Does the Parliament Make a Difference? The Role of the Italian Parliament in Financial Policy

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A recent survey conducted in a sample of 83 countries by the Inter-Parliamentary Union in collaboration with the World Bank Institute on the “Relations between the Legislature and the Executive in the Context of Parliamentary Oversight” allows cross-national comparison for the role of legislatures in the budgetary process. One of the survey’s most significant indications is that legislatures in presidential systems are generally more involved in the preparation of the budget than legislatures in either parliamentary or semi-presidential systems. The picture, however, is very different when we look at legislatures’ oversight of the budget. Parliaments are generally more involved in the examination and final approval of the budget than are legislatures in presidential and semi-presidential systems. In the light of these considerations, it should not be terribly surprising to find that the executive is more likely to be accountable to the legislature for its spending in parliamentary systems than in presidential systems.

All this seems to imply that legislatures in parliamentary have considerable power to influence and shape the budget. In reality, however, this power is remarkably inferior to what the list of formal powers suggests. Each parliament’s ability to examine, amend, modify, confirm, and approve the budget is constrained by both institutional and political factors. On the institutional side, in many countries Parliament’s ability to alter the government’s budget is subject to extensive procedural limits. For example, in the UK, Parliament can amend tax proposals, but cannot increase spending. In Germany,
parliamentarians’ ability to modify the budget is constrained by budget regulations as well as by the expenses generated by current legislation.\(^4\) On the other hand, there are countries, such as Belgium and Canada, where there are no institutional limits on Parliament’s ability to amend the budget. While such conditions might imply extensive legislative participation, there are, however, fairly obvious political limits to such potential interference. Significant modification of the executive’s budget would imply a loss of confidence of the parliamentary majority and would, in all likelihood, initiate or exacerbate a government crisis.

This means that the preparation, choice and implementation of the budget are influenced by both institutional and political conditions. But which are more important? What predictions of legislative activity can be made? We attempt to answer these questions first by outlining the institutional and party system theories that explain Parliaments’ ability to shape budget and by testing these theories on changes to the national budget in the Italian Parliament. The Italian Parliament is an excellent preliminary case study for the theory that institutional and political conditions influence Parliament’s ability to modify the national budget for two reasons. On the institutional side, the Italian has a complex array of procedural opportunities within the legislature, which may encourage extensive parliamentary activity during the amendment and the passage of the budget. On the political side, Italy has experienced undisciplined parties (and coalitions) and government instability (Pelizzo and Cooper 2002), both of which have led to general legislative ineffectiveness (Pelizzo and Babones 2001).

Furthermore, and most importantly, there have been extensive changes to both the institutional design and the political climate of the Italian Parliament over the past 20 years. As a result, with a quasi-experimental design, we can gauge if there was any change in legislative activity after the institutional and/or political changes occurred. This can be done using original data that measures the difference between the government’s proposed budget and the parliament’s final law each year. Positive findings would compel us to conclude preliminarily that institutions and political conditions matter significantly for parliament’s real ability to modify a national budget.

**Institutional Theories**

In virtually all parliamentary systems, the executive in parliamentary systems fully controls budgetary politics. Parliament’s role is purposively restricted. Because the executive is paramount for setting the national budget, the comparative literature on budgeting reflects the importance of executive institutions (Roubini and Sachs 1989; Borrelli and Royed 1995; Kontopoulos and Perotti 1999). This literature emphasizes the collective action problems within the executive for reaching decisions.

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Literature to investigate the role of the legislature in budgetary politics has also emerged. These studies argue that a Parliament’s ability to shape the budget is deeply affected by institutional factors. Institutions in this context refer to the “rules of the game,” that is, the procedural and structural mechanisms that actors use to influence policy outcomes (North 1990).

For example, Krafchik and Wehner argue that the impact a legislature can have on the budget depends on the formal design of amendment powers, on the scope of conferred powers and on the role of committees (Krafchik and Wehner 1998). Poterba and Hagen also consider the effect of a broad array of legislative institutions on fiscal policy (Poterba and Hagen 1999). The more institutions allow a greater number of actors to influence budgetary politics, the more difficult it is to bring budget deficits under control. For example, budgetary institutions include procedures such as the timing of voting or amendments procedures (Alesina and Perotti 1999). These procedures create iterative collective action problems in which individual legislators from the government and opposition continually find incentives to defect from austerity agreements and secure particular benefits for narrow constituencies. This occurs at the expense of collective fiscal austerity.

