The power of the purse and the reversionary budget*

by

Gary W. Cox
Department of Political Science
Stanford University
gwcox@stanford.edu

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Abstract:
In this paper, I argue that the well-known waves of electoral democracy (documented by Huntington (1991) and others) have triggered and been countervailed by waves of fiscal autocracy. I document a dramatic increase, from 1875 to 2005, in the number and proportion of the world's constitutions that mandate executive-favoring budgetary reversions. After showing that such reversions can in theory eviscerate the legislature's power of the purse, as traditionally defined, I demonstrate that they were especially likely to be introduced in countries with newly independent legislatures. Finally, I show that executive-favoring reversions had several consequences one would expect, were they intended to defang the legislature and establish fiscal autocracy. In particular, governments operating under such reversions have less credible sovereign debt and more violent leadership transitions—controlling for country fixed effects, standard economic predictors of credit-worthiness and economic development, and standard measures of electoral democracy.

The power of the purse and the reversionary budget

The power of the purse has long been viewed as the main weapon in the arsenal of legislatures seeking to control the executive branch. English parliamentarians, pamphleteers and philosophers around the time of the Glorious Revolution first trumpeted the importance of such power.[1] Their ideas, later amplified by Montesquieu (1989[1748]), Madison (2009[1788]) and other Enlightenment figures, now form part of the standard canon of western political thought.

Despite its pedigree, some basic theoretical and empirical questions about the power of the purse have not been addressed. As to theory, consider the following puzzle. The vast bulk of contemporary constitutions confer rights on their legislatures that establish the power of the purse as traditionally defined: (1) the right to approve or deny new taxes; (2) the right to authorize or disallow new sovereign debt; and (3) the right to approve or reject (and perhaps amend) state expenditures annually. Yet, many of the world's legislatures, especially those in autocracies, are routinely described as lacking any real influence over the state budget. This puzzle—reminiscent of many other disjunctures between constitutional stipulation and actual practice (cf. Carey 2000; Elkins, Ginsburg and Melton 2009)—raises questions about how chief executives have succeeded in loosening their legislatures' grip on the purse.

I shall argue that many executives have re-engineered the constitutionally-mandated budgetary reversion—which stipulates what happens if no budget has been adopted by the beginning of the new fiscal year—so as to render ineffectual the standard clauses asserting legislative power over taxation, debt and expenditure. Relying on a

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[1] On the parliamentarians and pamphleteers, cf. Roberts (1966). As to the philosophers, Locke's *Second Treatise on Government* is the *locus classicus*.

new dataset that documents budgetary reversions worldwide from 1875 to 2005, I show that executive-favoring reversions have increased dramatically in the world's constitutions, appearing in waves corresponding to the creation of new states in the aftermath of World War I, World War II, and the Cold War.

In addition to documenting their incidence, I argue that these budgetary innovations should have had important and malign effects. In particular, executive-favoring reversions can largely defang the legislature's power of the purse, when used in combination with any of several common executive powers. Defanging the legislature, in turn, facilitates tyranny. As Montesquieu (1989[1748], p. 164) put it, "If the executive power enacts on the raising of public funds without the consent of the legislature, there will no longer be liberty, because the executive power will become the legislator on the most important point of legislation."

More recent analyses add specificity to Montesquieu's general allegation, arguing that fiscally weak legislatures systematically worsen both public finances and political stability (cf. North and Weingast 1989; Dincecco 2009; Cox 2012a). Consistent with their predictions, I show that sovereign debt is less credible in periods with executive-favoring reversions; and that leadership successions are more violent.

I argue against viewing executive-favoring reversions (EFRs) mainly as tools to combat fiscal common-pool problems and promote fiscal discipline (as in, e.g., Alesina et al. 1999). Rather, EFRs have typically been introduced by incumbent leaders facing newly independent legislatures, in an effort to concentrate power in the executive branch. The effects on state credibility and leadership turnover, consistent with this view, are large enough to suggest that the previously unknown waves of fiscal autocracy

documented here are no less important than the well-known waves of electoral

democracy (Huntington 1991; Teorell 2010) to which they largely respond.

The classic theory of the power of the purse

Early modern accounts of the power of the purse trace back to England's Glorious

Revolution. In the Revolution's aftermath, both major parties agreed the Crown would

reliably heed parliamentary advice only if constrained by financial necessity to do so. In

order to ensure that such financial necessity would be a permanent feature of the

political landscape, the following tactics were used.[2]

First, Parliament began putting time limits on most of its tax grants.

Montesquieu (1989[1748], pp. 164-5) explained the rationale of such limits thus: "If the

legislative power enacts, not from year to year, but forever, on the raising of public

funds, it runs the risk of losing its liberty, because the executive power will no longer

depend upon it…" Montesquieu's warning simply summarized standard English

observations on the mistake Parliament had made by granting the Stuart monarchs

revenues "for life" (cf. Roberts 1966, pp. 246-8). The solution was to put the Crown on a

steady diet of automatically expiring revenues, so that it would need to seek

parliamentary (re)approval regularly.

Second, Parliament secured the right to authorize (or deny) all new sovereign

debt. This gave Parliament another frequently occurring occasion on which to demand

redress of grievances in return for revenue.

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[2] The account in this section relies heavily on Roberts (1966) and Cox (2012a), the former providing a comprehensive review of contemporary thought, the latter providing relevant statistical evidence.

Third, Parliament demanded and secured annual state budgets, so that the Crown could not *expend* any money without annual parliamentary approval. The principle of annual budgets has since been enshrined in constitutions around the world.

These fundamental legislative rights—to have frequently occurring opportunities to extinguish or renew the executive's authority to raise taxes, issue debt, and expend state funds—constitute the traditional powers of the purse. Madison (2009[1788], p. 298) asserted their collective importance in Federalist #58 as follows: "This power over the purse may, in fact, be regarded as the most complete and effectual weapon with which any constitution can arm the immediate representatives of the people, for obtaining a redress of every grievance, and for carrying into effect every just and salutary measure."

Today, constitutions so routinely claim the legislature has such power, that no one has bothered to systematically document its presence. For example, neither Fish and Kroenig's (2009) 32-point "legislative powers index" nor Elkins, Ginsburg and Melton's (2009) comprehensive coding of contemporary constitutions include variables reflecting the legislature's rights to approve taxes, loans, and annual expenditures. Why code variables that are, or seem to be, nearly constant?[3]

It is important to recognize, however, that the powers of the purse were configured in post-Revolution England in a way that favored the legislature. In particular, any legislative majority[4] could, *merely by withholding assent*, force the

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[3] These powers, while widespread, are not literally constants. For example, a survey conducted by the International Parliamentary Union and the World Bank Institute in 2001 found that the legislature approved the state budget in only 92% of the 52 countries responding (Pelizzo and Stapenhurst 2004, p. 7).

