Ambidextrous Regimes: Leadership Survival and Fiscal Transparency

by

Cristina Corduneanu-Huci

Department of Political Science
Duke University

Date:_______________________
Approved:

___________________________
Karen Remmer, Supervisor

___________________________
Pablo Beramendi

___________________________
Herbert Kitschelt

___________________________
Charles Kurzman

___________________________
Bahar Leventoğlu

Dissertation submitted in partial fulfillment of
the requirements for the degree of Doctor of Philosophy in the Department of
Political Science in the Graduate School
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2012
ABSTRACT

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Abstract

How do political leaders strategically manage fiscal policy formation to enhance their political survival? What are the implications of the fiscal mechanics of survival for theories of redistribution and democratic transition? This dissertation examines the complex relationship between political regime types and fiscal information asymmetries. I focus on budgetary policies (taxation and public spending) as major strategic tools available to the executive for co-optation and punishment of opponents. I argue that allowing some degree of contestation and transparency on the fiscal contract in electoral authoritarian regimes helps the executive identify distributive claims and co-opt the opposition. Paradoxically, in new democracies, political survival depends more on lower levels of budget transparency than existent theories would have us expect. Chapters 1 and 2 present a general formal model from which I derive the major hypotheses of the study. Second, Chapters 3, 4 and 5 use new cross-national measures of fiscal transparency to test the hypotheses empirically. The statistical models confirm the main theoretical intuitions. Finally, Chapter 6 compares in greater detail the evolution of fiscal transparency in Morocco, Turkey and Romania between 1950 and 2000. I use original quantitative datasets, archival evidence and personal interviews, and argue that fiscal taboos closely followed the logic of shifting political alliances and their distributional consequences for leader’s survival.
Dedication

To Brett, for not letting me fall
## Contents

Abstract ........................................................................................................................................... 4
Dedication ......................................................................................................................................... 5
Contents .......................................................................................................................................... 6
List of Tables .................................................................................................................................... 10
List of Figures ................................................................................................................................ 12
Acknowledgements ....................................................................................................................... 16

1. Introduction: Information Asymmetries, Social Contracts and Political Regimes ...... 17
   1.1 Information Asymmetries and the Social Contract ............................................................ 19
      1.1.1 Institutionally induced asymmetries ........................................................................... 20
   1.2 Transparency and Political Regimes ............................................................................... 25
      1.3.1 Methodological caveats ............................................................................................. 27
   1.4 Fiscal Policies and Regime Types: the State of the Debate .............................................. 28
   1.5 Hybrid Regimes and Fiscal Transparency ...................................................................... 33
   1.6 A Theory of Coalitions and Budgetary Contestation across Political Regime Types .................................................... 39
   1.7 Research Design and Dissertation Structure .................................................................. 43

2. A Model of Fiscal Information Asymmetries along the Democracy Continuum ...... 49
   2.1 The Generic Model ............................................................................................................. 49
      2.1.1 Executive’s utility ....................................................................................................... 51
      2.1.2 Opposition’s utility ................................................................................................... 56
      2.1.3 Theoretical implications of the formal model:........................................................... 60
   2.2 A Simple Game of Budget Contestation in Hybrid Regimes ......................................... 62
      2.2.1 Hybrid regimes ......................................................................................................... 67
2.2.2 New and fragile democracies

