budgetary institutions, a *centralized* budget process is often contrasted with a *fragmented or decentralized* budget process, also called the *fiefdom* model (von Hagen 2002, 2008; Hallerberg et al. 2009). As von Hagen (2002) emphasizes, the institutional elements of *centralization* can be relevant at all different stages of the budget process: the planning and drafting of the budget by the executive, the adoption of the budget by the parliament, and the implementation of the budget. The fiscal governance literature distinguishes between two models of centralized fiscal governance: the *delegation* approach and the (*fiscal*) *contracts* approach (Hallerberg 2004; Hallerberg and von Hagen 1999; and Hallerberg et al. 2009). In the following, we describe the different forms that the preparation, adoption, and implementation of the budget can take in the different models – first in the two types of centralized models and then in the decentralized version.

The *preparation* phase of the budget process can be characterized as centralized − also called *top-down budgeting* by the public budgeting literature (Kim and Park 2006) − when it promotes the setting of spending and deficit (or surplus) targets at the outset of the annual budget cycle. In the case of the *delegation* approach, the preparation phase of the budget procedure is characterized by strong agenda-setting powers of the finance minister *vis-à-vis* the spending ministers: the finance minister makes binding proposals for broad budgetary categories, negotiates directly with the individual ministries, approves the bids submitted to the final cabinet meeting, and can act as a veto player over budgetary issues in the cabinet. In the case of the *contracts* approach, at the beginning of the annual budget cycle, the members of government (or coalition parties) negotiate multilaterally and commit themselves (either legally or politically) to a key set of budgetary parameters or fiscal targets (usually spending targets for

each ministry) that are considered to be binding for the rest of the budget cycle. During the remaining part of the budget preparation process, the minister of finance has the responsibility to evaluate the consistency of the budget proposals submitted by the spending ministers with the agreed targets. (Hallerberg 2004; Hallerberg et al. 2009; Raudla 2010, 2014; von Hagen 2002, 2008)

In the *adoption* phase of the process, the *delegation* approach limits the rights of the legislature to amend the budget (in order to avoid major changes in the executive's budget proposal) and gives the executive (especially the finance minister) strong agenda-setting powers *vis-à-vis* the legislature. At the legislative stage, the *fiscal contracts* approach would entail the legislature voting on the total budget size before the approval of single provisions. It puts less emphasis on constraining legislative budgetary amendments and more emphasis on the legislature's role in monitoring the compliance of the executive's budget with the fiscal targets. (Hallerberg et al. 2009; Raudla 2010, 2014)

At the *implementation* stage, elements of centralization assure that the adopted budget would actually be the basis for the spending decisions of the executive. Thus, implementation can be regarded as centralized when it is difficult to change the existing budget document or to adopt supplementary budgets during the fiscal year, when transfers of funds between chapters are forbidden or limited, and when unused funds cannot be carried over to the next year's budget (von Hagen 2002; Hallerberg and von Hagen 1999; Hallerberg et al. 2009). In the *delegation* approach, the ministry of finance (MoF) has strong monitoring powers regarding the actual use of budget appropriations by the spending ministries and the authority to prevent and correct any deviations from the budget plan. For example, the MoF monitors and controls spending flows during the fiscal year, sanctions the disbursement of funds, and approves transfers between budget chapters. It can also block expenditures and impose cash limits on line ministries. While the delegation approach emphasizes the need for managerial discretion by the MoF, allowing it

to react flexibly to changing budgetary circumstances, the *contracts* approach is characterized by contingent rules for dealing with unforeseen events. (von Hagen 2002, 2008; Hallerberg and von Hagen 1999; Hallerberg et al. 2009)

These two ideal types of fiscal governance are usually contrasted with the *fiefdom* approach to budgeting (Hallerberg 2004; Hallerberg et al. 2009), which is characterized by fragmented, uncoordinated, and ad hoc decision-making in all phases of the budgetary process. A decentralized preparation phase entails a bottom-up approach to budgeting whereby the resulting budget is merely a sum of uncoordinated bids from individual ministries. At the adoption (or legislative approval) stage, the process can be described as fragmented when the parliament can make unlimited amendments to the draft budget submitted by the executive. In the implementation phase, the line ministries have extensive flexibility in using and carrying over the funds and the ministry of finance does not intervene. (Hallerberg et al. 2009)