[4] A "legislative majority" means a unitary actor controlling a majority of the seats in the lower chamber.

executive to reduce, or wholly stop, spending money. As will be seen, this design principle was undone, in most of the world's legislatures, over the period 1875-2005.

Getting around the power of the purse

Neither Madison, nor Montesquieu, nor their English predecessors explicitly analyzed how an executive might subvert the power of the purse, once a constitution had seemingly enshrined it.[5] Authoritarian rulers, however, have subsequently examined this problem, achieving much practical success while avoiding public explanation of their strategies.

To explain the practical success autocrats have enjoyed in undoing the power of the purse, I focus on the three (collectively exhaustive) strategies they have employed. The first option is to control enough of the legislature's membership so that it does not pose an independent check on one's authority. With this strategy, one can live with its constitutional powers intact. The second option is to wholly remove the legislature's powers over taxes, loans and expenditures. The third option is to leave the powers of the purse intact but render them ineffectual by re-engineering other parts of the constitution. Let's consider each strategy in turn.

Controlling the legislature's membership

The strategy of controlling the legislature's membership has been pursued in various ways. One tactic is to give the executive the constitutional power to appoint enough legislators to ensure their aggregate compliance, as was done in South Korea (1972-79), Thailand (1932-45, 1947-96), or Libya (1951-68). Another tactic, favored by Stalinist regimes, was to write constitutions that (a) outlawed opposition parties, (b)

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[5] This point resonates with Przeworski's (2011) more general observation that classical theories often lack clarity as regards how a separation of powers can be sustained in the face of determined efforts to aggregate powers in a single actor's hands.

allowed the ruling party to run only one candidate for most or all of the legislative seats,

and (c) helped ensure that the executive nominated those candidates. Effectively, the

Stalinist constitutions allowed their executives to *appoint* the legislature, while still

holding sham general elections.[6] Departing from the extreme of actually or essentially

appointed legislatures, one finds cases in which the executive's constitutional

advantages in controlling legislative elections are significant (e.g., due to non-

independent electoral administration) but not so complete. Examples include the

"electoral authoritarian" regimes (cf. Schedler 2002, 2006).

Removing the powers of the purse

An autocrat can remove the legislature's constitutional powers over taxes, loans

and expenditures in various ways. The most radical strategies are to suspend the

constitution, to suspend the legislature, or to write constitutions that, like Saudi

Arabia's, do not confer the traditional powers of the purse in the first place.

A slightly more subtle approach is to declare a state of siege, emergency, or

exception and rule indefinitely by decree.[7] A critical defect of the Weimar constitution

was that it enabled the President to declare an emergency with little oversight from the

assembly, thereby providing Hitler a partly constitutional path to power (Skach 2005).

Loveman (1993) has argued that poorly written emergency power clauses litter Latin

America's historical constitutions, allowing frequent periods of emergency rule. Many

Middle Eastern dictators, including Mubarak in Egypt and the Assads in Syria, ruled

formally under emergency powers for many years. Abuse of emergency powers can in

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[6] Another functional equivalent of appointment was the KMT's use of "permanent" mainland
representatives to ensure control of the Legislative Yuan in Taiwan (until 1991).
[7] For a general review of emergency powers, see Ferejohn and Pasquino (2004).

some cases allow an autocrat to suspend the traditional powers of the purse, without formally abrogating or amending the constitution.

Defanging the legislature

My focus here will be on the third strategy. If the cost of *removing* the powers of the purse is too high, and the cost of attaining the right to *appoint* the legislature is too high, then an autocrat may prefer to *defang* the legislature, while preserving the typically brief constitutional clauses announcing its rights to approve taxes, loans and expenditures.

The empirically most common and successful strategy of defanging has entailed the introduction of budgetary reversions favoring the executive. The next few sections describe how budgetary reversions can eviscerate the power of the purse, document the prevalence of different kinds of reversion over the period 1875-2005, and show that reversions connect strongly to important political outcomes, including the credibility of sovereign debt and the peacefulness of political transitions.

Defanging the legislature via budgetary reversions

As noted above, most contemporary constitutions endow the legislature with the right to approve or reject taxes, loans and the state budget. Yet, these component powers of the purse do not ensure that even a cohesive legislative majority can wield an effective threat to cut off expenditure authority.

The main problem has to do with reversionary spending levels. Some constitutions stipulate that, if no budget has been adopted by the beginning of the new fiscal year, then expenditures may continue at the level of the previous budget. Others stipulate that, if no budget has been adopted by the beginning of the new fiscal year,

then the executive's proposed budget is to be automatically enacted. Such rules lessen the potency of any legislative threat to deny expenditure authority, especially when the executive itself can help ensure that no budget has been adopted by the beginning of the new fiscal year—e.g., by submitting the budget late, by having allies delay consideration of the budget in the legislature, by having an appointed Senate disapprove any amendments to the budget, or by vetoing the budget.

To illustrate the importance of the reversionary budget, consider a polity in which two main actors—the executive, E, and the majority bloc in the lower (and perhaps only) chamber, M—bargain over the state budget. E has the right to make the first proposal; and controls the minority bloc in the lower chamber. M is cohesive enough to bargain with E as a unitary actor. Can budgetary reversions defang the power of the purse, even when it is wielded by a united opposition holding a majority of seats in the lower chamber?

Table 1 reports the extent to which M can prevent E from spending state funds, as a function of the budgetary reversion and the executive's ability to prevent timely consideration of the budget.[8] As can be seen, if the executive has any means to prevent approval of the budget (e.g., an appointed Senate, an executive veto, or dilatory powers), then M's power to force E to stop spending depends greatly on the budgetary reversion.

Table 1 about here.

When the reversionary budget is the executive's proposal, the legislative majority is virtually powerless. The executive can ensure the adoption of his proposed budget, as

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[8] In the appendix, I consider budgetary outcomes as a function of the same variables (where the budget is viewed as simply distributing state revenues between E and M and their interaction is viewed as a standard bargaining game).

long as he controls either the Senate, or a large enough minority bloc to prevent a veto override, or a large enough minority bloc to prevent timely consideration.

When the reversion is the previous year's budget, the legislative majority's position is only slightly better. It can, by refusing assent, impose last year's budget. Given an inflation rate of I, this is equivalent to imposing a cut in real expenditure of $I/(1+I)$. Thus, the legislature cannot impose any nominal cuts on the executive and its ability to impose constant-dollar cuts depends entirely on the inflation rate. Moreover, the executive is often empowered either to reallocate expenditure across spending categories; or to spend up to the limits implied by last year's budget, within each category. The first stipulation entirely removes M's ability to force reductions *in particular areas*; and both stipulations enable the executive to impose severe cuts on areas favored by the legislative majority, while preserving (nominal) expenditure on areas favored by the executive.

