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Political Factors of the Cuts and Surges in Government Spending: The Effects on Old Market Democracies and Post-Communist Countries

The paper is based on the comparative analysis of the episodes of Surges and cuts in spending (old and some new market democracies). We tried to explain surges and cuts by some broadly discussed in the literature factors affecting governments' abilities to balance the budget (such as territorial separatism, the long run domination of the left- or right-wing parties; left or right-wing government etc). Much attention is paid to the phenomenon of universal suffrage, which caused rise to power modern left-wing parties and strong special interest groups within the bureaucracy.

Our analysis reaches the following conclusions: First, most political factors are time and case sensitive; however, those factors that depend on universal suffrage consistent throughout all periods and countries. Second, a severe crisis usually opens the window of opportunity that is necessary to cut public expenditure, while the favorable economic conditions stimulate spikes in government spending. Third, the most effective way to curb the instability of public finance is to form a political coalition of nationalists and free market supporters.

JEL codes: D72, D78, H11, H62, N40

Key words: *Separatism*, *political competition*, *budget deficit*, *universal suffrage*, *window of opportunity*

Introduction

Based on the comparative analysis of the experiences of both old and new market democracies, this paper emphasizes key factors that have triggered changes in government spending habits, measured in terms of each nation's GDP. By analyzing the history of the last several decades, the authors of this paper outline the factors (such as territorial separatism, the domination of the left- and right-wing parties or the long one-party rule) that affect governments' abilities to balance the budget. Much attention is paid to the phenomenon of universal suffrage, which led to the contemporary left-wing parties and strong interest groups within the bureaucracy.

We have analyzed a number of episodes in history of developed and transitional countries that illustrate both the rapid growth and cut of government spending. We have also looked at the impact of political institutions on fiscal stability. (*For example, look at the statistical analysis* *section.*) It is necessary to point out that case-study analyses may prove insufficient in terms of reaching our research objectives; the reason is that these factors — which often lead to changes in the size and scope of public spending — tend to be in effect for quite long before the measures intended to cut or expand them take place (Benedicta Marzinotto in Ide, Park, 2015).

Literature review

Key political factors that trigger the rise of the budget deficit and government debt

Lizzeri (1999) proposed a theoretical model that explains the reasons behind the accumulation of government debt in democratic countries. According to this model, a politician who proposes to cut public expenditure in order to curb the deficit is at risk of losing any forthcoming elections. In turn, the electorate is not informed of the potential consequences if the coalition that promises to reallocate for their financial resources were to come into power.

According to another hypothesis, a strong single party government (rather than a political coalition) is better able to balance the budget and control the nation's debt (Roubini, Sachs 1989a, Roubini, Sachs 1989b). However, the experiences of postwar Japan and the United States (Hahm, Kamlet, Mowery 1995) cannot be appropriately used as evidence of this hypothesis. The reason is that during the Cold War, the US spent a substantial amount of their resources to protect a number of other states across the globe, including Japan. Consequently, American allies were able to save billions of dollars that should have been spent on building their defense potential.

Government structure and its ability to balance the budget

According to William Heller, a bicameral structure of the legislature complicates the balancing of the budget, as it multiplies the number of interest groups involved. The proof is in the results of a statistical analysis of the budget policies of 17 democratic countries recorded between 1965 and 1990.

Falcó-Gimeno and Ignacio (2011) analyzed the budget policies of governments that were led by minority parties. Such governments are compelled to cooperate with the opposition on most budget issues; and consequently, they have virtually no chance to control the deficit. If the opposition is represented by a single party that has a significant chance of winning the coming election, it has an incentive not to expand the deficit – otherwise it would be forced to curb the fiscal crisis as a ruling party. However, if the opposition is fragmented, a minority party has less of a chance to control the deficit.

Constitutional limitations of debt and budget deficits

Ghiglino (2000) did not analyze any actual attempts to introduce constitutional norms that could limit budget expenditures, nor did he differentiate the taxpayer experience from universal suffrage democracies. Ghiglino developed a theoretical model that measured the government's ability to impose a lump-sum tax on all citizens in order to increase public expenditure and avoid having to save public funds, leaving the consequences to future generations.

In reality, the conditions of a universal suffrage democracy lead to an increase in government debt, and often lower taxes as well. Moreover, it is very easy to form a coalition that will consist of politicians who will demand to lower taxes rather than government expenditures. Consequently, constitutional norms are not an effective barrier that will check their desire to increase government expenditures by expanding the nation's debt.

The experiences of the Reagan and Bush Jr. administrations reveal how popular measures intended to lower taxes can be, in lieu of measures to lower public expenditure. It's important to note that while the Reagan administration increased the defense expenditures that were drastically cut after the Cold War, the Bush Jr. administration's budget policy was based on populism alone ("Starving the Beast" - Niskanen, 2006 ; Firey, Slivinsky, 2014).

Blume and Voigt (2013) researched the impact of constitutional rules on the budget and fiscal policy. In particular, they took a look at the norms that allow for the transparency of the budget policy and that limit the scope of the debt and deficit. They also took into consideration the duration of the execution of rules that limit debt and deficit. Moreover, another variable they considered was the longevity of the democratic rule that affected the transparency of the budget policy; and they took the Maastricht criteria that are used in the EU into consideration as well. Finally, Blume and Voigt considered legal systems as yet another variable. Those governments that use the German legal system often introduce norms that limit the size of their expenditures. While the Scandinavian legal system correlates positively with the transparency of the budget process, the French legal system correlates with it negatively. The socialist legal system correlates neither with the limitations of the government expenditures, nor with the transparency of the fiscal process.

Blumy and Voigt concluded that the constitutional norms that were implemented in a number of countries in the 1990s and 2000s allowed these nations to reduce public expenditure. They also concluded that a country's budget transparency correlates positively with those Worldwide Governance Indicators that focus on government effectiveness and the control of corruption.

It's important to note that those members of the EU that ensure the Maastricht criteria are met do not provide a more conservative fiscal policy than any other old market democracy. At the same time, this variable correlates positively with the burden of the state on the economy.

In the 1830s and 1840s, the US government faced a shortage in fiscal revenue. At the same time, officials wanted to complete more and more infrastructure projects in order to demonstrate their economic success. This is why they were compelled to finance them by borrowing the funds they needed. This, in turn, led to a number of budget crises that ultimately led to a series of defaults (Dove, 2012). It forced the majority of state governments to introduce constitutional norms that limited the size of the debt and deficit, and that complicated the borrowing procedure.

Since 1936, the United States has seen a number of attempts at introducing a constitutional norm that could limit the size of the federal debt. However, all such attempts failed. Moreover, all attempts to implement old and introduce new balanced budget requirements between 1961-2006 led to failure. The evidence is in the research provided by Mahdavi and Westerlund (2011).

Party Politics

A substantial body of literature focused on search of evidences of insignificance of differences between the budget policies of left- and right-wing parties led governments. And there are a lot of factors that level the differences between them. However, the only way to prove that there is a lack of any differences between these approaches to the budget policy is to acknowledge that the electorate is not only rational, but also foolish. And this argument is far from the truth. The only reason to even attempt to prove it is to hide the fact that the electoral base of left-wing parties consists mostly of people who live on welfare.

This is why it’s difficult to overestimate the importance of those research studies that demonstrate the differences between the budget policies of left- and right-wing parties. One example is a paper on the budget policy in the United Kingdom, authored by Kollias, Papadamou and Psarianos (2014). The three researchers analyzed quarterly statistics on government revenues and expenditures, recorded from 1961-2011. Their conclusion was that conservative Cabinets were always trying to balance the budget, while Labors were typically indifferent to the issue of budget stability.

At the same time, some factors contributed to the lack in any differences between the budget policies of left- and right-wing parties. Thus, the political caution of the German Social Democrats helped them to maintain a conservative fiscal strategy. Another example is Sweden, where the Social Democrats dominated through the second half of the twentieth century: They considered the country as their political and corporate asset, which is why they implemented a responsible budget policy.

In this regard, it is instructive to recall the 2012 US vice-presidential debate between Republican Paul Ryan and Democrat Joe Biden.[1] Biden cited the letter Ryan had sent to him in order to lobby the provision of funds from the federal budget that had been allocated for the purpose of curbing the crisis in Wisconsin.

[1] Here is the record of the 2012 US vice-presidential debate. https://www.youtube.com/watch?v=j3roG09O6T4

This is a clear illustration of the fact that conservative politicians who seek reelection are often compelled to strive for the allocation of budget resources for their voters, although this contradicts their political principles based on the idea of a Limited Government. Voters could lose money as the result of this decision, which would make any budget priorities even less fair. The other side of the coin is that it is difficult for conservative politicians to cut those social programs that they've lobbied themselves.

Spain

A group of Spanish researchers (Bajo-Rubio et al, 2010) analyzed the Spanish budget policy between 1850 and 2000. They found that the country's authorities provided budget stability in times of peace, although they had no interest in controlling public expenditure, aside from when the deficit was high (4-5% of the GDP).