When procedurally permitted, legislatures may serve to alter an executive’s original budget proposal. Each country’s institutional opportunities thus affect the incentive structures that individual legislators can manipulate. The availability of these types of procedures empowers the legislature. Though minor, this influence should be understood. Parliaments are not universally impotent, especially in the presence of particular types of party systems that are conducive to shifting majorities.

Party system theories

A Parliament’s ability to shape, alter and modify the national budget is also affected by political factors. Most theories concerning the party system generally argue that legislatures naturally defer to executive proposals simply because parliaments are governments are ‘fused.’ Because the government must maintain majority support in the legislature in order to survive, it follows that legislatures should support government proposals, especially important ones. According to Laver and Shepsle:

In terms of practical politics, however, a cabinet in which the government parties control a majority of seats in parliament can summon up a legislative

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5 There are three main types of conferred powers: unrestricted, restricted, and balanced budget.
6 This point should not be overstated, however. In virtually all legislatures, changes to the executive’s budget are often minor. But the point remains that in some countries, the government’s budget may not always be passed as presented.
7 According to Laver and Shepsle “the role of the legislature is much more that of controlling the fate of government than it is of implementing policy directly” (Laver and Shepsle 1996: 57).
majority whenever it cares to do so, provided party discipline holds firm. Thus a majority government with disciplined parties can comprehensively dominate any legislature once it has been installed in office. This in turn means that the legislature cannot in practice pass laws constraining the government.\(^8\) (Laver and Shepsle 1996: 57).

Despite the power of this parsimonious argument, there are still significant exceptions to this rule. Laver and Shepsle themselves define the conditions under which parliaments would engage in activities to challenge their governments: “when party discipline breaks down and dissident members of a government party join forces with the opposition to pass legislation on some particular issue,” it is possible for the parliament to impose “its will on a majority executive” (Laver and Shepsle 1996: 40).

A corollary of such political theories thus suggests that it is particularly difficult for governments to always control their legislative majorities and keep them together when the parliamentary party system is highly fragmented and when there are profound ideological divisions in the legislature. Therefore we expect that parliamentary influence is not only affected by the institutional opportunities in parliament, but by the party system as well.

The Italian Parliament

The Italian Parliament provides a perfect setting to test the institutional and party system theories because there have been major revisions to the institutional design and to the party system over the past 20 years. These changes may have had an effect on parliamentarians’ abilities to influence financial legislation. The institutional revisions include the removal of the secret vote (1988), a revision of the parliament’s decentralized agenda setting process (1990), and the reduction of preference votes in the electoral system (1991). In addition, the electoral system has changed (1993), which may have led to a different configuration of political parties in the party system.

Institutional Factors

The Secret Vote

Until 1988, the standing orders of the Parliament allowed secret voting. No official record was kept on how each MP voted; only the number and names of those present and voting were recorded and counted. Though the government should have had enough support to pass its bills, the government was often defeated (and embarrassingly so) on many bills, including important proposals, during the first 40 years of the Republic.

However, because no official record was recorded, party whips could not know who was responsible for the government’s defeat – the so-called \textit{franchi tiratori} – and thus
no sanctions could be imposed on defectors. This problem often stalemated the executive and caused numerous governments to collapse. Ironically, these stalemates occurred even during times of oversized government, when the government should have been able to garner enough support from its parliamentary majority to pass its bills. Because this problem threatened Italian political stability, reform legislation passed in 1988 abolished the provision of secret voting, except for very special circumstances, such as votes of no confidence. The open vote (il voto palese) is now required for the great majority of all bills. The use of the secret vote is important for the empowerment of the parliament before 1988 because party members were able to defect without sanction from party leaders. Government party leaders especially could use parliament during financial debates for their own benefit, rather than unilaterally supporting the government on financial legislation.