2.3 Theoretical Implications of the Formal Model

3. Strategic Governance: Fiscal Transparency across Political Regime Types

3.1 Transparency and policy relevance

3.2 Theoretical advances on information asymmetries in the budget process

3.3 Data on fiscal transparency

3.4 Transparency of the fiscal contract: cross-national variation and its causes

3.4.1 The “zero” fiscal transparency cluster

3.4.2 The “non-zero” fiscal transparency cluster

3.4.3 Fiscal contract transparency under different political regime types

3.5 Ambidextrous budget transparency: revenue and expenditure

3.6 Transparency for whom? Coordinated information disclosure and political regime types

3.7 On the politics of data construction: a research note on data compatibility between the OBI and the OECD survey

3.8 Conclusion

3.9 Tables

4. Navigating Minefields: Budget Implementation Signals in Democracies and Autocracies

4.1 Exit, neglect and punishment: on the construction of a fluid social contract

4.2 The Executive

4.3 The Opposition

4.4 A signaling game of budgetary implementation

Discretionary implementer

4.5 Cross-national empirical findings

4.5.1 A note on the “politics” of data construction and respondents’ disagreement
6.2.5 Overall trends of fiscal contestability and transparency in the Moroccan Parliament, 1957-2002

6.4 Romania: From one-party regime to fragile post-communist competition

6.4.1 Elite cleavages, repression and fiscal policies between 1948 and 1965

6.4.2 From “terror” to “fear”: 1965-1978

6.4.3 1978-1989 – Back to terror

6.4.4 Fiscal transparency, contestability and implementation signals: the farmer, the industrial technocrat, the soldier, and the many

6.4.5 Budget implementation and audit during totalitarianism

6.4.6 From totalitarianism to fragile post-communism

6.4.7 Fiscal implementation

6.5 Turkey: national defense and fiscal taboos in the post-junta years

6.5.1 A brief summary of the Turkish coups, and their redistributive consequences

6.5.3 The making of a fiscal taboo: extra-budgetary funds for military spending, autocratic legacies in the post-coup era

6.6 Conclusion

7. Implications and Conclusion

Bibliography

Biography
List of Tables

Table 1: Marginal Effect of Democracy Score on Fiscal Transparency as Regime Changes................................................................. 109
Table 2: OBI 2008 Survey-Fiscal Contestability Indicators........................................ 112
Table 3: Legislative Engagement in Hybrid Regimes................................................. 116
Table 4: Fiscal Transparency in Hybrid Regimes..................................................... 125
Table 5: Fiscal Disclosure to Domestic Civil Society and International Donors .......... 132
Table 6: Table of Hypotheses for Strategic Information Disclosure ...................... 136
Table 7: State-Civil Society Information Game in Hybrid Regimes.......................... 141
Table 8: Determinants of membership in two clusters of transparency............... 145
Table 9: Budgetary Contestability ......................................................................... 146
Table 10: Fiscal Transparency and Its Political Economic Determinants ............... 147
Table 11: The Political Economic Determinants of Fiscal Rules ......................... 149
Table 12: Sets of dependent variables capturing government signals of commitment to budget implementation............................................. 203
Table 13: Annual budgetary audits availability and regime type ......................... 215
Table 14: Regime type and the implementation of extra-budgetary funds.............. 217
Table 15: Regime type and the availability of year-end budget reports ................. 219
Table 16: Regime type and the transparency of security apparatus spending .......... 221
Table 17: Two-sample t test with equal variances by regime type...................... 222
Table 18: Two-sample t test with equal variances by state capacity .................... 223
Table 19: Two-way ANOVA results for regime type and state capacity .............. 224
Table 20: GLM Fractional Logit results ................................................................. 225
Table 21: Size of the informal economy across regime type: a replication .......... 226
Table 22: Information availability on taxes and expenditure (as proxy for fiscal transparency)........................................................................ 239
Table 23: Leadership survival and fiscal transparency in hybrid regimes............... 254
Table 24: Leadership survival and fiscal transparency in military regimes .............. 255
Table 25: Leadership survival and fiscal transparency in military multiparty regimes 256
Table 26: Leadership survival and fiscal transparency in one party regimes............. 257
Table 27: Leadership Survival in Autocracies............................................................. 258
Table 28: Leadership Survival in One Party and Personalistic Regimes.................. 259
Table 29: Leadership Survival in Democracies............................................................ 260
Table 30: Fiscal transparency and contestability in the Moroccan Parliament, 1957-2002 ................................................................................................................. 321
Table 31: Contestation of fiscal policies in the Romanian National Assembly (1952-
1989) .......................................................................................................................... 343
List of Figures