The aforementioned periods of high deficits fell mostly within the rule of the Socialist party: For example, this occurred in the 1990s, when the government expenditures were rising quickly. However, several periods were marked by an irresponsible budget policy, which had nothing to do with the rule of socialists. Before the Civil War of 1936-1939, government expenditures ranged from 6-14% of the nation's GDP. Moreover, between the late 1910s and the late 1920s, the budget deficit amounted almost to nearly 4% of the GDP on four separate occasions. (This was the product of the rise expenditures, as well as of low tax collection.)

This data clearly demonstrates that severe fiscal measures are usually implemented to address a state of emergency. In other words, the government will pass these measures once the situation becomes critical. Another conclusion is that tight economic regulation can be substituted by high tax pressure. The evidence is in the fact that deregulation is often accompanied by a spike in social expenditures, which is made possible by the improvement of the business climate.

The United Kingdom

In order to make a comparison with the relatively young democracy in Spain, which does not have the experience of a census (taxpayers') democracy, it is worth reviewing the experience of the United Kingdom of Great Britain and Northern Ireland. Robert Barro (Barro, 1987) examines several parameters of the country's state budget. Let us focus on the defense budget – the dominating expense item (taking into account the defense budget debt servicing) for the period of 1701-1918 – and the budget deficit at the time.

The first striking feature is that the volume of defense expenses are quite modest, not only during peacetime (approximately 0.5% of GNP), but during the majority of wartime years as well, exclusive to the unprecedented scope of WWI.

On page 227, Table 1 illustrates the calculated peak expenses. The War of the Spanish Succession involved 5.1% of the GNP (1707), while the mean level for the period is 2.3%; the War of the Austrian Succession (1740-1748) led to 5.7% in 1748 and 3.3% correspondingly. The Seven Years' War in both Europe and America required the mean effort to top off at the level of 9.6% of the nation's GNP, which peaked in 1761 at 16.1%. The War of Independence against American colonists required significantly less money – 9.8% was the peak value in 1782, while the mean value for the period (1775-1783) was 4.9% of the GNP. The wars against the French Republic and Napoleonic wars (1793-1815) cost 5.2% of the GNP on average, with 9.8% peak expenses in 1814. Then, the Crimean War (1854-1856) cost 0.7% on average, without any peaks at the time. The Boer War of 1899-1902 cost 2.5% (with the peak of 2.7% in 1901).

In contrast, WWI required great sacrifices, including substantial economic losses: 49.3% of the GNP (!) in 1916. The mean value was 37.7% between 1914-1918.

The most important and interesting data related to the public debt, inter alia, is the budget deficit status. The evident long-term trend towards the deficit increase from 1701 (25% of GNP) to the mid-1830s (175%), and the following longtime decrease in the volume of debt from the second half of 1830s to 1913, back to the level of 25% of the GNP (ref. Diagram 8), are both noticeable. The budget deficit trend over these two centuries "nestles" to zero, revealing noticeable increases during wartime.

Of note, the semi-oligarchic regime—with elements of authoritarianism and political competition that existed even prior to the Great Reform—waged wars markedly more often than the classical census democracy regime (1833-1918). Under both political regimes, voters were not inclined to incur significant expenses, and so the government balanced the budget. The initial period of taxpayer democracy revealed that taxpayers had obviously become anti-pacifists; however they entered into wars cautiously, combining zero deficit with the decreasing public debt. There was a gradual extension of voting rights by the beginning of WWI, and what turned out to be nearly universal suffrage (1884-1885) prepared the political framework for further developments.

Experience of Budget Consolidations

Alesina and Perotti (Alesina, Perotti, 1996) reviewed several cases of financial stabilization (the decrease in the public debt was their criterion). In particular, they compared financial stabilization cases in Ireland (as a positive example) and Denmark (as a negative example) in the 1980s.

The authors came to the conclusion that efficient stabilization should be based on the reduction of expenses – namely, transfers and the income of public employees – rather than on a tax increase. On the other hand, paying a tribute to Keynesianism, the authors did not recommend reducing public investments.

(N+1)th Crisis

In a concise and accurate manner, C. Reinhart and K. Rogoff (Reinhart, Rogoff, 2009) describe the essence of misperceptions in terms of evaluating crisis prospects: “The essence of this-time-is-different syndrome … crisis do not happen us here and now. We are doing things better, we are smarter, we have learned from past mistakes …"[2]. Reinhart and Sbrancia (Reinhart, Sbrancia 2015) remind their readers that after World War II, the relatively quick repayment of debt by a number of old democracies was the result of inflation rather than by high economic growth rates. Leaving aside A. Hamilton’s arguments regarding the need to pay off their debt from the Revolutionary War, we note that Reinhart’s proposal to rectify the problem of substantial public debt in times of peace by boosting inflation is extremely dangerous in the long term, and unobvious even in the short term (due to the fact that many market agents are already expecting it, as opposed to the examples provided in the paper).

Reinhart and Sbrancia’s reminder is very important in the methodological sense. By reviewing the government’s financial status in the long term, one shall be very prudent with the public debt parameter. Prior to the universal suffrage era, the parameter (especially its dynamics) was characterized by the gold standard and zero inflation in peacetime, and it is consequently incomparable with the same parameter after WWII.

Robert Barro (Barro, 2011) characterizes the crisis that started in 2007 as the “Great Recession,” citing data and pointing to the fact that the crisis is more serious than any other economic crisis that occurred after WWII. For example, the overall decrease in GDP (including all unrealized growth) amounted to approximately 9%; the stock market dropped by more than 50%. The above indicators are only inferior to the Great Depression.

According to Barro, the government and, to a lesser degree, the financial system, are responsible for the crisis and its duration.

Subnational Governments and Their Budgets

In general, the situation in this area is similar to those of central governments. A minority government is worse, from the point of view of balancing incomes and expenses, than even a simple coalition government (Scotland, Lapsley, etc., 2011). Experts suggest that a strong one-party rule at the level of municipalities is better than a coalition (Norway, Borge, 2005).

The German researcher tested the hypothesis on the existing soft budgetary constraints of the federal states. The data for the review was recorded between 1975-2005, and it covers the periods both before and after the reunification (of 11 and 16 federal states, including West Berlin and Berlin). Indicators for this period proved quite stable (with a low deficit), and they are observed in the federal states that were governed by the conservatives: Bavaria, Hesse and Baden-

[2] Reinhart, Rogoff, 2009 p. 15.

Wurttemberg. Consistently poor indicators are observed in Hamburg, the stronghold of the Social Democratic Party, and in the majority of the “new” federal states.

Budget Deficit Consequences: Deficit and Economic Growth

Goulas and Zervoyanni demonstrate that the evidence of the relationship between deficit and economic growth is ambiguous, despite multiple research studies and literature on the subject. In fact, some researchers argue that there is a negative relationship between the two, while others argue that there is no meaningful relationship as all. Based on the analysis of the sample of 27 EU member states from 1991-2007, the authors came to the conclusion that the unexpected increase in the deficit – rather than the deficit itself – had a negative effect on growth.

It is of note that a sharp increase in government deficit (especially when market agents don’t see it coming) undoubtedly forces investors to reevaluate the risks of their projects upwards, and it ultimately destabilizes economic growth. In addition, on many occasions the sharp increase in the deficit may indicate preexisting negative tendencies in the economy undermining the state’s capability to collect taxes (the authors do not examine the direction of the cause-and-effect relationship).

Collection "Deficit and Debt in Industrialized Democracies"

Let us complete surveys of these countries by focusing on the new Collection "Deficit and Debt in Industrialized Democracies" (edited by Eisaku Ide, Gene Park, Routlege, 2015; Ide, Park, 2015).

The editors of the Collection, noting the overall trend towards the deterioration of the state’s financial status – that of old market democracies (the growth of budget deficits, the increase in the public debt, even GDP-weighted – figures 1.2 and 1.3, page 6) – point out important national features regarding this process.

The spirit of 1960s that saw the rapid growth of economies and robust working-age population replacement became the basis for the extension of budget commitments. This extension proved to be reckless, its consequences manifesting themselves in the 1970s, contributing to the severe crisis of 1973-75 and two oil price shocks accompanied by deterioration of demographic indices.

The authors note that increased pressure to reduce high taxes and the permanent political pressure demanding the continuation of generous spending make for a very difficult context in which to balance budgets (pages 2-6). When balancing budgets, right-wing parties more often resolve to cut expenditures while left-wing parties prefer to raise taxes.

Politically, the inclination of left-wing parties towards generous expenditures and of right-wing parties towards austerity led to important dynamics. Of note, the wider use of experiments aimed at recruiting controllable voters from extremely backward countries was accompanied by the increase in the role of socially conservative voters. By competing for such voters, conservative governments and politicians had to get involved in promoting expensive programs differentiating themselves from their competitors by the choice of expenditure beneficiaries rather than by their relation to expenditures.

The authors of the Collection cite trendy explanations of the problems with unbalanced budgets as the product of the poor centralization of the decision-making process related to the separation of powers and federalism (page 8).

France

France is one of the gravest examples of burdening the economy by way of public expenditure, even as incomes reach 45% of the GDP, with a trend towards growth after 2011. However, the budget deficit chronically exceeds the 3% threshold required by the EU (Stability and Growth Pact, 1997[3]), and the public debt is clearly spinning out of control.