Parliamentary agenda setting

In 1971, the Italian Parliament passed reforms to implement a unique agenda setting formula that extended veto power to a leader from each parliamentary group during the determination of the legislative agenda and calendar (Leonardi et al 1978; della Sala 1988, 1998; Cotta 1994). Setting the parliamentary agenda is an important tool to manipulate public policy (Doering 2001; Tsebelis, 2002). For example, in 1986 the government suffered a significant setback when the order of voting for the Financial Bill was discussed. The Minister of the Treasury (DC) wanted to vote on the total spending amount in Article 1 first in order to set an upper cap for spending, but the opposition argued that it preferred to vote on other articles first and on Article 1 last. The opposition clearly did not want to limit the amount of money Parliament could commit to spending, and knew that it could, through subsequent amendments, raise the overall amount as long as the ceiling was not already set. The crucial point is that the agenda setting process in the Italian Parliament prohibited the government from imposing a timetable unattractive to the opposition. As a result the government was defeated and the Finance Law was passed over two months late. Della Sala argues:

The important point about this discussion on what seems to be a technical point is that it highlights the fact that the government has few guarantees over the fate of its program once it reaches Parliament…The government was defeated over an issue it saw as crucial for achieving its objectives primarily because it had few levers which it could pull once the bill reached Parliament. (della Sala, 1988:121)

Because of persistent problems with the agenda, additional reforms were passed in 1990 to strengthen the President of the Chamber, who currently has the ability to impose an agenda when a unanimous vote does not pass.
Preference Votes

Another significant institutional factor empowering Parliament was Italy’s electoral system. Until 1993, when it was reformed by the laws 276/93 and 277/93, the Italian electoral system used proportional representation. This system was coupled with preference voting, which allowed voters to express their preference for a specific candidate. Voters could express up to three or four such preferences until 1991, when, in the wake of a national referendum, the number of preferences that voters could express on the ballot was reduced to only one. The PR system with single preference (preferenza unica) was used only in the 1992 elections, until the system was further revised from PR to a mixed electoral system in 1993. But before 1991, preference voting affected the political behavior of voters as well as of the elected officials. Though in most PR systems, voters express a single choice for a party, candidates in Italy were concerned not only inter-party competition but also with intra-party competition because a higher number of preference votes could make a difference for a legislative seat. As a result, MPs often competed against members of their own party to secure the highest number of preference votes. This gave individual MPs strong incentives to secure constituency benefits and to gain popularity and name recognition. The more benefits an MP managed to secure for her potential voters the more preference votes the MP could expect to receive in the next election. Because of the preference vote, opposition members knew that engaging in collaborative activities with members of other parties could result in increased constituency benefits for all MPs.

Party System Factors

In addition to producing strong incentives for individual MPs to secure constituency benefits, the pre-1993 PR electoral system also produced a highly fragmented and ideologically polarized party system. In 1990, the number of effective parties in the Italian Parliament was 7.45, the second highest among the Western European democracies. For this time period, only Belgium had a slightly higher number of parties. In addition, the extent of ideological polarization among Italian parties was also the second highest in Western Europe as well. Only France had more extensive polarization. France and Italy are similar with regard to polarization; traditionally in the postwar period, there was significant support for extreme left-wing and extreme right-wing parties in both countries. Extensive fragmentation and polarization produced undisciplined parliaments. Because of fragmentation, bargaining costs within parliament were quite high. Individual defection from party mandates and shifting

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9 The higher number of effective parties in Belgium must be qualified by the fact that many Belgium parties operate in pairs to reflect differences in region and language.
10 Polarization is measured as the percentage of support for the extreme left and extreme right wing parties. In Italy these are the Italian Communist Party (PCI) and the neo-fascist Italian Social Movement (MSI).
coalitions among individuals and parties were not uncommon. In addition, the presence of extreme ideological polarization led to two phenomena. First, MPs learned to logroll particularistic policies that often spent government funds unchecked. Notoriously referred to as the leggine, these are minute forms of legislation passed in parliament (di Palma 1977). One clear indication of this trend is the number of individual spending proposals introduced in parliament each year. At least before 1979, the number of items voted by Parliament each year was “about 300 for revenues and approximately 3,000 for expenditures” (Onofri 1979:298). Because encompassing collective decisions were difficult to reach, Italian MPs learned to use decision rules in the parliament for policy benefits in their own constituencies. Second, fragmentation meant that parliamentary majorities are often formed among ideologically dissimilar parties. Bills had to reflect a variety of interests before receiving majority support. Otherwise they faced intense scrutiny in parliament.