3.2. The effects of the experience of crises and reforms of EU fiscal frameworks on domestic budgetary processes

A core argument of the Europeanization literature is that the level of domestic change depends on the "misfit" between the EU and domestic institutions, policies, or processes (Börzel and Risse 2003, 2007; Schmidt 2002). The lower the compatibility between European processes, policies, and institutions, the higher the adaptational pressure and the larger the potential changes (Börzel and Risse 2003, 2007). At the same time, if the misfit between the EU requirement and existing institutions (including administrative traditions and corresponding practices) is too large, the policy actors are likely to resist actual changes or changes may be difficult to materialize in the actual practices (Börzel and Risse 2003, 2007). Budgeting is one of the core processes in the public sector and often characterized by well-established practices

and deeply entrenched procedures. Thus, even though the new EU rules prescribe specific instruments and institutions, they may not necessarily lead to considerable changes in the budgetary processes. Instead, the budgetary actors would prefer the persistence of existing routines (Knill and Lenschow 2005) and attempt to minimize the impacts of EU rules on actual practices.

At the same time, given that the experience of crises provided a broader context of the EU-wide fiscal governance reforms, the interaction between the crisis-experience and the EU pressure may render the changes in domestic budgetary institutions more likely than would be the case "in times of normalcy". Indeed, from the critical juncture perspective, (fiscal) crises are often viewed as opening up *opportunities for reforms*, both in terms of policy but also with regard to administrative structures. In response to a crisis, it is easier for policy actors to discredit the status quo, argue for change, and overcome resistance (Keeler 1993; Kingdon 1984; Schmidt 2002). It is also argued that the *deeper the crisis* – i.e. the more severe the fiscal pressures in a country – the bigger the "window of opportunity" for more comprehensive reforms (Keeler 1993; Raudla et al. 2015) and the stronger the incentives of the policy makers to undertake institutional changes to prevent its re-incurrence (Keeler 1993). In light of those arguments, we would expect that those countries that have experienced more dramatic crises are likely to have experienced more extensive changes in their budget processes than those for whom the crisis experience was milder.

In terms of the *general* direction of the reform of budget processes, we can conjecture, based on the existing literature, that after experiencing a fiscal crisis, all phases of the budget process are likely to become more centralized (Hallerberg et al. 2009; Raudla et al. 2015). In order to deal with a crisis, organizations tend to move towards mechanistic structures and hierarchy-based procedures (Peters 2011). More specifically, in the case of a fiscal crisis, if expenditure cuts are needed, the line ministries are unlikely to volunteer the cuts and hence a

central "coordinator" is needed to impose the cutbacks (Bozeman and Straussman 1982; Raudla et al. 2015). Once the more centralized arrangements have been adopted in order to deal with the crisis, then, based on the notion of path dependence (Pierson 2000), we would expect that these institutions persist also beyond the acute phase of the crisis. The experience of a crisis might "lock in" the desire to prevent future crises by maintaining the centralized budget processes (Hallerberg et al. 2009). The EU-level fiscal governance reforms are likely to *reinforce* the tendencies towards *centralization* (de Haan et al. 2013; Hallerberg and Bridwell 2008; Hallerberg et al. 2009).

With regard to shifts towards a particular *type of fiscal governa*nce, the fiscal governance literature, on the one hand, and the literatures on public (crisis) management and Europeanization, on the other hand, appear to point to somewhat diverging predictions about the effects of the crisis and EU rules.

On the one hand, the fiscal governance literature would predict that given the nature of the EU-level reforms, the budget processes in the member states would move towards the *contracts approach* (Ghin et al. 2018; Hallerberg et al. 2009). According to Hallerberg and Bridwell (2008) and Hallerberg et al. (2009), the previous reforms of SGP encouraged the movement towards the contracts approach in the member states of EMU. Hence, given the tightening of the EU-wide frameworks, we would expect *further movement* towards the contracts approach in the member states. The medium-term expenditure frameworks (MTEFs) − adopted either by the cabinet or the parliament − represent the hallmark of the "contracts" approach, whereby the government binds itself to specific fiscal targets.[1] In other words, the requirement to adopt MTEFs can be expected to formalize the contracts element in the budget preparation process. The need to take into account a tighter fiscal rule – the compliance with

[1] In this paper, we use the term MTEF to cover both medium-term fiscal frameworks (MTFFs) and medium-term budgetary frameworks (MTBFs).

which would be monitored by an independent fiscal watchdog – can also be expected to encourage the shift towards the contracts approach.