The authors of the country survey section explain that the financial situation has been deteriorating lately, in response to pressure from the "extra-systemic populist parties." Influential and radical trade unions are another powerful tool to reallocate funds from the economy. However, the authors note that in principle, the "need" for huge weighty social commitments is just one part of the broad consensus, and the mainstream parties differ only in their ability to understand the budgetary commitment extension limits. This is because these parties must meet their budgetary targets and face the consequences if they fail to do so.

The French experience shows that the undertaking of obligations under extremely expensive social programs – both by conservatives and by socialists – has hardly shaken the stance of radicals: extremists who are now openly demanding confiscatory taxes, holding clownish campaigns and bringing about serious consequences for national policies.[4] In other words, accommodating competitors' demands, as preposterous as that can be, would allow one to prevent further radicalization – although this does not always work as a minimum.

Another important technical feature of the French financial system is the high share of payments for various types of social insurance that increases in the long term (1978-2012 – ref. figure 2.3 on page 28). These payments are formally excluded from the central government's budget, as well as from the relevant statistics, while the share of municipal expenditures is stable.

[3] http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=URISERV:l25021&from=EN

[4] For example, Jean-Luc Mélenchon (Left Front (Front de gauche)) demanded a 100% tax on high earnings to support air-castle costly projects: Mélenchon's growing number of supporters view it as common sense and salutary: a 100% tax on earnings over £300,000; full pensions for everyone from the age of 60; reduction of work hours; a 20% minimum wage increase; however, the above deliberately unserious demands look quite reasonable from the point of view of *The Guardian* – the voice of almost mainstream left-wing parties in the UK: http://www.theguardian.com/commentisfree/2012/apr/15/jean-luc-melenchon-france-presidential-candidate.

Germany

The authors analyze six attempts to consolidate finances from 1980-2012. By demonstrating the fragility all government achievement, the authors point out the role of the unforgiving political landscape. As a result of left-wing pressure, even limited successes after Kohl's departure have been achieved only when painful measures were supported by social democrats – either by initiating them (under Chancellor Schroeder) or by supporting them as part of the Grand Coalition.

In the context of close results of the two main parties the role of extremists from PDS (the German section authors, the same way as the French section authors, unreasonably ignore the Green Party that is only slightly less radical than PDS; of note, the Green Party is more radical than PDS regarding the costly refugee admission).

The authors do not provide a satisfactory explanation as to why the political ("electoral") competition pushes towards financial destabilization rather than the reverse – apparently they find this situation natural (ref. figure 3.4. on page 53). Indeed, the situation is natural for a universal suffrage democracy.

Korea

In 1960 through the1980s, characterized by high economic growth rates and thus the lack of any need to "buy" the majority of voters, there were no problems with balancing the budget. After the initiation of the transition to democracy (from 1987) the situation starts to change fundamentally.

The major change happened in the income structure of the enlarged government – a drastic increase in "social" levies from less than 1% in 1975 to almost 23% in 2010.

Profound changes in the expenditure structure include a dramatic drop in defense spending as a share of the whole and a moderate increase in education spending (the tradition of high private education expenses is still alive in Korea). At the same time, health-care expenditure's share of government spending increased approximately three times over the 30 years from 1980–2010 – up to 20%-plus. Safety-net expenditures' share of overall Government spending (of note, the compulsory social insurance increased vigorously while formally it was not integrated into the budget) grew insignificantly. In general, the situation is deteriorating, however not so rapidly as in Japan. For example, the debt increased from 30.7% of GDP in 2007 to 34.8% of GDP in 2012.

Sweden

The situation with public finances in Sweden is relatively safe. Moreover, the Swedish political class has proved that in individual cases it may react appropriately to dangerously deteriorating situations and cut expenditures, find new income sources and collect them for the purpose of balancing the budget. The budget deficit on average looks rather small over an extended period of time. The same relates to the public debt. These small deficit and debt levels lead the survey authors to the conclusion that the quality of Swedish public finances is superior to that of other countries and can be held as an example to which they can aspire. At the same time, the authors of the previous survey on Korea voice reasonable concerns regarding that country's capability to rein in the deficit and public debt. The Korean deficit and public debt are quite comparable to those of Sweden, however Korea is not proposed to serve as an example.

The authors dwell on the period of fiscal consolidation between 1994-98. It was preceded by the crisis that (as in many of the cases above) undermined Swedish public finances, the parameters of which began to demonstrate dramatic and dangerous deterioration of economic indices (the budget deficit growth of up to 11.9% of GDP in 1993). Of note, this crisis led to the meltdown of the new taxation and budgetary system which seemingly ensured the public finance rehabilitation in 1984-1990. The new disaster occurred during the rule of what the paper's authors describe as the "bourgeois" government headed by Carl Bildt. The "moderate" and other democrats incapable of standing against the crisis, little or no different from socialists (except for some elements of rhetoric), developed a plan for a 100 billion SKr fiscal consolidation (this amount covered almost half of the deficit of that time) focusing on spending cuts. The social democrats proposed a more ambitious plan for 125.5 billion SKr. However, it envisaged smaller cuts (71 billion SKr) - mainly cuts of the same transfers to households – by 34.6 billion SKr. On the other hand, it envisaged a much bigger increase in the taxation load – the increase in medical insurance payments by insured persons - by 23.7 billion SKr – and the symbolic "robbery of the rich" by 4.2 billion SKr.

On the other hand, proceeding from public choice theory, the rational ignorant voter model as well as electoral campaign practices, it is possible to assume with a high degree of confidence that the shift in power happened without any influence from the comparison of these plans mentioned above. Rather, the power shift was merely due to the fact that the Social Democratic Party's government supported by the former communists (from the Left Party) was the only accessible alternative to replacing the failed government of Bildt.

The consent of all leading parties regarding the spending cuts by all means played an important role in the stabilization success.

So far the new system successfully passed one crisis test in that it did not entail a drastic increase in the deficit, and the debt remained within the framework of 50% of GDP (according to OECD). However, passing that test does not confirm the system's capabilities to stand in the long term against political interests driven by demands from budget-dependent voters.

USA: Historical Retrospective

Hamilton's Stabilization

According to W. Elliot Brownlee, the survey author, Hamilton ensured the success of the stabilization by way of his personal traits (excellent education, commitment to the idea of a powerful central government). The strong government developed complex systems of taxation and customs duties. (Complexity is highlighted in the positive sense).

Hamilton supported a strong federal government, albeit in the context of its full collapse following the War of Independence. The idea to pay the debt was accepted by the winners, taking into account that those who collaborated with the English and enriched themselves during the war were the beneficiaries of this decision; they received gold for food from England, while they received receipts from the Continental Congress and its army, the payment of which was discussed later; and it didn't seem as convincing in the least at that time. Hamilton's role in convincing Congress to look to long-term interests, and the roles of the members of Congress who accepted his arguments, deserve a serious analysis that is missing from the text.

The reputation protection incentives – both for entrepreneurs and for public officials who are guided by the nation's long-term interests – also look surprising, even in the contemporary context. This implies that the voting budget clients are politicians' main objective. Under Hamilton, the debt decreased from 30% to 15% of the GDP.

Jefferson and Gallatin

Following the power shift, under the Jefferson administration (when Albert Gallatin served as Secretary of the Treasury), the national debt repayment policy remained unchanged, despite the fact that both leaders were much more skeptical of the role of the central government than with their predecessors.

It is true that Gallatin supported road construction projects, while President Jefferson did not (with one exception). The Barbary Wars of 1801-1805 required additional resources; and still, by 1812, the debt was reduced to 7% of the GDP.

The War of 1812, or the invasion of England on American territory, naturally required bigger efforts from the Union, and it was impossible to finance the war at just the expense of current normal defense appropriations. The federal debt increased again to roughly 10% of the GDP in 1815.

Then the author seemingly stated that over the next several decades (!), both the Jefferson administration and Congress continued Hamilton and Gallatin's policy and repaid the federal debt in full by 1835.

It goes without saying that such a commitment to tradition, which is quite rare nowadays, requires a reference to the taxpayer's democracy, especially when voters view cost savings and the responsible financial policy as the top priority in terms of legislators' and the administration's activities.

American Civil War and the Third Consolidation

The actual policy of the Founding Fathers and the first Secretary of the Treasury's generation outlasted the introduction of universal suffrage on the verge of the Civil War. The Civil War itself, and the restoration of the taxpayer's democracy in the South of the US in 1877, was based on the 1877 Compromise. From 1866, the primary objective in the field of finance was to achieve the annual budgetary surplus that, against the backdrop of rapid economic growth, resulted in a national decrease in debt, in absolute terms, from 2.8 to 1 billion USD, or from 31% to 7% of the GDP by as early as by 1893. The republican administration sought financial consolidation, and they were fully supported by both of Grover Cleveland's administrations (1885-1889 and 1893-1897). This policy began to change significantly during the first "progressive" administration, which was handed the national debt over to even more progressive democrats, invariable in terms of the share to the GDP, but still growing in absolute terms.