Figure 1 Key concepts of preposterior decision analysis.................................................. 51

Figure 2: Assumptions regarding constituency benefits and collective action gains and 
costs for the opposition along the democratic continuum (w)........................................ 58

Figure 3: Fiscal policy transparency ................................................................................. 62

Figure 4: Extended form of the generic game ................................................................. 63

Figure 5: Extended form of the generic game, Equilibrium I.......................................... 68

Figure 6: Extended form of the generic game ................................................................. 71

Figure 7: Extended form of the generic game Equilibrium III ......................................... 73

Figure 8: Cross-national variation on budget transparency .............................................. 90

Figure 9: Correlation between our indicator of fiscal transparency and other governance 
measures............................................................................................................................ 99

Figure 10: Contingent effect of Budget transparency on the probability of discretionary 
law enforcement .............................................................................................................. 107

Figure 11: Marginal Effect of Democracy Scores on Fiscal Transparency as Regime 
Changes.......................................................................................................................... 109

Figure 12: Two-way scatter plot of general inclusiveness of the opposition in yearly 
budget negotiations by democracy scores....................................................................... 113

Figure 13: Marginal Effect of Democracy on Legislative Engagement on Budgets as 
Regime Type Changes.................................................................................................... 115

Figure 14: Histogram of the Legislative engagement indicator for Hybrid regimes (group 
1) and other regime types (group 0)................................................................................ 115

Figure 15: Non-Parametric Expenditure and Revenue Transparency in Hybrid Regimes 
.......................................................................................................................................... 124

Figure 16: Revenue transparency (aggregate indicator - OECD OBI) ........................... 125

Figure 17: Expenditure Transparency (aggregate indicator OECD-OBI) ...................... 125

Figure 18: Varieties of budgetary accountability according to final beneficiaries of 
information........................................................................................................................ 129

Figure 19: Budget transparency and disclosure to donors.............................................. 133
Figure 20: Government/civil society response compatibility across political regime types
......................................................................................................................................... 138

Figure 21: Government/civil society response compatibility across different levels of state capacity................................................................................................................... 139

Figure 22: Configuration of executive’s costs and benefits of signaling across regime types ................................................................................................................................... 168

Figure 23: Configuration of costs and benefits of signaling across regime types ....... 170

Figure 24: Signaling game on budgetary implementation played by the executive and the opposition................................................................. 175

Figure 26: Median differences between democracies and non-democratic regimes on budget implementation................................................................. 210

Figure 27: Median differences between democracies and non-democratic regimes on expenditure implementation................................................................. 210

Figure 28: Annual budgetary audit availability and the democracy continuum.......... 216

Figure 29: Extra-budgetary funds implementation along the democracy continuum.... 218

Figure 30: Year-end budget report availability along the democracy continuum ........ 220

Figure 31: Fiscal policy transparency ............................................................................. 231

Figure 32: Transparency of expenditure data reporting to the IMF Government Finance Statistics Database ........................................................................................................... 241

Figure 33: Transparency of revenue data reporting to the IMF Government Finance Statistics Database ........................................................................................................... 241

Figure 34 Transparency of data on public sector salaries, wages and employers’ contributions in hybrid regimes ........................................................................................................... 246

Figure 35: Transparency of data on public sector salaries, wages and employers’ contributions in one-party and personalist regimes ................................................................. 247

Figure 36: Transparency of data on property taxes in limited multiparty competition regimes .......................................................................................................................... 248

Figure 37: Military: wages and salaries transparency .................................................... 261

Figure 38: Hybrids: wages and salaries transparency ...................................................... 261