Finally, when the reversion is a government shutdown, with any temporary expenditures requiring legislative approval, M can force E to reduce or stop spending state revenues. This is the reversion that the architects of England's post-Revolution order constructed; and that Locke, Montesquieu, Madison and others implicitly envisioned in their paeans to the power of the purse.

When the reversionary budget is either the executive's proposal or last year's budget, I shall say that the reversion favors the executive. Because the legislative majority's ability to force reductions in spending, in areas of its own choosing, is the essence of the power of the purse, Table 1's message is simple. *Executive-favoring budgetary reversions, when combined with any of several complementary executive powers, seriously erode the legislature's power over the purse.*

I should note that a few constitutions with executive-favoring reversions (EFRs) devise ways to ensure that the executive cannot trigger the reversion—e.g., by prohibiting executive vetoes of the budget—and this should substantially lessen their impact. I explore some of these safeguarding mechanisms elsewhere (Cox 2012b). Here, however, I pool all EFRs together, without seeking to further divide them into those with and without safeguarding mechanisms.

I should also note that, even when it faces an EFR and lacks safeguards, the legislative majority may still be able to *influence* the executive's budget. This would be true, for example, if E needs M's cooperation in passing E's legislative agenda or securing E's reelection. These sources of influence, however, fall well short of the "complete and effectual weapon" envisioned by the classical theorists.

Finally, before proceeding, I should note a contrast between my approach and that taken by Cheibub in his insightful study, *Presidentialism, Parliamentarism and Democracy* (2007). In his view,

> There are only two [reversions] that clearly favor the president. The first
> is obvious enough: when the constitution explicitly says so (e.g., article
> 198 of the 1979 Peruvian constitution stipulates that the executive's
> proposal is to be adopted if the budget law is not approved before
> December 15). The second case is when the constitution stipulates that the
> previous year's budget is to be adopted if a new budget is not approved
> *and* the legislature is limited in its power to amend a budget proposal
> initiated by the president. [Cheibub 2007, p. 103]

In my view, reversions to the previous year's budget favor the executive, even if the legislature's power to amend the budget is unlimited, as long as the executive can prevent adoption of the budget. Thus, some reversions that Cheibub codes as not favoring the executive, I code as favoring it.

Documenting budgetary reversions, 1875-2005

In this section, I exploit a new dataset that codes the constitutionally stipulated powers of national legislatures over the period 1875-2005. The sample begins with all 157 countries possessing a legislature as of 2005.[9] Ideally, the dataset covers each of these countries from the first year it operated as a sovereign state under a written constitution until 2005.[10]

In practice, the current version of the dataset covers about 96% of the possible country-years between 1900 and 2005, with 50% coverage between 1875 and 1900. Over half of the countries have complete coverage.[11]

The budgetary reversion is classified as a government shutdown; or last year's budget; or the executive's proposal. There are further distinctions that might be made within each of these main categories but I do not highlight them here. If a legislature

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[9] These are the 158 countries covered in M. Steven Fish and Matthew Kroenig's *The Handbook of National Legislatures* (Cambridge University Press, 2009), minus Somalia (which had only a transitional assembly).

[10] I impute a constitution to the United Kingdom. More generally, I consider norms articulated in constitutional law texts or court decisions to form part of the constitution. That said, outside of the UK virtually all the coding decisions in the current dataset reflect a direct reading of the constitution or basic law, rather than secondary research in law texts.

[11] As the dataset is constructed by first coding the most recent years and moving backwards, any missing data for a country occur in the first years of its operation under a written constitution as an independent state.

lacks any powers of the purse in a particular country-year, then the reversion is coded as the executive's proposal.[12]

Figure 1 displays both the number and percentage of constitutions containing EFRs in year t. Where only five constitutions stipulated an EFR in 1875, the number grows almost monotonically and reaches 109 in 2005. The percentage also grows, with a few minor reversals, from 25% in 1875 to 70% in 2005. Thus, there has been a striking growth in EFRs.

Figure 1 about here.

Figure 2 divides the full sample of 157 countries into five cohorts, those entering the dataset in 1875-1899, 1900-1924, 1925-49, 1950-74, and 1975-2005. While the first two cohorts exhibit growth in EFRs over time, much of the overall growth in EFRs is explained by differences between the cohorts.[13] The predilection for EFRs is particularly striking in the last three cohorts, composed of countries emerging on the scene after World War I (the 1925-49 cohort), World War II (the 1950-74 cohort), and the Cold War (the 1975-2005 cohort). In other words, the upward trend in executive-favoring reversions is driven primarily by new countries adopting constitutions that mandate such reversions, and secondarily by old countries revising their initial constitutions.

Figure 2 about here.

The constitutions which most completely deprive the legislature of any power over the purse—those in which the reversionary budget is the executive's proposal—also show an upward trend. Where no countries had such reversions in 1875, 41 had them by 2005 (constituting 38% of the countries with EFRs).

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[12] More precisely, the reversion is coded according to the constitutional decree issued by those who suspended the constitution. In practice, this almost always means that the executive so completely controls the budgetary process that the only possible coding for the reversion is the executive's proposal.

[13] The figure starts plotting each cohort in the year following the period defining it. Thus, the 1875-99 cohort begins plotting in 1900, and so on. The exception is the last cohort, which begins plotting in 1990.

A caveat in interpreting the results presented thus far is that some constitutions do not contain explicit provisions regarding what happens, should no budget be approved by the beginning of the new fiscal year. For these cases, I have supplied codings based on my reading of the constitution.[14] Whatever errors exist in these codings, they do not affect the conclusions suggested by Figures 1 and 2. Constitutions have been increasingly clear about the budgetary reversion: the percent with explicit clauses increases almost linearly from 10% in 1875 to 72% in 2005. Looking only at constitutions with explicit clauses, the trends in Figures 1 and 2 are, if anything, stronger.

I can also note that the trends in these figures are not driven by the cases with suspended constitutions or appointed/one-party legislatures. If one focuses only on the country-years with constitutions formally in force and non-appointed multi-party legislatures, the basic trends are just as sharp.

Causes of EFRs

If my central theoretical claim—that EFRs seriously erode the power of the purse—is valid, the trends documented in the previous section are cause for concern. To explore whether such concern is warranted, I consider what causes a polity to adopt an EFR. Only a handful of studies in the literature consider EFRs and one finds two suggestions about their origins.