On the other hand, drawing on the existing public (crisis) management and Europeanization literature, we can conjecture that the EU reforms and the crisis experience are likely to bring about a shift towards the *delegation* approach. In order to deal with the increased scarcity of resources and to avoid excessive and prolonged conflicts in the time-constrained budget process, the powers of the "guardian of the purse" (i.e. the MoF) vis-à-vis the spending ministries and the power of the executive vis-à-vis the legislature are likely to be strengthened (Raudla et al. 2015). Pointing to stricter EU rules and surveillance is likely to give the MoFs more clout and bargaining power in the budget preparation system (vis-à-vis line ministries and other organizations). The MoFs can construe these demands as unavoidable and through that, strengthen their position as a "guardian". (Moury and Standring 2017; Raudla et al. 2015) In the Europeanization literature, it has also been argued that the strategic impacts of the EU may favour actors directly connected with the EU (Börzel and Risse 2007; Kassim et al. 2000). Hence, we would expect that the changes in the EU fiscal governance framework have strengthened the role of the executive and lessened the role of the national parliaments (Crum 2018; Dawson 2015; Moury and Standring 2017), which is also characteristic to the *delegation* mode of fiscal governance. With regard to the *implementation* phase of the budget process, given the uncertainties created by crisis conditions and also the higher likelihood of sanctions by the EU when a member state violates the prescribed fiscal rules, the finance ministries are likely to exert more extensive discretionary powers, which is characteristic to the *delegation* model.

4. Empirical analysis

The empirical analysis examines the effects of the crisis and EU-wide fiscal governance reforms on the budget processes in Portugal, Austria, and Finland. Undertaking an in-depth

qualitative analysis of these cases allows us to explore the plausibility of the theoretical propositions developed in section 3.2.

As explained in the introductory section, the case selection strategy proceeded from the following considerations. We wanted to study countries that are relatively small and members of the Eurozone. At the same time, we wanted to cover variation in the severity of crisis experienced by the countries and to include countries from different administrative traditions. As Table 1 indicates, Portugal experienced the most dramatic fiscal crisis, while Austria and Finland experienced a moderate and a mild fiscal squeeze, respectively.

The sources of data for the case study countries included semi-structured interviews conducted with public officials (8-12 interviews per country) and policy documents. In each country, we interviewed officials who are most directly connected with the budget process (current and former civil servants in the finance ministries, government offices and fiscal councils) and also experts who analyze the developments in fiscal governance. The interviews were conducted between May 2017 and April 2018 and lasted between 1-1.5 hours. The interviews were transcribed and independently coded by all authors in order to secure the validity of the interpretations. We are primarily interested in the *perceptions* of the public officials about the effects of the crisis experience and EU reforms on national level budgetary processes.

Insert Table 1 here.

4.1. Portugal

According to our interviews, by 2009, which is the starting point of our analysis, Portuguese fiscal governance could be characterized as having predominantly fiefdom elements in the preparation and adoption phases, and delegation elements in the implementation phase.

Thus, the question for us is whether the experience of the crisis, the involvement of the Troika, and the new EU rules brought about a change in this configuration.

Of the three countries analyzed in this paper, Portugal was most severely affected by the crisis. The combination of underlying domestic economic problems, global financial crisis, and the contagion effect from Greece led to a situation in 2011 whereby the Portuguese government was not able to finance its increasing budget deficits anymore. Due to the loss of confidence by the financial markets, the risk premiums surged and Portugal had to request a bailout from the EU and the IMF, in order to avoid defaulting on its sovereign debt. The Memorandum of Understanding (MoU), signed with the Troika in May 2011, entailed a comprehensive reform programme, which also foresaw changes to budgetary institutions. The Portuguese government sought to avoid a second bailout and managed to exit the adjustment programme in 2014. (Magone 2014)