1940-2000 Consolidations: Completion of the Fifth, Sixth and Seventh Attempts

To date, the record-breaking debt was accumulated by the end of WWII, at which point it increased from 43 billion USD (43% of the GDP) just before entering the war to 269 billion USD (113% of the GDP).

And although the Truman administration made an effort to balance the budget between 1947-1949 and in 1951, the budget surplus was achieved during these years; in the years following 1947, the deficit of the federal budget did not exceed 1.5% of the GDP.

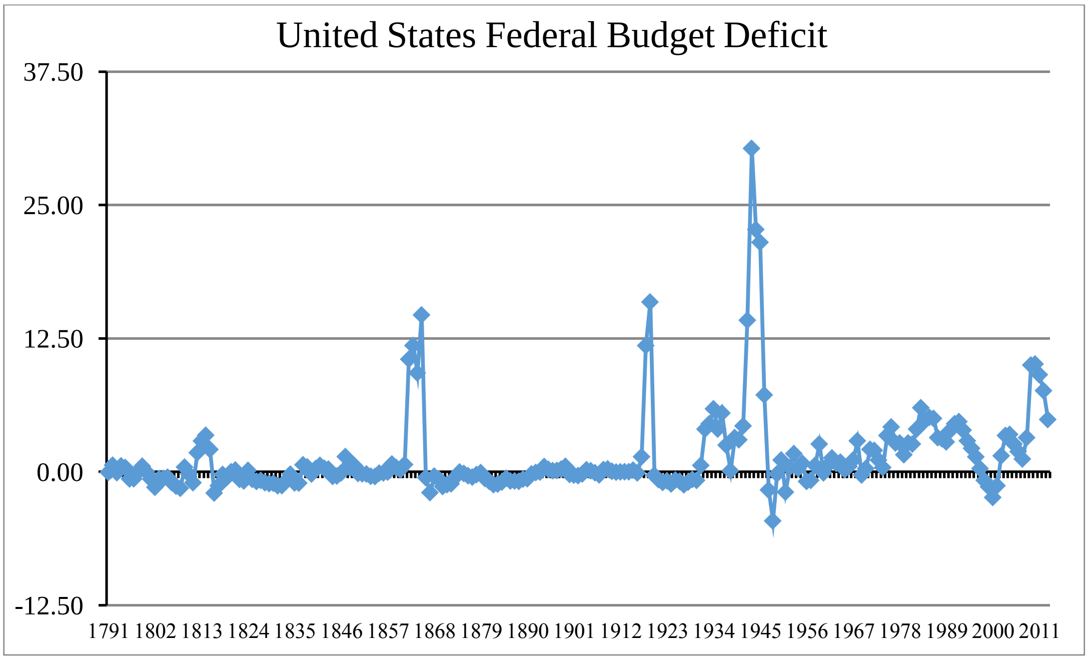

Fig. 1.Sources: US Budget Historical Tables; US Cambridge Historical Statistics; counted on Mitchell B.R. International Historical Statistics The Americas, 1750-2005; WDI – WB (2010 – 2013) http://data.worldbank.org/indicator/GC.BAL.CASH.GD.ZS/countries

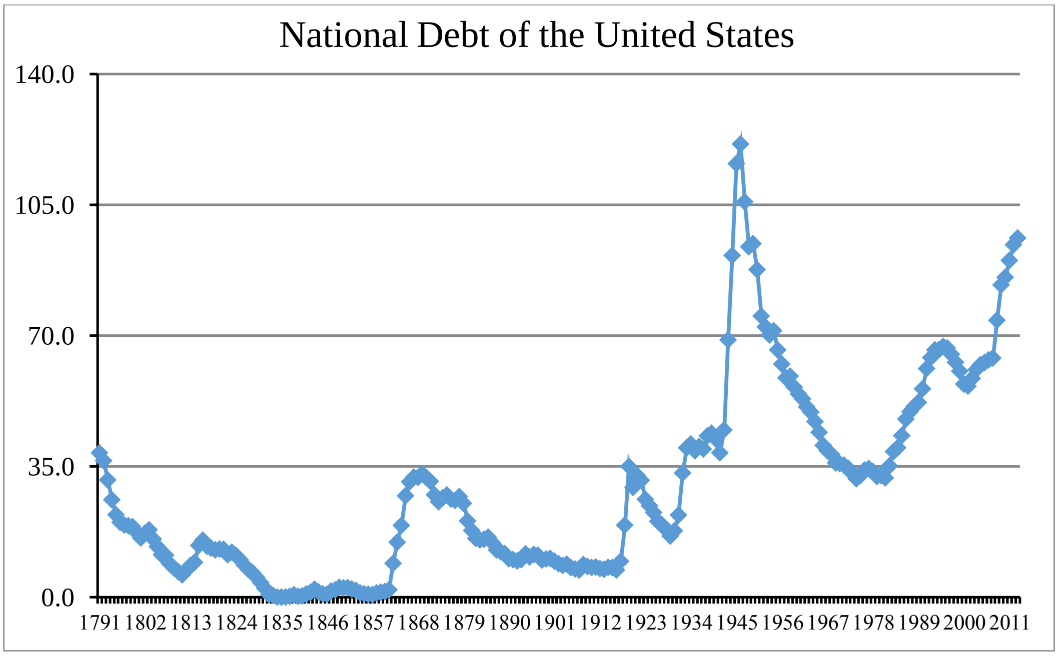

Fig. 2. Sources: Carmen M. Reinhart, Kennet S. Rogoff Data Base (Central Government Debt to GDP) http://www.carmenreinhart.com/data/browse-by-topic/topics/9/; WDI – WB (2010-2013) http://data.worldbank.org/indicator/GC.DOD.TOTL.GD.ZS/countries

Shifting the focus to the achievement of Keynesian objectives – which foster economic growth – we can see that the national debt reduction efforts are by no means a major priority.

Despite the conservatism of the Eisenhower administration, the US failed to reduce the national debt at the time. In a way, this was due to the realized tax abatements which, according to the section author, were smaller than expected, and had no funds available to help reduce the national debt. In fact, during the Eisenhower administration, the government decided to focus on the relative amount of the nation's debt (GDP-weighted). Correspondingly, the relative amount of debt continued to decrease rapidly, due to the economic growth during the Eisenhower, Kennedy, Johnson and Nixon administrations, up until the severe crisis of 1973-1975.

From that moment on, the national debt surpassed the rate of economic growth due to the rapid swelling of social programs. During the Reagan administration, this was the result of the "centrist" consensus regarding the undesirability of national debt growth (of note, *growth* rather than *existence*). At the same time, the interest of the public (voters) had practically disappeared. The disappearance of the interest was natural, however – parallel to the taxpayer's share reduction.

The Reagan administration failed to stall the national debt growth, inter alia, due to the challenges launched against the USSR in the midst of the Cold War. Dividends of this policy, along with American successes in the Cold War, were gained by the Bush Sr. and Clinton administrations.

The survey author notes that the political machine worked in a fundamentally different way during the American Civil War than in more recent decades (taking into account the consensus between democrats and republicans, even before the progressive administrations at the beginning of the twentieth century).

EU and Quality of European Finance

The author of this section, E.A. Fogarty, points out that the EU leaders do not represent a full-fledged government with their own tax base. The European Parliament does not impose taxes; instead it just approves the budget with member states' contributions.

The decisions made within the framework of the EU, whether they are European parliamentary resolutions or even simply agreements approved by national governments, are not of the same nature as laws. For example, the frequently quoted Maastricht Treaty of 1991 – Excessive Deficit Procedure (EDP) of 1995 – was advisory in naturenature. The formally binding provisions of the Stability and Growth Pact (EGP), which pertained to the same budget deficit ceiling of 3% of the GDP, failed the practical test when in 2003-2004, Germany and France violated that limitation.

The 2007-2010 crisis – which still affects the continent to some degree in the mid-2010s – resulted in a series of attempts to coordinate taxation and budgetary policies, both amongst all EU member states and separately among Euro zone countries.

The measures included Euro zone countries' synchronized budgetary approval. There were several attempts to adopt amendments in the constitutions, limiting the amount of public debt. (Such amendments were adopted by Germany in 2009.)

The author expresses regrets that Germany adopted Hayek's approach – having detected it in the demand to take budget-balancing actions – and subsequently "imposed" it on other Euro zone countries as well.

Countries' cases

All old democracies[5] experienced an initial surge of state/public expenditure levels, which stemmed from the introduction of universal suffrage (see data). Later on, however, these same countries experienced periods of both a spike in public expenditure and, less often, a decrease in public expenditure.

[5] Including those states (Taxpayers' Democracies), which established universal censuses for voting franchise in the past, selected for statistical analysis sample.

1.1. Sweden 1964-1983; 1984-1990; 1991-1994; 1996-2008

The wide popularity of the "Swedish Model" of socialism remains both long-term and stable, and the same can be said about the expenses of the Swedish government from the start of the stabilization programs in 1984 and 1994, respectively. From the author's point of view, the following factors contributed to the long-term prosperity of the country:

- Lasting peace and well-rooted strong institutions that protect private property and the proprietor. The Socialists, upon coming to power, did not initiate nationalization. (The opposite occurred in France, England, Italy and Austria.);

- Benefits gained from the allied overseas powerful and free US economy, which encourages entrepreneurship and creativity (Acemoglu, Robinson, Verdier, 2012);

- Long-term savings in military spending due to the defense "umbrella" of the United States.