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[14] The coding rules were as follows. If the constitution does not confer at least two of the three traditional powers on the legislature, or if it confers such powers but also opens loopholes to get around them, then the reversion is classified as favoring the executive. Otherwise—powers conferred, no loopholes—the reversion is classified as favoring the legislature. Loopholes are deemed to exist when the executive has decree power that implicitly entails expenditure authority. For example, if the executive can unilaterally declare an emergency and take "all measures necessary" to quell internal disturbances, then he is empowered to undertake actions that entail state expenditures.

First, Alesina et al. (1999), Wehner (2006) and others examine the use of EFRs in contemporary democracies, viewing them as weapons against the fiscal common-pool problem that arises because individual legislators do not internalize the tax cost of public expenditures. By favoring an actor, the executive, who does internalize the tax costs, EFRs help mitigate the problem. By extension, such studies suggest that EFRs should be created when a country faces particularly high taxes and deficits, due to persistent raids on the Treasury by legislators.

Second, Santiso (2004; cf. Cheibub 2007) worries that EFRs entail a trade-off: they combat fiscal profligacy at the expense of worsening the horizontal accountability of the executive. The (normative) suggestion is that the creators of EFRs should balance these competing considerations.

In my view, the typical motivation behind EFRs is not a desire to mitigate fiscal common-pool problems. This goal can be accomplished *without impairing the power of the purse* by, for example, rules that backbench MPs can propose only reductions in expenditure.[15] Rather, I argue that EFRs have typically been introduced by incumbent leaders who face newly independent legislatures and seek to concentrate power in the executive branch.

While I cannot provide a narrative of the historical origins of all the EFRs that appear in my dataset, I can—exploiting post-1945 data—document a pattern consistent with my thesis. Figure 3 focuses just on countries with independent—that is, neither appointed nor one-party—legislatures. The connected circles give the yearly percentage

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[15] The classical understanding of the House of Commons' standing order allowing MPs to propose only reductions in expenditure is that it was a response to the fiscal common-pool problem. See Todd 1867, vol. I, pp. 428-29. Other proposed remedies for the fiscal common-pool problem include empowering Finance Ministers and entering fiscal contracts (Hallerberg, Strauch and von Hagen 2007, 2009). By mitigating the problem within the cabinet, these methods would also mitigate it within parliament, to the extent that party leaders could control their followers.

of all countries with "old" independent legislatures that had EFRs. The squares give the analogous yearly percentages for countries with "new" independent legislatures. Most of the newly independent legislatures in my sample arise because of decolonization or the end of single-party rule but a few arise because monarchs decided to create legislatures or to allow existing legislatures to be fully elected. Finally, the curve near the top of the figure is a locally weighted regression line summarizing the data for the "new" independent legislatures.

Figure 3 about here.

As can be seen, the use of EFRs trends upward both for "old" legislatures and for "new" ones, consistent with the findings in Figures 1 and 2. More importantly for present purposes, one sees a sharp distinction between "new" and "old" independent legislatures, with the former much more likely to institute EFRs in any given year.

If one puts this in the form of a logit regression predicting whether a given country-year will exhibit an EFR, one can include controls for GDP per capita and previous democratic breakdowns. The results show that EFRs are much less likely in richer countries; and much more likely in countries with more democratic breakdowns in the past. Controlling for these effects, the upward trend over time and the tendency for countries with newly independent legislatures to adopt EFRs remain.

A typical story behind the adoption of an EFR in newly independent countries is as follows. At independence, the country inherits a constitution (with a legislature-favoring reversion, or LFR) from its European colonizer. Soon after independence, a coup occurs and the new leader replaces the original constitution. Sometimes, a full-blown constitution—with an EFR—is brought in almost immediately. In other cases, the new leader rules under a "short" constitution—e.g., a junta's decree that it has assumed

all the constitutional powers of the legislature and executive until further notice—for a few years before promulgating a more elaborate constitution. Short constitutions almost always put the reversionary budget wholly (if implicitly) at the discretion of the executive; and usually the longer constitutions following them explicitly include EFRs.

Correlates of EFRs: Sovereign debt

The two hypotheses about what has historically motivated EFRs generate distinct predictions about their consequences. On the one hand, if the creators of EFRs generally aimed to enhance fiscal discipline, then countries adopting them should have experienced lower deficits (as a direct consequence); and *enhanced* credit-worthiness (by virtue of having adopted a mechanism to promote fiscal discipline). On the other hand, if the creators of EFRs generally aimed to concentrate fiscal power in the executive's hands, then EFRs should affect sovereign debt in two ways. First, a legislature facing an EFR should anticipate that its control over expenditures will be weak and thus be less willing to grant loan authority to the executive. Second, because EFRs erode the legislature's power over the purse, they should erode the credibility of sovereign debt, following the classic argument in North and Weingast (1989). One therefore expects both lower levels of debt and poorer credit ratings.

There is already considerable historical evidence that European states moving from absolutist fiscal systems (with EFRs) to republican fiscal systems (with LFRs) experienced substantial increases in both sovereign debt and credit-worthiness. The original LFR was imposed after England's Glorious Revolution and led to a substantial increase in England's credit-worthiness and ability to borrow (North and Weingast

1989; Cox 2012a,b). Dincecco (2009) documents similar responses following the institution of LFRs in eleven major European states over the period 1650-1913.[16]

The historical studies just cited compare debt levels and interest rates before and after major constitutional reforms. This section follows a similar within-country research design but with three main differences. First, it considers a substantially larger sample of countries in the period 1970-2005. Second, it examines not only transitions from EFRs to LFRs but also transitions from LFRs to EFRs and cases with no change in the budgetary reversion. Third, it includes an array of control variables not available in the historical studies.

Sovereign debt declines with EFRs

To explore how EFRs affect sovereign debt levels, I exploit a new dataset on central government debt in the period 1970-2005, compiled by Jaimovich and Panizza (2010). Focusing on the 63 countries that had populations over a million (as of 1990) and at least ten years of complete data, I run a panel regression in which central government debt in country-year jt is the dependent variable. The regression includes country and year fixed effects, a standard battery of economic predictors of credit-worthiness, and the Boix, Miller and Rosato (N.d.) indicator of electoral democracy.[17] The regressors of main interest are those indicating the nature of the budgetary reversion.

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[16] Dincecco focuses on the establishment of annual budgets but, in the cases he considers, annual budgeting coincided with substantial moves toward LFRs. Stasavage (2007), exploring a similar institutional hypothesis, finds more mixed results for medieval and early modern European states. See also studies of 19th-century Brazil (Summerhill 2006) and Argentina (Saiegh 2009).