How have these processes changed in the wake of the institutional reform and changes to the political landscape? First, with the removal of the secret vote in 1988, the passage of reforms in 1990 to allow the President of the Chamber to impose a parliamentary agenda, and the introduction of the single preference 1991, the system of incentives was dramatically transformed. In addition, it is possible that the restructuring of the electoral system in 1993 altered the party system as well. If it is true that the institutional mechanisms that permit extensive policy influence have been removed, and if the party system is no longer as fragmented or polarized as before, then the benefits of defecting from government-party unity should decline. Therefore, if the logic between parliamentary strength and the intersection of procedural mechanisms and legislative fragmentation and polarization is correct, there should be a steady decline of parliamentary influence starting in 1988.

Data Analysis

OLS regressions are used to test whether the institutional and/or party system changes have influenced parliament’s ability to amend the government’s budget. The dependent variable is the percentage difference between the government’s proposed bill and the parliament’s approved law for the spending side of both the Budget. Superficially, these data implicate quite clearly that the Italian parliament has not always been a ‘rubber stamp’ on financial policy. Instead, at times the Italian Parliament has been an important actor in the determination of spending priorities. See Table 1.

[Table 1 about here.]

We use several independent variables, based on the theories elaborated above, to explain differing levels of parliamentary interference in spending priorities in Italy. First, our measure of legislative institutions tracks the changes to the institutional design
of the Italian Parliament over the past 20 years.\textsuperscript{11} Second, to measure party system attributes, both legislative polarization and legislative fragmentation are included. Legislative polarization is measured as the sum of the seats held by the most left-wing and the most right-wing parties. For most years, the two most extreme parties were the Italian Communist Party and the neo-fascist Italian Social Movement, often comprising at least 30\% of the total seat share. The larger the seat share of extremist parties, the more polarized the parliament. The percentage of seat share for extreme parties changed, however, after international events dampened the appeal of the Communist Party, domestic scandals shook the major parties, and the electoral system changed from PR to a mixed majoritarian formula. These changes may have also influenced the number of effective parties (Taagerpera and Shugart 1989).

The results of our regression analyses are presented in Table 2. When we regress the percentage change between the budget proposed by the government and the budget approved by the parliament against polarization we find, as expected, that the parliament’s ability to modify the budget increases as polarization increases. Polarization by itself explains more than 45\% in the variance of the parliament’s ability to alter the budget. This is because more disperse points of view need accommodation in order to reach consensus in parliament. But when we regress the percentage change between the proposed budget and the approved budget against fragmentation we find, in contrast to what party system theory claims, that the parliament’s ability to change the government budget declines as fragmentation increases. This anomaly could very well be explained by the fact that when a parliament is too fragmented it becomes increasingly difficult to form any alternate majority and that can change the status quo. Next, when we regress the percentage change between the government budget and the budget approved by the parliament we find that institutional change largely explains the Italian parliament’s ability to modify the budget. In fact, institutional change accounts for 64\% of the variance in the parliament’s power to alter the government budget. And finally, when all the independent variables are entered in our model we find that while institutional change remains a fairly strong and significant determinant of the parliament’s ability to change the government budget, the influence of both polarization and fragmentation becomes insignificant. This suggests that the institutional variable trumps the power of the party system. Based on this finding, we preliminarily conclude that parliamentary institutions, at least in the Italian context, are more important than the party system in explaining the extensive amount of parliamentary influence in the determination of spending priorities.

\textsuperscript{11} The institutions variable is measured as follows: Value of 3 for 1982-1988 to measure the presence of secret voting, the inclusive agenda setting process, and the use of three or four preference votes (depending on the district) in the electoral system. Value of 2 for 1988-1990 to measure the presence of the inclusive agenda setting process and the use of three or four preference votes in the electoral system. Value of 1 for 1991-1992 to measure the use of only one preference vote in the electoral system. Value of 0 after 1993; the electoral system changed from pure proportional representation with preference votes to a mixed system with no preference votes.
Conclusions