For a long time, the leadership of the Social Democrats[6] viewed both the country and the state as a kind of "corporate asset" for the party. The "long reign" caused a sense of responsibility over the country and, at the very least, a responsibility over for the state of its finances (Santesson, 2013). The immediate impetus to stabilization programs were inherited problems, such as the budget deficit, inflation, and public debt.

With regard to the spending cuts, the consensus of all major political parties is that those cuts are an important factor in the success of the latest stabilization program (Edlund, Iju in Ide, Park, 2015).

1.2. Belgium 1974-1981

Belgium implemented its first state reform (by establishing autonomous cultural communities) in 1970; certain Flemish and Walloon parties have been strengthening their positions from the end of 1960s. Then, in the 1980s, this process resulted in a complete reformatting of the party system, complete with the transformation of the leading left-wing and conservative parties into the Francophone and Flemish parties.[7]

The second state reform (meaning the establishment of Flemish and Walloon territorial communities, as Brussels gained its full autonomy later) was enacted in 1980. Communities and regions then received their individual parliaments and governments.

According to the EFW, the increase in government consumption amounted to about 2.5%, while transfers (redistribution) skyrocketed by 7.5%.

The same estimates show that the regulatory burden in the interim hardly changed at all between 1970-1985 (from 5.7% and 5.8%, respectively), while the overall index of economic

[6] Swedish SDP Leaded the Government 1932-1976; 1982-1991; 1994-2006 (65 years of 74 year period).

[7] http://www.parties-and-elections.eu/belgium2b.html

freedom worsened slightly (from 7.8% to 7.3%). Assessments were made every five years at the time.

The country witnessed a gradual weakening of the central government as a result of mounting separatism. Moreover, the nation experienced a sort of societal split as the result of conflicting ethnic and linguistic aspects of the main political parties. The relative weakness of the government was in the transition to the new equilibrium (based on the ability of new parties' representatives to take responsibility for their decisions). In turn, spending led to cost inflation as a means of maintaining the stability of the government against the growing demands of interest groups. However, during this period, the government remained quite stable, and only moderate fiscal deficit emerged (around 1% of the GDP). Apparently, the "recipients" fulfilled their obligations and did not escalate the situation.

1.3. Canada: Spending Growth in 1966-1984 and Decrease in 1992-2011

The growth of Quebec separatism, the threat of Quebec departing Canada, and the growing expectations of the English-speaking provinces directed toward the central government justify the rapid growth in spending, similar to the case of Belgium. And at the time, the Canadian budget deficit was increasing at a fast pace. Thus, the change was addressed in a less effective way than in Belgium.

According to the EFW, the increase of expanded government expenditures (1970-1985) was mainly attributed to the transfer and redistribution programs (from 8.6% to 16.3%). There were no significant changes in the regulatory burden, nor were there many changes in the general level of economic freedom, according to EFW experts.

The subsequent weakening of separatism and the growing pressure of conservative voters, in in the wake of a dangerously high budget deficit from 1992-1995, make up the motivating force behind the measures that aim to reduce spending and budget deficit limitations. The crisis of 2008-2010 interrupted the process, and the coming years will reveal how long this will remain apparent, although data from 2012-2013 shows that the Canadian government is not inclined to declare crisis indicators as their new standard.

No overall improvements occurred in the index of economic freedom for the period (particularly under the leadership of the inept Liberal Party in power. However, conservatives won the majority back in 2011, but there have been no attempts to improve the current state of affairs dramatically from either party

1.4. Germany 1992-1995

In recent decades, German governments have acted quite differently with regard to public finances – especially differently from France, the other co-founder of the EU. Both countries have much in common institutionally; the differences are few. Germany is a federal state with a parliamentary democracy, whereas France is a unitary state and a presidential republic. These differences are unlikely to play a significant role in decision-making patterns with respect to financial issues. At the very least, these differences are not nearly as important as the universal suffrage institution and power of left and far-left parties in both countries.

However, the hypothesis on the importance of the type of federative government will be analyzed in greater detail, with statistical methods. Our doubtful stance derives from the absence of sound qualitative descriptions of how varying interests affect the scope of public spending, the budget deficit, and national debt.

In Germany, the 1992-1995 expenditure growth up to 37.6% of the GDP was stipulated by the fact that the recently-attached lands had not been able to adapt quickly enough and integrate their economies into the all-German market. This was mostly due to a number of attempts to boost integration via increased public spending. East Germans' high wage expectations undermined their main competitive advantage, and kept unemployment at 10%, an abnormally high level for Germany.

By 2007, the expenditure of the German federal government had fallen to 27.8% of the GDP.

1.5. Japanese "Lost Decades" Fiscal Policy: From Stimulating Growth to Budget Consolidation

Self-quotation seems appropriate here (Yanovskiy, Shestakov, Zhavoronkov, 2013). It reveals the correlation between the frequency of governmental changes and budget deficits. Since the economic crisis of the early 1990s, the Japanese government has launched a number of measures intended to stimulate growth: Between August 1992 and December 2001, for example, officials implemented thirteen anti-crisis programs totaling ¥141.3 trillion ($1.2 trillion). More than two-thirds of these funds (71%) were invested into the nation's small businesses, as well as the construction and farming industries. The electoral base of the Liberal Democratic party was concentrated in these industries, which is why the Cabinet decided to invest in them. However, these fiscal measures were not very productive: Between 1992 and 2001, the average growth rate of the Japanese economy amounted to 0.85%, after having been at 3.95% between 1981 and 1990. At the same time, from 1992 to 2001, Japan's debt to GDP ratio increased by more than twofold — from 51% to 116.3%.[8]

The low growth rates were evidence that the economy could hardly be stimulated by fiscal incentives. The only way to return to growth, Japanese government officials realized, was to launch structural reforms — that was the basic idea of Junichiro Koizumi's economic program. Koizumi, who became prime minister in April 2001, managed to cut

[8] World Bank's statistics.

the budget of the Fiscal Investment and Loan Program (FILP) that accumulated Japan Post funds, as well as the resources of private and state pension funds. These funds were deployed in the Trust Fund Bureau of the Ministry of Finance, after which they were loaned to state companies that invested in construction and infrastructure projects. The size of the FILP program amounted to 45% of the country’s budget expenditures.[9]

Ultimately, Koizumi changed the way the FILP budget was formed. Since 2002, it has been financed by the debt bonds issued on the open market; and as a result, the FILP budget became more transparent, although it did contribute to the rise of Japanese debt. Moreover, the FILP budget that amounted to ¥52 trillion in 1999 was cut to ¥32 trillion in 2001, and to ¥15 trillion in 2006. Such a drastic cut was possible due to the restructuring of eight state financial corporations that distributed FILP funds: One of them was liquidated, two were privatized and five were united into one corporation.[10]

Furthermore, Koizumi managed to cut budget expenditures. Between 2002 and 2006, the Cabinet cut expenditures on defense, education and public works, as well as grants to the municipal authorities. At the same time, the Cabinet managed to curb the rise of social security expenditures designed to support the aging population. All these measures helped lower the growth of the debt to GDP ratio: While it increased by 40.7 percentage points (from 101.7% of the GDP to 142.4% of the GDP) between 2000 and 2003, between 2003 and 2006 there was a rise of 32.9 percentage points (from 142.4% of the GDP to 175.3% of the GDP).

In addition, Koizumi implemented a number of structural reforms that decreased the role of the government in the Japanese economy. First of all, the prime minister privatized Japan Post, which controlled a quarter of the national savings at the time. Japan Post was subsequently divided into four companies that provided mail delivery (1), accumulated savings (2) and insurance contributions (3) as well as managed post offices (4); more than 260,000 post workers were no longer civil servants with lifetime jobs.

Koizumi also privatized and closed 136 state and quasi-state corporations, which allowed him to cut the budget by ¥1.8 trillion. Among those privatized companies were four highway corporations, lobbied by the LDP members. The Cabinet, furthermore, also cut the grants that were allocated to the municipal authorities by ¥4.7 trillion. Finally, Koizumi closed 14 special budget accounts that accumulated ¥20 trillion, and that were governed separately from the general budget account.[11]

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[9] Ekonomika Yaponii i yeye perspektivy. Doklad Tsentra razvitiya, 2001, P. 10
[10] Thomas F. Cargill and Takayuki Sakamoto. Japan since 1980. Cambridge university press, 2008. P. 222
[11] Ibid. P.225

Overall, Koizumi’s attempt to consolidate the budget brought about positive results: The budget deficit that amounted to 6% of the GDP in 2003 lowered to less than 3% of the GDP in 2006. However, this was merely a short-term success: In 2009, it rose to 9% of the GDP.

In conclusion, the institutions of a one-and-a-half-party system that provided prosperity during the four postwar decades didn’t sustain the economic crisis that occurred in parallel to the lowering of the LDP dominance in Japan.