[17] Boix, Miller and Rosato count a polity as democratic if it holds free and fair national elections with broad suffrage rights. I use their measure in part because it focuses purely on the electoral dimension of democracy; and partly because of its extensive historical coverage.

The results (Table 2) show that central government debt is substantially lower when the reversion favors the executive. In particular, debt is lower by over 22% of GDP, when the reversion is the executive's proposal; and by over 6% of GDP when the reversion is last year's budget (with the former effect statistically significant).

Table 2 about here.

Because the analysis includes country fixed effects, these estimates reflect within-country rather than cross-sectional comparisons. That is, they show that countries tend to see their debt increase, as they change their reversions from the executive's proposal, to last year's budget, to a government shutdown. Moreover, because the analysis controls for electoral democracy, these results cannot be attributed simply to an uncontrolled correlation between electoral and fiscal reforms.

As a robustness check, I reran the analysis excluding each of the eleven countries that experienced change in their reversionary budget, one at a time. The results remained qualitatively the same, showing that no single country drives the results.

Credit ratings decline with EFRs
To explore how EFRs affect credit-worthiness, I use credit ratings issued by Moody's as the dependent variable, focusing on the 48 countries with at least ten years of usable data in the period 1970-2005.[18] I regress each country's credit rating in each year on the same variables used in Table 2, including the country fixed effects, while adding a variable indicating whether the country has recently defaulted on its debts.

The results (Table 3) show that a country's credit rating decreases substantially (about 10 points on a 16-point scale) when the reversion is the executive's proposal; and somewhat (about 4 points) when the reversion is last year's budget. Countries adopting

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[18] See Beaulieu, Cox and Saiegh (N.d.) for a history of these ratings and a justification for starting the analysis circa 1970.

EFRs tend to see their ratings decline and countries abandoning them tend to see their ratings improve.

Table 3 about here.

As a robustness check, I reran the analysis excluding each of the four countries in the sample that experienced change in their reversionary budget, one at a time. The results changed only in that the estimated damage done by a reversion to last year's budget, relative to a government shutdown, was insignificant in one of the runs (that produced by excluding Argentina).

Correlates of EFRs: Leadership successions

In this section, I consider how EFRs affect leadership succession. In any given polity, there will be some number of actors capable of mounting a challenge to the incumbent. Each of these would-be leaders has three basic options: do nothing; seek to oust the incumbent via constitutional means; and seek to oust the incumbent extra-constitutionally. If EFRs establish fiscal autocracy, then *they should increase the probability of an extra-constitutional challenge, conditional on any challenge being mounted at all*.

To explain, note that EFRs have two proximal effects that together push succession contests toward extra-constitutionality. First, they give the leader more control over the state budget, allowing him to extract more rents for himself and to distribute more rewards to his followers. Thus, the value of staying in office increases substantially (as witnessed by the large number of fabulously wealthy dictators from dirt-poor countries).

Second, EFRs motivate and enable incumbents to rig those political procedures by which they might constitutionally be removed from office. Thus, one finds a strong correlation between EFRs and anti-competitive constitutional reforms, such as those that: (1) remove or weaken votes of confidence; (2) establish lifetime presidencies; or (3) enhance the chief executive's control over electoral administration (cf. Cox 2012b).

As incumbents stack the deck against their potential challengers, the expected value to such challengers of launching challenges within the confines of constitutional rules necessarily declines. Thus, would-be leaders are more likely to seek power by force, conditional on launching a challenge at all. In contrast, if EFRs simply mitigate the fiscal common-pool problem, then they should not promote violence in leadership transitions.

To explore these matters, I merged the Legislative Powers Dataset with a dataset that codes all exits and entries into power by national leaders as either constitutionally "regular" or "irregular."[19] The dependent variable is Irregular$_{jt}$, coded as 0, when the incumbent leader in country-year jt is replaced by regular constitutional means; and 1, when the incumbent is replaced by constitutionally irregular (typically violent) means. The combined data cover the period 1875-2005.

Table 4 shows how frequently leaders have entered power by constitutionally irregular means, as a function of the budgetary reversion (and the presence or absence of electoral democracy). The first column shows that 41.5% of new leaders reached power by irregular means when the budgetary reversion was the executive's proposal, versus 21.4% when the reversion was last year's budget, and 9.2% when the reversion

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[19] The Archigos dataset can be found at http://www.rochester.edu/college/faculty/hgoemans/data.htm. Cf. Goemans, Gleditsch and Chiozza (2009).

was a government shutdown. As the executive's grip on the budget strengthens, the probability that he is ousted by irregular means increases.

The next column focuses on electoral autocracies, showing that the analogous figures are 59.5%, 31.4% and 24.9%, respectively. Thus, polities that did not hold free and fair elections with extensive suffrage rights were substantially more likely to experience violent leadership successions. However, even within this group, the budgetary reversion in force before the new leader entered power correlated strongly with the means that leader used to attain power.

The last column focuses on electoral democracies, for which the analogous figures are 11.8%, 3.9%, and 1.8%, respectively. Electoral democracies were much less likely to experience violent leadership successions but, holding democracy constant, the budgetary reversion correlated strongly with extra-constitutional seizures of power.

Table 4 about here.

Table 5 expands on Table 4 by running a random-effects logit regression of Irregular$_{jt}$ on indicators for the kind of EFR in force at the beginning of the year, along with a battery of controls: economic growth rate, lagged GDP per capita, lagged electoral democracy, regional fixed effects and decadal fixed effects. As can be seen, when the reversion is the executive's proposal, the probability that his successor will use irregular means to attain power is significantly higher. To give an idea of the substantive size of this effect, consider a country with an LFR and a probability of irregular succession equal to the frequency given in Table 4 for such countries: .09. In an otherwise comparable country in which the reversion was the executive's proposal, the probability of irregular succession would be almost doubled, to .16. The probability of irregular entries into power is also higher when the reversion is last year's budget but

this effect is substantively smaller (an increase to .11 in the same scenario) and statistically insignificant.

Table 5 about here.

Conclusion

As famously documented by Huntington (1991), waves of electoral democracy have swept the globe since the nineteenth century. Electoral democracy, however, removes the most secure mechanisms by which the chief executive can control the legislature's membership—viz., one-partyism and executive-appointed legislatures. This leaves two main options for an executive unwilling to share power with an independent legislature: electoral authoritarianism to enhance the executive's control of legislators' careers; and fiscal autocracy to defang the legislature's power over the purse.

There has recently been a lot of work focusing on electoral manipulation after the third wave (e.g., Schedler 2002, 2006; Hyde 2011). But fiscal authoritarianism as a reaction to the increasing demand for popular participation in politics has, to my knowledge, been neglected.