The interviews indicate that the crisis experience, the adjustment programme, and the EU fiscal governance reforms resulted in the budget preparation process becoming more *top-down*, compared to the previously dominating bottom-up approach. As the interviewees explained, during the involvement of the Troika, starting in 2011, a very strict top-down approach was adopted in order to compile the annual budget, since there was no other way to impose the consolidation requirements. This top-down approach persisted even after the programme was over. All interviewees also concurred that the experience of the crisis and the adjustment programme strengthened the role of the finance ministry in the preparation phase of the budget, with the recent EU fiscal governance reforms continuing to reinforce that. It was noted that the reference to the EU framework gives the finance ministry a focal starting point in drafting the budget proposal and gives it considerable clout in bargaining with the line ministries. Furthermore, as some of the interviewees noted, given that the structural deficit target is highly complex, it offers the finance ministry an informational advantage in the budget

discussions with the spending ministries. Thus, in the terminology of the fiscal governance literature, we can argue that the preparation phase has moved towards the *delegation approach.*

A considerable change in the formal rules governing the budget preparation process was the requirement to adopt a MTEF. This provision was introduced to the organic budget law in 2011. The MTEF is adopted for four years, on a rolling basis, with the intention that the ceiling for the first year is binding and the ceilings for the remaining years are indicative (i.e. guidelines, rather than compulsory targets). While there had been discussions about the necessity of such a reform already before the crisis (see also Curristine et al. 2008), it was the combination of the crisis experience and also the Troika's demands that drove the point home and facilitated the adoption of the legal provisions pertaining to the MTEF. As several interviewees mentioned, by adopting the MTEF, the Portuguese government anticipated the requirements that were later included in the EU-wide directives. However, despite the legal requirement to adopt a MTEF, Portugal has *not* moved towards a genuine contracts approach in the budget preparation phase. As all interviewees agreed, the ceilings in the MTEFs are not regarded as binding by the budget actors and it has become a symbolic paper exercise. As one of the interviewees put it, "Honestly, I don't think anyone reads it." (Interview P3) As several officials explained, it had been problematic to introduce the MTEFs during the crisis period: after the first MTEF had been adopted for 2012, the expenditure ceilings had to be revised upwards due to the fact that the Portuguese Constitutional Court reversed several austerity measures (Interviews P1, P2, P8). The officials conjectured that since the MTEF had almost immediately lost its credibility, it was not taken seriously in the subsequent years. As one of them put it, "In my view, you should not introduce such a change in the middle of the crisis of such magnitude. … We probably lost a good idea for many years. Timing is sometimes everything." (Interview P8)

With regard to the budget *adoption* phase, there have been no formal changes but the *de facto* role of the parliament has varied considerably during the past decade. According to the interviews, during the Troika involvement, the parliament was very passive in the budget process, whereas since 2015, it has become considerably more active again. This is primarily due to the fact that the Socialist government in power has been a minority government and has had to rely on the Communists and the Left Bloc for support in passing the budget, often in the form of additional amendments to the budget, increasing the expenditures. Thus, we can argue that while during the Troika programme the legislative phase was akin to the delegation model, it has moved closer to the fiefdom model since 2015, due to the constellation of minority government and the ideological preferences of the dominant parties.

The *implementation* phase of the budget process has become more centralized as a result of the crisis experience, the Troika involvement, and the EU-wide fiscal governance reforms. The annual budget law in Portugal (consisting of over 40 000 line items) is more detailed than in any other OECD country. Before the crisis, there had been discussions about reducing the level of line items and providing more flexibility for the line ministries (see also Curristine et al. 2008). As several interviewees mentioned, however, the crisis experience reinforced the need for more detailed control and stalled the developments towards more aggregate budgets (Interview P4). The interviewees also noted that the crisis experience, the Troika, and the EU fiscal governance reforms have strengthened the role of the finance ministry in the implementation phase (Interviews P2, P4, P9). A number of instruments have contributed to that. First, the crisis experience drove home the need to create a single treasury account that would allow the MoF to better track and monitor the expenditures of the line ministries. Second, the arrears and commitments law that was required by the Troika (especially the IMF) gives the MoF more extensive powers to control the new financial commitments of the line ministries. Third, after 2015, the MoF has made an increasing use of "frozen appropriations". This means

that the MoF "freezes" a certain portion of the approved budgets of the line ministries and "unfreezes" them on a discretionary basis (if at all). While these frozen appropriations had also been used in the past (see also Curristine et al. 2008), they were discontinued during the adjustment programme since the Troika viewed that instrument as "too ad hoc". This instrument made a comeback after 2015, however. As mentioned above, since the parliament has moved closer towards a fiefdom approach, the MoF has had to impose consolidation measures in the implementation phase in order to ensure compliance with the EU fiscal rules.