1.6. USA 1929-34; 1951-62; 1992-2000

The 1929-1933 lightning spike in public spending has been, to some extent, reproduced since 2007. Substantial state intervention, complete with redistribution programs and new regulations, blocked the natural crisis recovery mechanisms, drawing on viable businesses with access to cheaper labor, rent, and loans. The consequences of this governmental involvement were not handled by the US economy until 1950. In fact, "anti-crisis" measures extended the crisis and the subsequent stagnation through the mid-2010s.

Reduced national spending and budget balancing during the Clinton presidency was the product of Reagan’s victory in the Cold War, and of the corresponding decline in defense spending (as a share of the GDP). It was enforced in part, and eventually repaid with much higher military spending on behalf of the Bush Jr. administration.

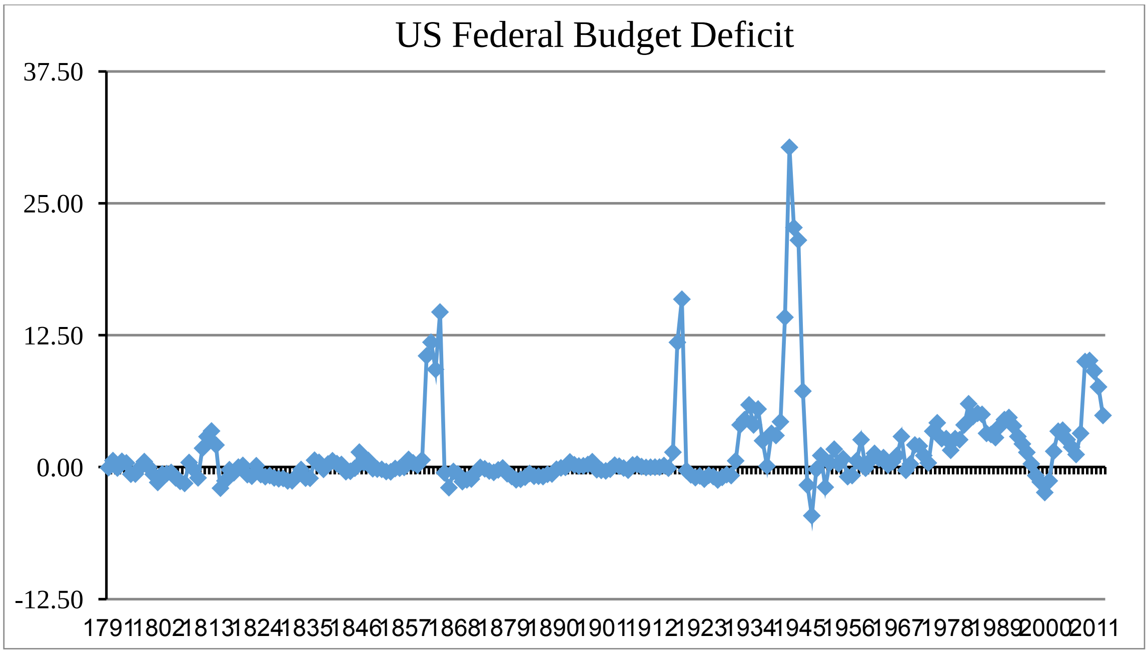

Fig.3. Source – See attachments related to the Democracy of 'Taxation-Redistribution' and the Peacetime Budget Deficit http://ssrn.com/abstract=2367861

1.7. Post-Socialist Countries Reduced Spending During the 1990s Transition Slump

The history of the post-socialist transition period shows that both the state and public burden on the economy does not occur — or is insignificant — when the political and market institutions are strong. If these institutions are weak, however, the public spending-GDP ratio falls dramatically, while the budget deficit tends to increase as tax collection decreases at a faster rate than the pressures on the expenditure side of the budget, which call for redistribution. This was further reinforced by M.Dabrovsky in his article (Dabrowski, 1996, see. Table 5: Dynamics of spending, revenues and deficit of countries in transition, 1989-94).

The universal lesson of transition from socialism to a free market is that it is easier to initiate structural reform when the country in question is in the midst of a deep crisis. (The "good life" is difficult to restructure, as the reform target does not appear to be "in need of repair" from the voter’s perspective.)

1.8. Latvia 2010-2013

Latvia is a remarkable example of a nation that experienced a significant reduction in spending, balancing the budget with overall success. (The deficit stayed below 1% of GDP for three years.) However, the required political decisions were carried out by the government and relied on a very specific body of voters.

On the one hand, Latvian universal suffrage grants voting power to all descendants of the Republic of Latvia (1919-1940), citizens of the first republic and citizens naturalized after 1991. On the other hand, the Soviet period colonists (1945-1990s), who represent the least market-adaptable stratum, are deprived of the right to vote.

Under normal circumstances, a strong sense of nationalism will not impede redistribution tendencies. However, in times of crisis, it will facilitate the adoption of the unpopular measures that are required to preserve and strengthen the national sovereignty of a small country.

Even a cursory analysis of the information presented in the table shows that universal suffrage is the only versatile, long-term predictor of public spending tendencies. It explains the ratchet effect and the extraordinary success of special interest groups (Olson, 1982). At the same time, it explains trends in public spending growth during times of peace, rather than during wartime.

In addition, there are several other elements that are weakening the political will to balance budgets.

These include: separatism (in Canada and Belgium in particular), which is a factor of frequent governmental change and the formation of minority (weak) governments; closed democracy (think Sweden and the first spending cuts); the ability to keep the country attractive to investors due to other factors (such as business conditions in Sweden and New Zealand, and those nations' access to the capacious market; also consider Germany in the 1990s); and ideological factors, but all of these examples have counterexamples and, accordingly, each one strictly local and historically stipulated.

Religious factors often prove insignificant. Large coalitions do not guarantee a responsible fiscal policy, despite their safety margins (like the spending growth in Belgium and Austria). Rough analysis, furthermore, does not single out any clear differences between federative and unitary states.

Apparently, a country with less of an administrative burden imposed on businesses can afford, with other factors being equal, a heavier tax burden. At the same time, European countries such as Sweden and Denmark make use of this rule more often than those of Anglo-Saxon tradition (Canada, Australia, New Zealand, and the United States).

Statistical Analysis

Data and variables

The panel's data period has started before universal suffrage implementation. So, generally the observations cover following historical period: before the emergence of universal suffrage (if applicable, including census democracy periods) and after the introduction of universal suffrage (if there was no democracy – one period covering the entire history of a country). Next, we will establish connections with defaults, public debt trends and inflation rates. Separately, we'll delve into a smaller section, which should consist of comparable countries with periods of census democracy, or at least where certain traits of those countries can be compared, as is the case with Germany and Austria.

In general, the statistical relationship between the probability of a crisis and the country (or group of countries) is not visible in the Reinhart - Rogoff data collection.

Rulers of extremely authoritarian and/or extremely backward countries rarely get foreign loans. They are more likely to resort to vulgar robbery in their own countries, as internal defaults are hardly possible in such cases. Usually, there are no banking crises due to the absence of any developed banking sectors.

The selected countries have a common trait: Before taxpayer democracy emerged (or, at least, before a regime where the government is forced to incorporate taxpayer representatives into their tax-related decision-making processes emerged), governing bodies had already repeatedly experienced financial turmoil and defaults, as well as banking crises. After the establishment of taxpayer democracies, the above calamities occur much less frequently, and they rarely develop in the worst possible form. (For instance, defaults could mean delayed payments or reduced interest rates, rather than a complete refusal to pay, i.e. varieties of confiscation.) A period of hyperinflation in the developed democratic countries was registered on just one occasion (1923, Germany) as a result of the First World War, and inflationary finance reparations ensued. This case is an evident exception to the general rule.

Table of Variables

#	Variables' names	Variable's description
1	Universal suffrage	(ordered categorical variable): "-1" qualified voters only; "0" male suffrage; "1" universal suffrage: Bartolini, 2007 The Political Mobilization of the European Left, 1860-1980 Cambridge University Press; The Class Cleavage; Utter, Strickland, 2008 Campaign and Election Reform: A Reference Handbook ABC-CLIO; 2 edition.
2	Leftists	Votes' share for the parties, which promote ideology of "cradle to grave" care. Elections to Parliament Lower Chamber are considered. "Parties and Elections in Europe" http://www.parties-and-elections.de/ ; • Mackie T.T., Rose R. "The International Almanac of Electoral History", CQ, 1991 • A. Tanin-Lvov, "Elections around the World: Encyclopedic Reference Book," (Moscow: "Rosspen,"