Here, I have explored the main strategy by which the power of the purse has been defanged and fiscal autocracy established: the introduction of executive-favoring budgetary reversions. I have shown that waves of executive-favoring reversions have followed the emergence of new polities after World War I, World War II and the Cold War. Pressured into adopting constitutions that allowed more popular participation

than their elites would have preferred, these new countries were particularly likely to begin life with, or quickly establish, executive-favoring reversions.[20]

I have also shown that the introduction of such reversions has a syndrome of effects consistent with the hypothesis that they were intended to, and do, defang the legislature. Fiscal autocracy has two important and inevitable consequences. First, fiscal autocrats have difficulty committing to particular uses of tax revenues, or to repayment of loans, and hence have difficulty raising such revenue non-coercively (Barzel and Kiser 2002; North and Weingast 1989). Here, I have not considered tax revenues but have shown that sovereign debt correlates with EFRs as one would expect.

Second, fiscal autocrats have both the incentive and wherewithal to entrench themselves in office by re-engineering any constitutional procedures by which they might be expelled from office. Such re-engineering, however, means that would-be challengers' best strategies of removal are extra-constitutional. Elsewhere (Cox 2012b), I document that EFRs correlate with weak constitutional means of removing the executive. Here, I have shown that EFRs correlate with the use of extra-constitutional methods in leadership succession contests.

Stepping back from the focus on reversions, consider the more general thesis that executives have optimized their defense against independent legislatures, and have pursued both electoral (control) and legislative (disempower or defang) options. This thesis suggests one can classify authoritarian regimes by their relative mix of strategies.

Some regimes, by legally outlawing opposition parties or stacking the deck enough to sustain a single hegemonic party, have been able to establish extremely

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[20] Some of these cases fit a "fear of redistribution" model, such as those presented by Boix (2003), Acemoglu and Robinson (2005), and Przeworski (2008). In other cases, however, the executive is controlled by revolutionaries who turn out to be just as unwilling to share power with a truly independent legislature.

secure control over their legislature's members. These regimes tend also to have legislatures with significant powers over the purse and favorable reversions. In some cases—e.g., the communist dictatorships—the single party came first and could thus safely write a constitution endowing the legislature with significant powers. In other cases—e.g. Mexico—the strong legislature came first and elites chose to establish a hegemonic party (rather than amend the constitution).[21] Through both mechanisms, fiscally strong legislatures coexist with hegemonic parties.

Other regimes, less successful in establishing single or hegemonic parties, have put much greater effort into removing or defanging the legislature's powers over the purse. Some countries have experienced sudden and precocious suffrage extensions, overwhelming elite efforts to build hegemonic parties. Elites responded by seizing executive power and demoting the legislature (cf. Rose and Shin 2001). Once the legislature's power over the purse had been defanged, however, the incentive to institutionalize legislative parties was greatly diminished. This seems to have been a recipe for coups, EFRs, and poorly institutionalized parties in much of Latin America, for example.

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[21] Cf. Weldon's (1997) study of the meta-constitutional presidency in Mexico.

Appendix

Rather than focusing on how reversions affect the legislative majority's ability to force spending reductions, one might ask how they affect budgetary outcomes. If we envision the budget as simply an allocation of revenues between the executive, E, and the legislative majority, M, with x_E going to E and x_M going to M, then we can use standard bargaining models to identify the equilibrium outcomes for each cell in Table 1.

In particular, consider the following scenario. Under last year's budget, the executive's share of the budget is $x_{E,t-1}$. The executive now faces an opposition majority in the lower chamber, with the power to amend the budget in any way. Thus, if E cannot enforce the reversion, $x_E = 0$. If E can enforce the reversion, E and M bargain over the new budget. Each is equally patient and I assume they reach the Nash bargaining solution. Finally, I assume the size of the old budget was 1 and the size of the new budget is $\pi \geq 1$.

Table A1 below displays the equilibrium share of the budget that E secures, as a function of the budgetary reversion and executive power. When the reversion is a government shutdown, E and M split the budget equally. When the reversion is the previous year's budget, the executive's share exceeds his lagged share. The reversion offers an insurance policy against electoral losses. Finally, when the reversion is the executive's proposal, the midterm loss has no budgetary consequence.

Table A1: Equilibrium share of the budget going to the executive

	Reversionary budget		
	Government shut-down (no expenditure sans legislative approval)	Previous year's budget	Executive's proposed budget
Executive can prevent timely enactment of the budget—e.g., by (1) appointing the Senate and having it block; (2) vetoing the budget; (3) having legislative allies employ dilatory tactics.	$x_E = \pi/2$	$x_E = x_{E,t-1} + (\pi-1)/2$	$x_E = \pi$
Executive lacks any power to prevent timely enactment of the budget.	$x_E = 0$	$x_E = 0$	$x_E = 0$

What if the executive controls no votes in the legislature at all, with both the majority bloc (M) and minority bloc (m) in the legislature being autonomous actors? In this case, the outcome can still change considerably as a function of the reversion. The intuition is that the combination of a favorable reversion and proposal power essentially gives the executive some voting weight. To see this, assume that E, M and m can communicate prior to the beginning of the legislative process and can commit to following certain strategies. Suppose first that the reversionary budget favors the legislature—that is, it yields payoffs to the three actors of (0,0,0). In this case, the only minimal winning coalition is {M,m}. For, M and m together can ensure passage of the budget (amended as they wish) and override the executive's veto (if any). In contrast, no coalition that excludes at least one legislative actor—viz., {E}, {M}, {m}, {E,M}, and {E,m}—can enact the budget, since any excluded legislative actor can block a final vote on the budget and thus impose the reversionary outcome of (0,0,0). Thus, in this case, the actors' normalized voting (or minimum integer) weights are: $w_E = 0$, $w_M = \frac{1}{2}$, $w_m = \frac{1}{2}$. Now suppose the reversionary budget favors the executive. In this case, the minimal winning coalitions that can enact the budget are not just {M,m} but also {E,M} and {E,m}. The last two coalitions combine the executive's power to propose a budget (which becomes the reversion) and either M or m's power to prevent the legislature from voting on that budget (thus ensuring its enactment). The actors' normalized voting weights are now: $w_E = 1/3$, $w_M = 1/3$, $w_m = 1/3$. Thus, the executive's payoff increases from 0 to 1/3 when the reversion changes.

While the results derived in this appendix are useful, I prefer the simpler analysis conducted in the text, as it focuses more clearly on the essential element of the power of the purse: the legislative majority's ability to deny expenditure authority to the executive.

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Table 1: Can the legislative majority stop the executive from spending?