Clearly, more testing is required, both within the Italian context and comparatively, to determine the power of institutions and the party system in explaining how and when parliaments would be expected to influence national budgets. Based on the results of this analysis, using novel data to gauge the difference between the first and last drafts of budget legislation, institutions explain more of the variation in parliamentary influence. This tentative finding could be, however, spurious. Institutional reform took place before the party system changed and thus the effect we note may not be absolute. It is entirely possible that had the reforms proceeded in the reverse (changing the electoral system before changing the procedural mechanisms), the party system variables would have explained more than the institutional ones. More testing in other contexts would confirm the power of the independent variables. At the very least, this analysis has served to demonstrate that these variables do explain part of parliamentary influence in the budget. Comparatively, we would not expect parliaments to be ‘rubber stamps’ at all. The specific rules in parliament and the number and ideological bent of parties combine to provide incentives for parliaments to deviate from what is considered standard parliamentary behavior, in which parliaments unilaterally support their governments during the passage of the national budget.
Table 1. Italian Budget Laws for 1982 to 2001. Figure indicated is the total amount of spending for each year. All amounts are in billions of lire.\textsuperscript{12}

<table>
<thead>
<tr>
<th>Year</th>
<th>Proposed by Government</th>
<th>Passed by Parliament</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>135460</td>
<td>164087</td>
<td>17%</td>
</tr>
<tr>
<td>1983</td>
<td>172772</td>
<td>203510</td>
<td>15%</td>
</tr>
<tr>
<td>1984</td>
<td>227077</td>
<td>242321</td>
<td>6%</td>
</tr>
<tr>
<td>1985</td>
<td>274163</td>
<td>297597</td>
<td>8%</td>
</tr>
<tr>
<td>1986</td>
<td>280900</td>
<td>334543</td>
<td>16%</td>
</tr>
<tr>
<td>1987</td>
<td>311432</td>
<td>358997</td>
<td>13%</td>
</tr>
<tr>
<td>1988</td>
<td>368360</td>
<td>414814</td>
<td>11%</td>
</tr>
<tr>
<td>1989</td>
<td>388562</td>
<td>406271</td>
<td>4%</td>
</tr>
<tr>
<td>1990</td>
<td>456202</td>
<td>445655</td>
<td>-2%</td>
</tr>
<tr>
<td>1991</td>
<td>498505</td>
<td>509594</td>
<td>2%</td>
</tr>
<tr>
<td>1992</td>
<td>541967</td>
<td>559556</td>
<td>3%</td>
</tr>
<tr>
<td>1993</td>
<td>612696</td>
<td>588981</td>
<td>-4%</td>
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<tr>
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<td>-2%</td>
</tr>
<tr>
<td>1995</td>
<td>611073</td>
<td>611390</td>
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<tr>
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<tr>
<td>1997</td>
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<td>642245</td>
<td>1%</td>
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<tr>
<td>1998</td>
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<td>653414</td>
<td>3%</td>
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<tr>
<td>1999</td>
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<td>672500</td>
<td>2%</td>
</tr>
<tr>
<td>2000</td>
<td>673282</td>
<td>679779</td>
<td>1%</td>
</tr>
<tr>
<td>2001</td>
<td>700646</td>
<td>725944</td>
<td>3%</td>
</tr>
</tbody>
</table>

\textsuperscript{12} There is a fairly high correlation between the amount of influence in the Financial and Budget Laws: $r=0.62$. This suggests that the same underlying processes are at work for both laws. In addition, since the Finance Bill is passed first, the Budget Bill is modified to reflect each Finance Law’s new ceiling for spending (when applicable). This is partially the reason the correlation between the two is high.
Table 2. Regression Analyses.

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Intercept</th>
<th>Independent Variables (sig.)</th>
<th>R-squared</th>
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<tbody>
<tr>
<td>Percent change between proposed budget and passed budget</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-8.593</td>
<td>.494 (0.001)</td>
<td>.464</td>
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<tr>
<td></td>
<td>24.259</td>
<td>-3.777 (0.001)</td>
<td>.497</td>
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<tr>
<td></td>
<td>-.187</td>
<td>3.886 (0.000)</td>
<td>.640</td>
</tr>
<tr>
<td></td>
<td>-7.400</td>
<td>.027 (.902)</td>
<td>4.629 (.033)</td>
</tr>
</tbody>
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