		2001; in Russian); • Official vote counts for federal elections from the official sources compiled by the Office of the Clerk, US House of Representatives: http://clerk.house.gov (http://clerk.house.gov/member_info/electionInfo/index.aspx) • Data from national electoral committees (since 1990-ties).
3	Spend_toGDP	Central Government spending to GDP – see file OldDemocr_Gov_toGDP…xlsx
4	Budget deficit to GDP	Budget Deficit; Inflation (CPI - consumer price Index); Cardoso J.L., Lains P. (ed.) Paying for the liberal state. The Rise of Public Finance in Nineteenth Century Europe, Cambridge University Press, 2010; 2013; Mitchell B.R. International Historical Statistics Europe 1750-2005 6th edition2007;
5	Public Media	Public Media dominate private in political News coverage (auditorium) Rodney Tiffen, Ross Gittins How Australia Compares Cambridge University Press, 2009 (2004) tables 13.6, 13.8
6	Civil Law	Civil Law legal family
7	Federal State	Federal democratic State
8	Great War	World war period, Civil War (for USA – 1861-1865); Franco-Prussian war (1870-1871)
9	Local war	Other (local) wars
10	Neutral	Neutral state
11	Japan	Japan dummy
12	grandcoalition	Grand Coalition government, including leading (mainstream) left-wing party (social-democratic, left-liberal and like) and

		mainstream rightwing (conservative) party.
13	democracyrestricted	Democratic government which not experienced changes for a long time (power rotation haven't happened for 20 years and more – all years of the period are marked "1")
14	minoritygov	Minority government rule years (for US – administration, obtaining minority's support in the both houses of the Congress)
15	separatism	Separatists obtained more than 1/3rd seats in the regional legislature and represented in the central parliament
16	Weak Government	"1" if Grand Coalition = "1" OR "Minority Government" = "1" Or Separatism = "1"; "0" otherwise

Hypotheses tested

We shall analyze a series of hypotheses related to the impact of political factors on sudden changes in public spending, as well as on financial systems' distresses within democracies (understood as the political regime with a measurable power struggle within the framework of established electoral procedures, mass media competition, and without violence). For the purpose of this paper, the main indicator of the latter is the budget deficit of the central government.

A strong government, as a rule, successfully balances the national budget. There is a definitional problem here, however. Since the power of the government can — to a certain extent — be evaluated through its ability to balance the budget, there is a potential tautology involved: "A strong government is a strong government" (because it managed to balance the budget).

The authors attempted to introduce certain indicators that would provide a better definition for a strong government, through particularly negative definitions:

- A minority government (including the US administration, which has no majority support in either house of Congress) is obviously not a "strong government;"

- The government of a "grand coalition" controls an impressive majority of legislators on just a nominal basis, while the latter is composed of ideologically heterogeneous, or even hostile factions. Thus, this form of government cannot be defined as "strong" either;

- A government facing the threat of separatism is, ceteris paribus, weaker than governments that are not experiencing similar difficulties;

- Governments of democracies that are limited, with no real power rotations through election for decades (post-generation, 20 years and or even more) are expected to perceive the leadership of the ruling party as the "corporate proprietor" of the country, and are consequently more inclined to balance the budget. (This stimulus disappears if the ruling party is no longer able to win the election). The same situation may provoke the less responsible behavior of the ruling party, in the case that it does not hold itself accountable to society due to the weakness of the opposition.

The federative structure, religious factor, legal systems, and participation in wars are not directly related to governmental strength, but they are – or may be – related to government spending levels. Therefore, these factors are included in the various specifications as control variables.

The following is the hypothesis of this paper, as derived from the sequence of events and/or causal relationships involved:

Universal suffrage creates powerful left-wing parties that call for unlimited public care rather than of limited civil and social protection (including spending control). Powerful public mass media outlets have significantly strengthened and popularized these redistribution coalitions.

In addition, powerful left-wing coalitions (with the participation of the public mass media) strive for and secure a significant increase in their budget expenditure in relation to the GDP, which is often inconsistent with the national economy and revenue base.

Poorly controlled growth of public liabilities often leads to chronic budget deficits and an increase in public debt levels against the constantly growing GDP — even in times of peace.

In addition to permanent factors, certain periods may also influence whether a government will be strong or weak. (Government strength and weakness is evaluated through the above applicable control variables.)

Table 1. Left-Wing Parties and Rising Public Spending; Rising Public Spending and Budget Deficits

	Dependent variables					
	Leftists (1; 2)		Spending to GDP (3; 4);		Budget deficit to GDP (5; 6);	
	OLS	OLS	OLS	OLS	OLS	OLS
Independent variables:	(1)	(2)	(3)	(4)	(5)	(6)
Universal suffrage	16.9*** (0.26)	8.5*** (0.4)				

Leftists			0.41^{***} (0.012)	0.14^{***} (0.002)		
Spend_toGDP					0.156^{***} (0.017)	0.15^{***} (0.014)
Public Media		16.9^{***} (0.82)		12.1^{***} (0.8)		
Civil Law		10.2^{***} (0.63)				
Federal				-4.85^{***}		
State				(0.49)		
Great War						15.2^{***} (1.8)
Local war						0.76^{**} (0.33)
Neutral						1.6^{***} (0.2)
Japan						-6.56^{***} (0.65)
Const	16.5^{***} (0.237)	3.5^{***} (0.42)	10.9^{***} (0.3)	12.3^{***} (0.3)	-1.37^{***} (0.27)	-1.9^{***} (0.29)
Number of obs.	2020	2020	1678	1678	1548	1542
Adjusted R^2	0.568	0.741	0.343	0.435	0.14	0.464

Note: *** $p<0.01$, ** $p<0.05$, * $p<0.1$ Robust errors in parentheses

Table 1.2.

	Dependent variables:					
	Leftists (1; 2)		Spending to GDP (3; 4);		Budget deficit to GDP (5; 6);	
Independent variables:	FE	FE	FE	FE	FE	FE
	(1)	(2)	(3)	(4)	(5)	(6)
Universal suffrage	16.3^{***} (0.25)	9.2^{***} (0.36)		0.26^{***} (0.02)		
Leftists			0.51^{***} (0.014)			
Spend_toGDP					0.19^{***} (0.01)	0.15^{***} (0.01)
Public Media		15.4^{***} (0.6)		10.8^{***} (0.8)		
Great War				16.6^{***} (1.2)		15.5^{***} (0.6)
Local war						1.02^{**} (0.47)
Neutral						1.52^{***} (0.40)

Const	16.7*** (0.2)	11.3*** (0.3)	8.6*** (0.37)	8.16*** (0.33)	-2.1*** (0.25)	-2.3*** (0.3)
Number of obs.	2020	2020	1678	1678	1548	1542
R^2 (overall)	0.568	0.681	0.343	0.450	0.140	0.374

Note: *** p<0.01, ** p<0.05, * p<0.1 Robust errors in parentheses

As a powerful force, left-wing parties appear as the result of introducing universal suffrage for the first time (regressions 1 and 2 of Table 1.1.). Leftists, who have their own central idea of lifelong care, use acquired electoral power in order to increase their social spending – i.e. public spending in general (regressions 3 and 4). Spending growth is not always supported by an adequate increase in revenues, which leads to consistent budget deficits in times of peace.

Table 2. Wars and universal suffrage make balancing the budget more difficult

Dependent variable: Budget deficit to GDP				
	OLS	OLS	FE	FE
Independent variables:	(1)	(2)	(3)	(4)
Universal	0.754***	0.647***	0.854***	0.555**
Suffrage	(0.119)	(0.120)	(0.125)	(0.220)
GDP per cap.	0.031	-0.029	0.020	-0.036
Growth rate, %	(0.056)	(0.058)	(0.021)	(0.068)
GDP		0.347		0.697***
		(0.225)		(0.070)
Neutral	0.485** (0.186)		0.855**	
			(0.321)	
Great Wars	17.424***	16.627***	17.386***	16.677***
	(1.911)	(2.158)	(0.571)	(3.469)
Local Wars	1.062**	1.061**	1.357**	1.288**
	(0.395)	(0.402)	(0.434)	(0.602)
Japan dummy	-6.314***	-6.504***		
	(0.628)	(0.755)		
Civil Law	1.362***	1.161***		
	(0.204)	(0.246)		
Religion		-0.263		
		(0.290)		
Const	0.157	0.570	0.528**	
	(0.173)	(0.378)	(0.173)	
Number of obs.	1669	1518	1669	1518

Adjusted R^2	0.420	0.401	0.340	0.354

Note: *** p<0.01, ** p<0.05, * p<0.1 Robust errors in parentheses

Table 3. Separatism

Dependent variable: Budget deficit to GDP					
	OLS	OLS	OLS	FE	FE
	(1)	(2)	(3)	(4)	(5)
separatism	0.27	0.56	3.47^{***} (0.80)	0.03	5.3
	(0.44)	(0.51)		(1.4)	(4.8)
Federal		0.02			
		(0.43)			
Leftists		0.054^{***}	0.42^{***} (0.012)		0.511^{***} (0.047)
		(0.008)			
Civl Law		-1.03			
		$(0.50)^{**}$			
Great War					16^{***}
					(1.7)
Const	1.82^{***}	1.23^{**}	10.3^{***}	1.86^{***}	7.5^{***}
	(0.14)	(0.44)	(0.3)	(0.18)	(1.1)
Number of obs.	1767	1731	1662	1731	1662
R^2 (overall)	0.0003	0.036	0.349	0.03	0.395

Note: *** p<0.01, ** p<0.05, * p<0.1 Robust errors in parentheses

Manifestations of separatism do not form any meaningful relations with the budget deficit or public spending (separatists' share of the GDP) in the models and statistics of our selection. However, separatist votes, when they're paired with leftist electoral power, further enforce the central hypothesis.