In sum, the crisis experience and EU-level reforms induced the adoption of a delegation approach in the preparation phase, did not significantly affect the adoption phase, and reinforced the delegation approach in the implementation phase. Although the crisis experience initially sparked the adoption of MTEFs, actually implementing them during the crisis was difficult and hence a contracts approach did not ensue, despite the EU-level reforms encouraging it.

4.2. Austria

In 2009, the starting point of our analysis, the Austrian fiscal governance could be characterized as follows. The reforms that had been prepared in 2004-2009 – driven by domestic considerations rather than a crisis or external pressures – foresaw: 1) the replacement of the hitherto predominantly bottom-up approach in the preparation phase with a top-down contracts approach; 2) introducing elements of the contracts approach in the adoption phase by giving the parliament the right to adopt the medium-term expenditure framework as a law and equipping it with an independent parliamentary budget office; 3) constraining the hitherto prevailing delegation approach in the implementation phase by limiting detailed control by the finance ministry and giving more flexibility to the line ministries. Did the crisis and the EU fiscal governance reforms aid the achievement of those shifts or not?

Our analysis shows that the crisis experience and the EU fiscal governance reforms have reinforced a top-down approach and strengthened the MoF in the *preparation* phase of the budget process. In response to the EU fiscal governance reforms, the Austrian government revised the existing Austrian Stability Pact (which had spelled out the Maastricht rules for the federal, state, and local level) in order to break down the structural deficit targets between the different levels and to outline the sanctions associated with non-compliance. Thus, in putting together the budget proposal for the federal government, the structural deficit target of 0.35% of GDP is the yardstick that the MoF uses for compiling the budget proposal. Like was the case in Portugal, the interviewees felt the tighter EU fiscal rules – especially the complexity of the structural deficit target − provide the MoF with additional arguments in the budgetary negotiations with the line ministries.

As part of budget reforms that had been planned since 2004, Austria enacted a medium-term expenditure framework for the federal level in 2009. Since it had been planned for several years before the crisis (see also Blöndal and Bergvall 2007), it cannot be argued that reform was triggered by the crisis. According to the organic budget law, the expenditure ceilings are adopted as a law, on a rolling basis, and are binding at the level of five sectoral areas for the following four years (at the chapter level, of which there are 30, they are binding for the next year and indicative for the subsequent). Thus, according to these formal provisions, we would have expected Austria to move closer to the contracts approach of fiscal governance. In reality, however, this has not happened since the expenditure ceilings are not regarded as genuine constraints on spending and the MTEF is usually revised several times a year. As the interviewees explained, introducing the MTEFs during the *crisis* made it challenging to stick to the expenditure ceilings. First, in order to stimulate the economy, the ceilings had to be revised upwards and later, in order to consolidate the budget during the excessive deficit procedure, they had to be revised downwards (Interviews A4, A9, A10, A11). As a result, the credibility

of the MTEF became undermined and the ceilings it entails are regarded as easily changeable. The interviewees noted that there are no political costs associated with changing the MTEFs. As one of them put it, "It is not like in Finland where you have the political commitment to the expenditure ceilings and they are actually binding." (Interview A4)

While neither the crisis nor the EU-wide reforms have brought about significant changes in the *adoption* phase of the budget process, all interviewees agreed that these factors have influenced the *implementation* phase. The idea of the 2009 budget reform in Austria was to introduce ideal-typical top-down budgeting: in return for a stronger control over the budget aggregates by the MoF, the line ministries would be given more flexibility and freedom over the details of the budget. An important aspect of that increased flexibility was the freedom to carry over unused funds to the next calendar year, in order to prevent the "December fever". The line ministries first responded to that possibility by not engaging in December fever anymore and built up reserves from unused funds. In the subsequent years, however, starting in 2013, when the ministries wanted to spend the accumulated reserves, the MoF blocked their access to these funds in order to ensure compliance with the EU fiscal rules. If the line ministries had spent the funds as they wished, the Austrian government would have deviated from the fiscal targets and the MoF did not wish to return to the excessive deficit procedure. As a result of these restrictions, however, the line ministries started to engage in December fever again and refrained from building up considerable reserves.