	Reversionary budget		
	Government shut-down (no expenditure sans legislative approval)	*Previous year's budget*	*Executive's proposed budget*
Executive can prevent timely enactment of the budget—e.g., by (1) appointing the Senate and having it block; (2) vetoing the budget; (3) having legislative allies employ dilatory tactics.	M can force E to stop spending.	M can block spending increases but cannot force (nominal) reductions.	M cannot force E to stop spending.
Executive lacks any power to prevent timely enactment of the budget.	M can force E to stop spending.	M can force E to stop spending.	M can force E to stop spending.

Note: In this table, I assume (1) the reversion comes into force if a new budget is not enacted before the beginning of the new financial year; and (2) the legislature can amend the budget to impose any cuts it wishes. Some constitutions violate one or both of these conditions and I consider the consequences in a companion paper (Cox 2012b).

Table 2: Executive fiscal control and public debt, 1970-2005

Dependent variable: Central government debt as percent of GDP

Independent variables	Coefficients (standard errors)
Reversion at t-1 is the executive's proposal	-22.2*** (5.2)
Reversion at t-1 is last year's budget[a]	-6.2 (4.7)
Electoral democracy at t-1	-4.9* (2.5)
Inflation rate	.005*** (.002)
Lagged growth rate in per capita GDP	-1.08*** (.16)
Lagged GDP per capita (constant dollars)	-.001*** (.0003)
Lagged current account balance	-.24* (.14)
Lagged resource	-.09 (.08)
Lagged trade / GDP	.03 (.05)
Year fixed effects?	Yes
Country fixed effects?	Yes
Number of observations	1364
Number of countries	63
R^2 within	.26
R^2 between	.04
R^2 overall	.08
F test p value	.0000

*** p value < .01; ** p < .05; * p < .10.

Note: (a) Countries are counted as having a reversion to last year's budget only if they place no significant constitutional limits on this reversion, either in terms of the length of time it can remain in force, or in terms of the purposes for which the government can spend.

Table 3: EFRs and sovereign credit ratings, 1970-2005

Dependent variable: Moody's credit rating[a]

Independent variables	Coefficients (standard errors)
Reversion at t-1 is the executive's proposal	-1.12*** (.21)
Reversion at t-1 is last year's budget[b]	-0.35** (.15)
Electoral democracy at t-1	-0.04 (.09)
Inflation rate	-.0004*** (.00008)
Lagged growth rate in per capita GDP	0.020*** (.005)
Lagged GDP per capita (constant dollars)	.0001*** (.00001)
Lagged current account balance	-.007 (.004)
Lagged resource	-.006 (.004)
Lagged trade / GDP	.005*** (.002)
Default	-.12* (.07)
Year fixed effects?	Yes
Country fixed effects?	Yes
Number of observations	923
Number of countries	48
R^2 within	.24
R^2 between	.42
R^2 overall	.40
F test p value	.0000

*** p value < .01; ** p < .05; * p < .10.

Notes:

(a) Moody's ratings range from Aaa to C. We convert this to a number, r, taking values between 0 and 16, and then use $\ln[(1/16)+(255/256)r]$ as the dependent variable.

(b) Countries are counted as having a reversion to last year's budget only if they place no significant constitutional limits on this reversion, either in terms of the length of time it can remain in force, or in terms of the purposes for which the government can spend.

Table 4: EFRs and irregular leadership succession, 1875-2005

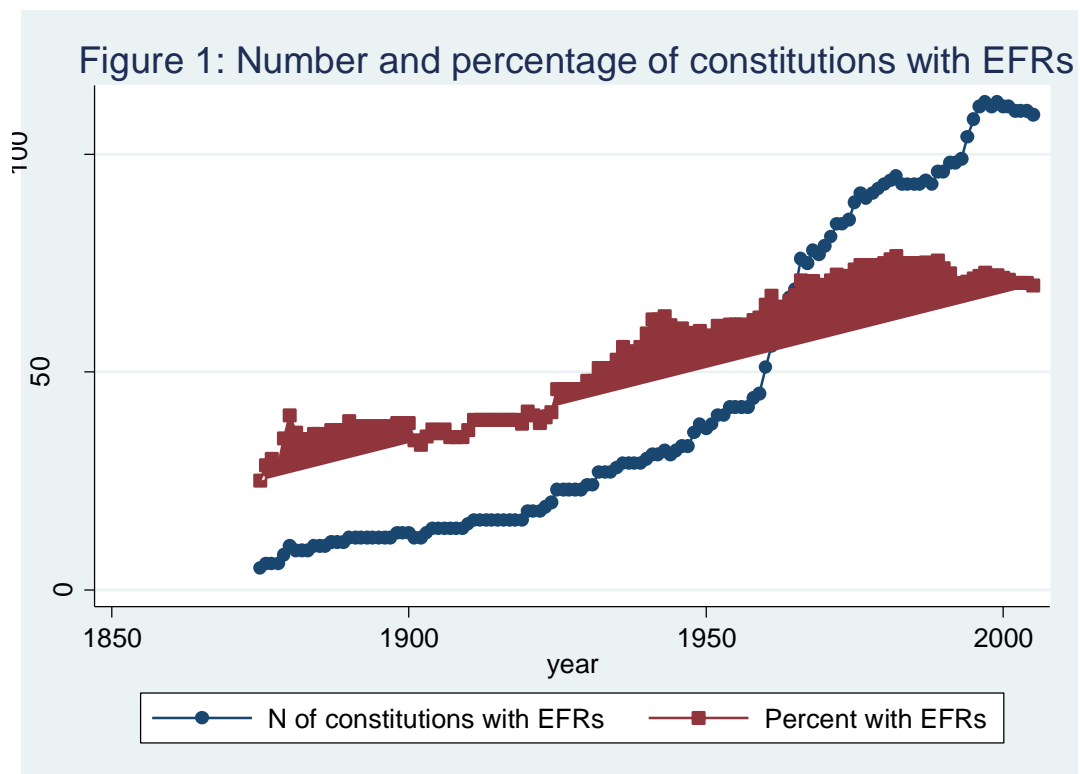|	All countries	Non-democracies	Democracies
Reversion is executive's proposal	41.5% (of 270)	59.5% (of 163)	11.8% (of 102)
Reversion is last year's budget	21.4% (of 658)	31.4% (of 407)	3.9% (of 231)
Reversion is a government shutdown	9.2% (of 804)	24.9% (of 257)	1.8% (of 547)