Table 4. Grand Coalition Governments

Dependent variable: Central Government Budget deficit to GDP				
	OLS	OLS	FE	FE
	(1)	(2)	(3)	(4)
Grand Coalition	2.98*** (0.69)	1.14** (0.55)	2.94 (2.47)	0.52 (1.11)
Leftists		0.05***		0.04***
		(0.006)		(0.009)
Great War		16.6***		16.6**
		(1.9)		(4.1)
Civil Law		0.09		
		(0.3)		
Federal		0.26	-1.24	-1.44*
		(0.32)	(1.79)	(0.69)
Const	1.42***	-0.06	1.86**	0.89**
	(0.1)	(0.27)	(0.59)	(0.25)
Number of obs.	1741	1711	1735	1711
R^2 (overall)	0.03	0.33	0.02	0.302

Note: *** p<0.01, ** p<0.05, * p<0.1 Robust errors in parentheses

Grand coalition governments consisting of ideologically diverse major parties clearly lack strength in terms of their ability to balance the budget. (OLS specifications even show a significant positive correlation with the scope of the budget deficit.)

Table 5. Minority Governments

Dependent variable: Central Government Budget deficit to GDP				
	OLS	OLS	FE	FE
	(1)	(2)	(3)	(4)
Minority Government	-0.07	0.06	-0.21	0.076
	(0.26)	(0.2)	(0.32)	(0.373)
Leftists		0.057*** (0.005)		0.042*** (0.009)
Great War		16.8***		16.7**
		(2.0)		(4.3)
Federal		0.397*		-1.3*
		(0.211)		(0.67)

Const	1.77^{***} (0.15)	0.1 (0.17)	1.8^{***} (0.07)	0.83^{**} (0.28)
Number of obs.	1720	1690	1720	1690
R^2 (overall)	0.00	0.326	0.00	0.301

Note: *** p<0.01, ** p<0.05, * p<0.1 Robust errors in parentheses

Contrary to popular belief, weak minority governments are more tightfisted than lavish – there is a noticeable negative relationship between government spending levels and the number of years the government has been in power. At the same time, however, there is no meaningful relationship between the minority government in power and the budget deficit amount.

Table 6. Limited Democracies

Dependent variable: Central Government Budget deficit to GDP				
	OLS	OLS	FE	FE
	(1)	(2)	(3)	(4)
Democracy restricted	-1.97^{***} (0.3)	-1.82^{***} (0.30)	-1.38 (-1.00)	-0.51 (0.96)
Leftists		0.05^{***} (0.006)		0.04^{***} (0.009)
Federal		0.44^{*} (0.26)		-1.32^{*} (0.66)
Great War		16.84^{***} (1.96)		16.7^{**} (4.3)
Civil Law		0.75^{**} (0.21)		-
Const	2.11^{***} (0.14)	-0.18 (0.22)	2.00^{***} (0.18)	0.96^{**} (0.27)
Number of obs.	1741	1711	1741	1711
R^2 (overall)	0.02	0.342	0.02	0.309

Note: *** p<0.01, ** p<0.05, * p<0.1 Robust errors in parentheses

In some cases, the restriction of political competition in democratic countries (Sweden, Japan) leads to the emergence of a long-term ruling party's self-perception as the "natural elite," and the country is then regarded as the party asset. On the one hand, this may result in irresponsible policymaking, but this perspective may also bring forth a form of "Stationary Bandit" motivation as described by Mancur Olson. Statistically, it is clear that compared to other types, limited democracies are by no means the most wasteful. However, fixed effect regressions eliminate any sort of statistical significance.

Table 7. Overall influence of "strong" and "weak" governmental factors

Dependent variable: Central Government Budget deficit to GDP					
	OLS	GLS	OLS	FE	FE
	(1)	(2)	(3)	(4)	(5)
Democracy restricted	-1.89***	-0.63		-0.48	
	(0.31)	(1.13)		(1.5)	
Leftists	0.042***	0.034**		0.033**	
	(0.007)	(0.012)		(0.016)	
Minority Government	-0.075	-0.06		-0.08	
	(0.25)	(0.37)		(0.39)	
Grand Coalition	1.66**	1.6		1.58	
	(0.74)	(2.7)		(2.8)	
Weak Gov-t			0.58**		0.145
			(0.27)		(1.089)
Universal Suffrage			0.895***		0.93**
			(0.140)		(0.24)
Const	1.02*** (0.16)	0.93**	1.31***	0.96**	1.48**
		(0.46)	(0.13)	(0.25)	(0.43)
Number of obs.	1690	1690	1760	1690	1760
R^2 (overall)	0.063	0.057	0.028	0.026	0.026

Note: *** p<0.01, ** p<0.05, * p<0.1

Robust errors in parentheses

Even integral measure of the Government "weakness" turned to be pretty weak in its' explanatory ability (low R square, lost its significance in Fixed effect regression) for the panel as a whole.

Let's proceed with the simultaneous analysis of several factors that influence the political "strength" of a government: its ability to balance revenues with expenses.

The only significant remaining factor of panel regression is the influence of leftist voters; that is, in practice, universal suffrage (see first regressions in Tables 1 and 2).

Conclusion

Previously published analyses of high deficit and debt as a sign of a weak government are more or less confirmed with our own analysis. However, such explanations are tautological in nature; in other words, a weak government is weak because it cannot balance revenues with expenses, and, under pressure from voters or other interested parties, elected officials continue the cycle of uncontrolled increases in spending. In this way, previously published analyses are largely invalid.

Indeed, the challenges of separatism in Canada and Belgium also weakened public finances. However, an increasing number of observations and analyses indicate that both problems of separatism and weak parliamentary minority governments (in which the administration is not supported by the Congress of the United States) are not reliable factors when it comes to explaining high levels of fiscal deficit and accumulated public debt. The same is true for ideologically split governments, or grand coalitions. For instance, Switzerland, with one such coalition having been in power for many decades, maintains its central government finances in a comparatively acceptable fashion.

By itself, government ideologies are by no means reliable indicatos of the government's ability to balance the budget or reduce national debt. Social-democratic governments often carry out such programs, although they prefer to increase the tax burden, and to only cut spending in extreme cases. Yet, many conservative governments take no action at all, or they are—and have been—inconsistent with their reforms, introducing noticeable elements of populism without any clear-cut liability components. As of late, the most striking example is that George W. Bush's tax cuts were not accompanied by sharp cuts in social spending in order to balance out any forced increases in defense spending. Furthermore, as a concession to leftists, the tax reduction was implemented as a temporary (!) measure rather than as a new permanent system). Ideology plays an undeniable role in the expansion of nation's budgetary commitments in good years, and only a limited part in the reduction of public spending in times of fiscal crisis.

Frequent changes of governments weaken "leadership" stimuli and strengthen politicians who seek opportunities to broaden their support base at the expense of "temporary" public financial imbalance.

Reliable and almost indisputable factors of stringent reforms aimed to address budget deficits and the reduction of public debt reduction become critical when general public expectations plummet. Low expectations pave the way for a new government, and the latter is better able to pursue financial stability (transition slumps, in the case of post-socialist countries).

The only universal and powerful predictor of an increase in modern democracies' financial instability (constant reproduction) is a phenomenon of modern left-wing parties, and it is brought to life by the introduction of universal suffrage. It is this institution that has established the long-term mechanism of voter and political corruption. The mechanism can only be dismantled in major situations of crisis, and with the help of intense political mobilization against certain groups of "outsiders" and bureaucrats.

Among the manifestations of the universal suffrage factor is the very structure of nations' revenues and, most importantly, their expenditures. The revenues of an (extended) government see the ever-increasing role of fees for compulsory social insurance in a number of different forms, shapes and directions. As a rule, income tax increases as well, in addition to any taxes with clear-cut redistribution (such as various consumption taxes, VAT, etc). In turn, military spending will decrease at a fast rate, while spending in the sectors of education, healthcare, pensions and redistribution programs soars. Finally, peacetime debt-servicing expenses also grow very quickly. Previously, a major part of national and public debt was accumulated during wartime. (In fact, "a vote for war credits" was the main instrument of parliamentary control over such spending.) In the era of universal suffrage, much debate and voting has revolved around borrowing limits expansion in peacetime to "combat the economic crisis" and cover the nation's social needs. In some countries, debt-servicing expenses are already catching up with their overall social spending; and in the near future, they will be one of the main budgetary expenditures.

The experiences of both developed countries and countries with economies in transition show that in order to strike a balanced budget, political opportunities to make drastic spending cuts are crucial, and such cuts are usually much more effective policy than trying to squeeze large (additional) tax revenues out of the weakening economy.

Political costs of the tax increases protect the taxpayer from paying for the government's attempts to acquire additional support from the dependent population. Thus, resistance to tax increases has a powerful moral legitimacy. However, it is nearly impossible to organize a winning coalition in favor of cutting spending; and it is even more difficult to hold on to it in the long-term following the immediate effects of the state's financial problems (as a rule, represented with high inflation), the blow of which is softened as a result. Both statistical data and examples by country demonstrate this vividly.

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