In sum, in Austria, the crisis experience undermined the implementation of the MTEF despite the fact that the EU-level reforms supported that instrument. Instead, the crisis encouraged the use of the delegation approach in the preparation phase. Neither the crisis nor the EU reforms brought about significant shifts in the adoption phase. In the implementation phase, the EU-level reforms interfered with implementing flexible carryovers, which amounted to bringing back elements of the delegation approach.

4.3. Finland

In the fiscal governance literature, Finland is considered to be one of the quintessential examples of the contracts mode, with each coalition government adopting expenditure ceilings for the next four years that are considered to be binding and followed in the preparation, adoption, and implementation of the annual budget. The commitment to multi-annual spending limits – which emerged after the experience of the crisis in the 1990s − is not required by law but is based on informal consensus. (Blöndal et al. 2003; Hallerberg 2004)

Although Finland did not experience a fiscal crisis as such, it did face a dramatic decline in GDP in 2009 and weak growth performance since then. As all interviewees concurred, the spending limits were observed despite the economic recession. According to the interviewed officials in Finland, the 2009 crisis experience has not induced significant changes in the preparation, adoption, and implementation phases of the budget process. The EU-wide fiscal governance reform, however, led to the enactment of a more formalized fiscal framework in 2014, which requires the approval of the "general government fiscal plan" in the preparation phase of the budget. It divides the structural deficit target between the central government, social security, and local government sectors. Given that the EU fiscal rules (including the structural deficit target) pertain to the "general government" – rather than just central government − it has necessitated a broader look at public finances and a stricter coordination of the budgetary policies of different levels of government. As explained by the interviewees, however, such a more formalized and "legalistic" approach to fiscal planning – which has been induced by the EU requirements − clashes with the more informal and consensus-based approach that has been prevalent in Finland. In light of such a consensus-based approach, the insertion of more formalistic elements is seen as problematic and "alien" to the existing system. As one of the interviewees explained, "Because of the EU obligations we had to introduce more legalistic elements to our framework, which is a trend I do not like. …. I don't think we get any

value from this trend." He added, "I guarantee you, that if you surveyed our ministers and asked them what the target for the central government balance is, they would not know it. … The budgetary discussions have not paid much attention to these structural deficit targets." (Interview F5) Other interviewees noted that since the structural deficit is very uncertain, the government would be reluctant to anchor its policy to something that is so ambiguous (Interviews F2, F3).

In sum, while the crisis experience did not bring about considerable changes in the budget processes, the EU-wide reforms led to the formalization of a hitherto informal contracts approach in the preparation phase, with no significant changes in the core budget processes themselves.

5. Discussion and conclusions

In sum, our comparative analysis shows that – in line with the theoretical prediction − the more severe the experience of the crisis, the greater the pressure for the government to reform budgetary processes. Portugal, which had faced the most severe crisis, introduced extensive reforms of the budget process, while Finland, which had only experienced a mild fiscal squeeze, did not adopt any major reforms. In Austria, where the fiscal squeeze was moderate, the crisis did not trigger reforms that were as comprehensive as in Portugal, but it did influence the implementation of the reforms that had been enacted before the onset of the crisis. In both Austria and Portugal, for the most part, the EU-wide fiscal governance reforms reinforced the changes induced by the crisis experience, apart from the fact that the crisis made the implementation of MTEFs more challenging. In Finland, no changes of the budget process were triggered by the crisis experience but the EU-level reforms did result in formal changes in the budget preparation phase.

As predicted in the theoretical discussion, the combination of the crisis experience and the EU-wide fiscal governance reforms have brought about increased centralization of budgetary institutions in all three cases. Under the general notion of "centralization", however, we can observe various shifts in the three countries.