Note: Cell entries give the percentage of leadership successions in each cell that were irregular, along with the total number in each cell. For example, there were 270 country-years such that (a) the country's reversion (at the beginning of the year) was the executive's proposal; and (b) the country experienced a leadership succession in that year. In 47.9% of these cases, the (first) new leader entered power by irregular means. Only the first succession event in each country-year is considered.
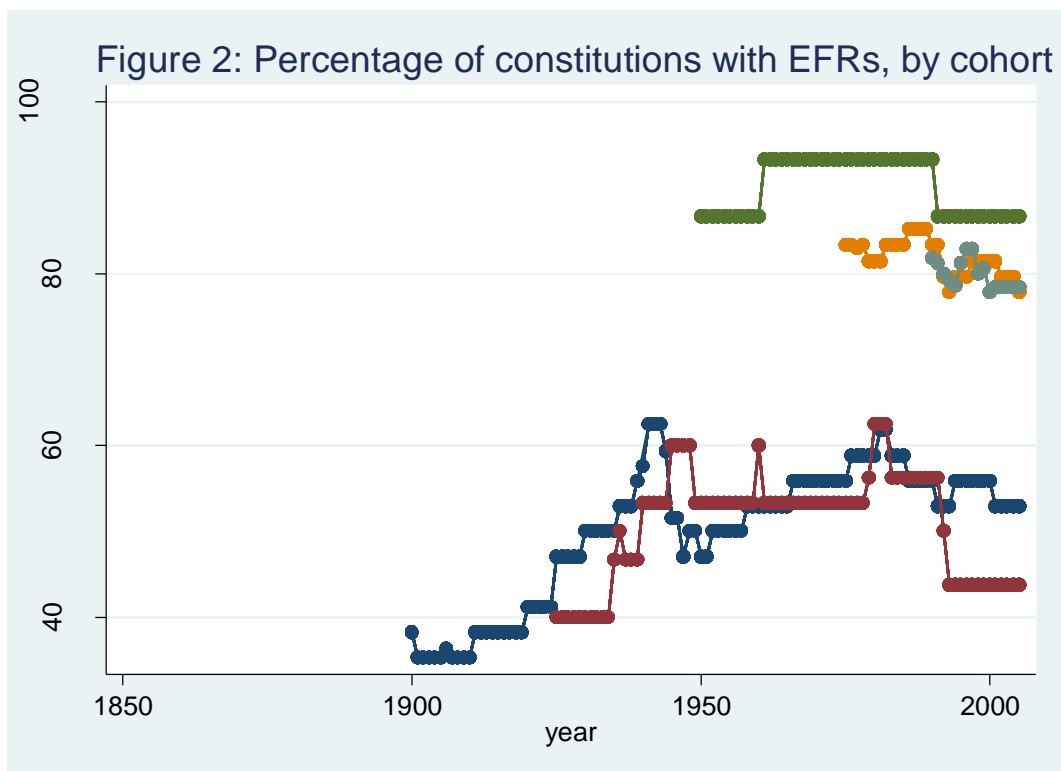
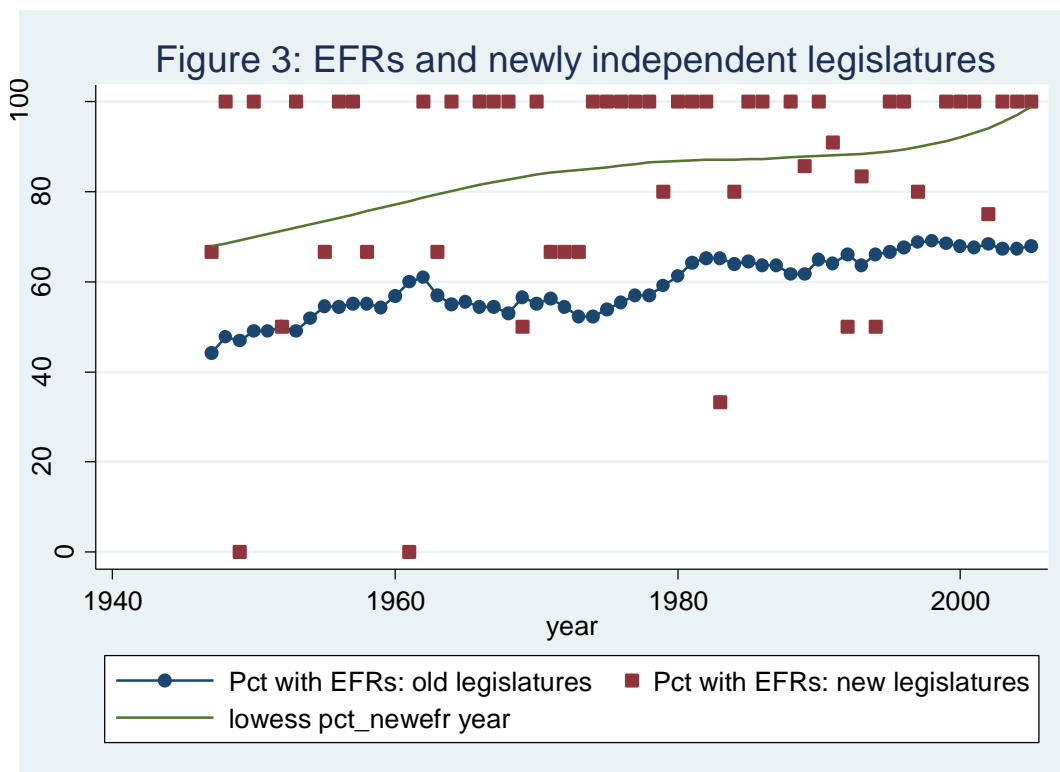**Table 5: EFRs and leadership turnover, 1875-2005**

Dependent variable: Irregular$_{jt}$

Independent variables	Coefficient Standard error
Reversion at t-1 is the executive's proposal	0.64** 0.30
Reversion at t-1 is last year's budget	0.24 0.28
Growth rate	-.05*** 0.01
GDP per capita at t-1	-0.0003*** 0.00007
Electoral democracy at t-1	-1.09*** 0.23
Regional fixed effects	Yes
Decadal fixed effects	Yes
Number of observations	1487
Wald χ^2	168.7
p value	0.0000

*** p value < .01; ** p value < .05

Figure 1: Number and percentage of constitutions with EFRs

Figure 2: Percentage of constitutions with EFRs, by cohort

Figure 3: EFRs and newly independent legislatures

Notes: The circles give the percentage of countries with "old" legislatures—that is, legislatures that are not newly independent—that also have EFRs. The squares give the percentage of countries with "new" legislatures—that is, newly independent legislatures—that also have EFRs. The text describes the criteria for classifying a legislature as "newly independent." The curve at the top of the graph is a locally weighted regression line summarizing the data for the newly independent legislatures in each year.