Theoretically, we would have expected the EU-wide reforms to encourage movement towards the *contracts* approach in the domestic budgetary institutions of member states. In reality, however, the cases of Austria and Portugal indicate that the combination of the crisis experience and the EU-level legislation has strengthened the role of the finance ministry in the budget process (both in the preparation and the implementation phase), which is more characteristic of the *delegation* approach. In both countries, the effects of the crisis and the EU-wide legislation have been particularly pronounced in the implementation phase, which has become more centralized. In both cases, the finance ministry has resorted to using more extensive discretion in order to ensure compliance with the EU fiscal rules. In both cases, the countries also have administrative traditions that have, in the past, emphasized detailed control over the budget implementation by the MoF. Thus, when faced with countervailing demands, the MoF could fall back on previous approaches and instruments that had been used in the past, in order to re-exert its control.

In all three countries, the crisis and EU legislation have not induced major changes in the *adoption* phase of the budget. As the case of Portugal shows, the role of the parliament in the budget process depends primarily on whether the government in power is a majority or a minority. In the case of a minority government, the legislature has more extensive leeway to change the budget, and, in the case of Portugal, this has introduced elements of fiefdom mode in the adoption phase. The case of Portugal also shows that if, for political reasons, the legislature shifts towards the fiefdom mode, the finance ministry – which, in the end, takes the praise or blame for complying with the EU fiscal rules – can counteract the increased spending

adopted by the parliament by utilizing more extensive discretionary powers (in the form of increased use of frozen appropriations) in the implementation phase. While such an approach has sought to ensure compliance with EU fiscal rules, it has certainly tilted the balance of powers considerably towards the executive branch, and one could raise questions about the democratic legitimacy of such an extensive discretionary approach by the finance ministry.

All three cases show that although the crisis and/or the EU influence have led to the adoption of a formalized multi-year "contracts" approach in the preparation phase of the budget process, it has not "taken root" in the intended way. In Portugal and Austria, the introduction of MTEFs in the midst of crisis meant that they had to be revised and, as a result, their credibility was undermined, after which they became a symbolic paper exercise. In Finland, where functioning and home-grown multi-year spending limits (based on political consensus) had been in place already before the EU reforms, the formalized "general government fiscal plan" approach with structural deficit targets – adopted in response to EU requirements – is perceived as an alien institutional layer that doesn't fit with the existing approach.

Although in all three countries, independent monitoring of fiscal policy was strengthened – by establishing the Fiscal Council in Portugal or by assigning new monitoring tasks to the existing bodies in Austria (the National Debt Committee) and Finland (the National Audit Office) − the interviewed officials in all three countries agreed that, overall, this had not brought about significant shifts in the core aspects of the budget processes or induced a shift towards a contracts approach. Some of the interviewees in Austria and Portugal mentioned that the existence of the fiscal council helps to reinforce the position of the finance ministry in budget negotiations, which is a characteristic of the delegation approach.

All three cases indicate that the underlying idea of the EU rules to foster contracts approach in fiscal governance can be made more challenging by the fact that the focal yardstick used – that of the structural deficit – depends on complex computations and is difficult to assess

accurately in real time. The interviewees in Austria and Portugal noted that the complexity of the rule can give additional bargaining clout to the finance ministries – which is a characteristic of the delegation approach. Furthermore, it can be argued that since different actors in the budget process (the finance ministry, the fiscal council, and the European Commission) can point to diverging assessments of what the structural position of the budget can be predicted to be, the main aspect of the "fiscal contract" is ambiguous and constantly debated and contested. The influence of the structural deficit rule on the budget processes of the EU member states and on the powers of the different budget actors is certainly a topic that would be worthy of closer investigation in the future.

Since we have only looked at three cases in this paper, the generalizability of the findings to the other member states is limited but in light of our case studies, we can argue that further discussions are needed about the EU-level fiscal governance frameworks. Although, overall, the commitment to fiscal discipline may have increased after the adoption of the Six-Pack, Two-Pack, and Fiscal Compact, it is not clear that the reform package has necessarily led to desirable shifts in the core budget processes of the member states. The new EU fiscal governance framework has not had the predicted impacts with regard to medium-term expenditure frameworks. Instead, governments seem to "muddle through" to meet the stricter fiscal targets, but without fundamentally changing the budget processes towards the contracts approach. The EU-level reforms have even led to some counterintuitive effects as exemplified by Austria having to abandon the more flexible, efficiency oriented implementation approach since using the carried-over reserves in subsequent years could amount to violating the EU fiscal rules (especially the structural deficit target). Furthermore, the need to comply with the EU fiscal rules have reinforced previous practices that the governments may have otherwise wanted to move away from, as exemplified by the increased use of frozen appropriations in Portugal. Our case studies also indicate that the attempts to prescribe increasingly more detailed

institutional solutions to the member states may clash with the existing administrative traditions underlying a core process like budgeting and lead to undesirable side-effects.

In this paper, our goal was to assess the overall impact of the crisis and EU fiscal governance reforms on the core dimensions of budget processes of member states. In future research, however, more in-depth studies of the effects of the specific elements in the EU reform package (e.g. the structural deficit target, fiscal councils) would be warranted. For example, although our analysis indicates that the fiscal councils have not had considerable impacts on the core budget processes, further studies could take a closer look at their more nuanced impacts (e.g. on the accuracy of fiscal forecasts, public discussions, or visibility of fiscal policy). In this paper we have only focused on the developments at the national level. The EU-level reforms are likely to have had significant repercussions also for the fiscal interactions between the national and subnational levels of government and these should be explored in future studies.

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Appendix I

Interviews

Finland

F1: Official of Finance Ministry, 17.05.2017

F2: Official of Finance Ministry, 17.05.2017

F3: Official of Finance Ministry, 17.05.2017

F4: Official of Finance Ministry, 17.05.2017

F5: Official of Finance Ministry, 18.05.2017

F6: Official of the Parliament, 24.05.2017

F7: Official of Finance Ministry, 30.05.2017

F8: Official of Prime Minister's Office, 31.05.2017

Portugal

P1: Official of Finance Ministry, 15.11.2017

P2: Former official of Finance Ministry, 16.11.2017

P3: Official of Finance Ministry, 16.11.2017

P4: Country expert, 17.11.2017

P5: Country expert, 17.11.2017

P6: Country expert: 17.11.2017

P7: Official of the Fiscal Council, 20.11.2017

P8: Former official of Finance Ministry, 20.11.2017

P9: Official of the Parliament, 21.11.2017

P10: Former budget official of a line ministry, 24.11.2017

Austria

A1: Former official of Finance Ministry, 18.02.2018

A2: Budget official of a line ministry, 04.04.2018

A3: Official of Fiscal Council, 05.04.2018

A4: Official of Finance Ministry, 05.04.2018

A5: Official of the parliament, 06.04.2018

A6: Official of the prime minister's office, 06.04.2018

A7: Official of the prime minister's office, 06.04.2018

A8: Country expert, 09.04.2018

A9: Official of the Finance Ministry, 10.04.2018

A10: Official of the Finance Ministry, 10.04.2018

A11: Official of the Finance Ministry, 10.04.2018

A12: Official of the Finance Ministry, 10.04.2018

A13: Official of the Finance Ministry, 12.04.2018

A 14: Country expert, 30.04.2018

Table 1: GDP growth, public debt and budget deficit in Portugal, Austria and Finland: 2007-2017

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Portugal											
Real GDP growth rate (%)	2.5	0.2	-3.0	1.0	-1.8	-4.0	-1.1	0.9	1.8	1.6	2.7
General government gross debt (% of GDP)	68.4	71.7	83.6	96.2	111.4	126.2	129.0	130.6	128.8	129.9	125.7
Budget surplus (+)/ deficit (-) (% of GDP)	-3.0	-3.8	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4	-2.0	-3.0
Austria											
Real GDP growth rate (%)	3.7	1.5	-3.8	1.8	2.9	0.7	0.0	0.8	1.1	1.5	3.0
General government gross debt (% of GDP)	65.0	68.7	79.9	82.7	82.4	81.9	81.3	84.0	84.6	83.6	78.4
Budget surplus (+)/ deficit (-) (% of GDP)	-1.4	-1.5	-5.3	-4.4	-2.6	-3.3	-3.0	-2.7	-1.0	-1.6	-0.7
Finland											
Real GDP growth rate (%)	5.2	0.7	-8.3	3.0	2.6	-1.4	-0.8	-0.6	0.1	2.1	2.6
General government gross debt (% of GDP)	34.0	32.7	41.7	47.1	48.5	53.9	56.5	60.2	63.5	63.0	61.4
Budget surplus (+)/ deficit (-) (% of GDP)	5.1	4.2	-2.5	-2.6	-1.0	-2.2	-2.6	-3.2	-2.8	-1.8	-0.6

Source: Eurostat