Figure 39: Hybrid: total revenue transparency ............................................................ 261
Figure 43 ........................................................................................................................................... 262
Figure 40: Military multiparty: wages and salaries transparency Military (tipc) ........... 262
Figure 41: Military: income taxation transparency ................................................................. 262
Figure 42: Limited multiparty competition: Property taxation transparency ............... 262
Figure 44: New democracy: total spending transparency .................................................... 262
Figure 45: Autocracies: social security welfare spending .................................................... 262
Figure 46: Autocracies: social security transparency ............................................................ 262
Figure 47: New democracy* –total revenue transparency .................................................... 263
Figure 48: Established democracy* –total spending transparency ..................................... 263
Figure 49: New democracy* –total spending transparency ............................................... 263
Figure 50: Established democracy* –total revenue transparency (* graphs are drawn based on Archigos leadership survival data) ....................................................... 263
Figure 51: Hybrid – total expenditure implementation ......................................................... 264
Figure 52: Autocracy – total revenue implementation ........................................................... 264
Figure 53: Established democracy –total expenditure .......................................................... 264
Figure 54: Hybrid – total revenue implementation ................................................................. 264
Figure 55: Autocracies – total expenditure implementation ................................................ 264
Figure 56: Autocracies– total rev. implementation ............................................................... 264
Figure 57: Morocco – recorded parliamentary contestation on fiscal policies and annual budgets between 1957 and 2002 ................................................................................. 276
Figure 58: Recorded contestation on annual budget vote ..................................................... 289
Figure 59: Duration of fiscal legislation debates in the Moroccan Parliament (1996-2006) ................................................................................................................................. 289
Figure 60: Number of years between the annual budget and account closure (author’s calculation based on data from the Parliamentary archive) ........................................ 303
Figure 61 Evolution of the number of special accounts in Morocco budgeting between 1998 and 2008 .................................................................................................................. 313
Figure 62: Total number and financial weight of special accounts by category, 2004 .. 316

Figure 63: Histogram of negative votes on taxation versus spending (1 – tax laws, 0- the rest) ........................................................................................................................................ 323

Figure 64: Duration of parliamentary debates by type of legislation (1 – tax laws, 0 – the rest) (number of days) ........................................................................................................................................ 324

Figure 65: Duration of legislative debate for taxation reforms outside the general framework of the budget (number of days) ........................................................................................................................................ 324

Figure 66: Voting records in the Grand National Assembly ........................................ 333

Figure 67: Expenditure versus revenue implementation in communist Romania .... 336

**Figure 68: Total recorded votes, Romania1950-1989** ........................................ 342

**Figure 69: Total negative and absent votes Romania, 1950-1989** ....................... 342

Figure 70: Expenditure (% total spending) ................................................................. 344

Figure 71: Structure and evolution of revenues (% of total revenue) ...................... 344

Figure 72: Fiscal transparency in post-communist Romania ...................................... 363

Figure 73: Extra-budgetary funds balance compared to the central budget (if negative, special fund surplus, if positive, deficit) ......................................................................................... 363

Figure 74: Total defense spending in Turkey, by general budget and special budgetary accounts (1987-2000)................................................................................................................................. 376

Figure 75: Structural evolution of military spending (personnel versus equipment) in the defense budget, 1985-2001) ................................................................................................................................. 377

Figure 76: Revenue composition for SSDF by sources, 1986-2000 ......................... 377
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1. Introduction: Information Asymmetries, Social Contracts and Political Regimes

This dissertation is about the strategic management of the budgetary process and fiscal information by political leaders. The central research questions of the theoretical and empirical investigation are: how do quasi-democratic regimes collect, disseminate and share with the opposition crucial information about fiscal contracts in order to stay in power? To what extent are information asymmetries relating to budgets strategic? What institutional factors explain best variation among such strategies? In a broader sense, under what conditions do executives in democracies and autocracies manipulate key fiscal information in order to stay in power? What are the distributional implications of budgetary transparency for regime stability? Does transparency always translate into accountability? My answers reside in the informational tools used by leaders to carve out controlled contestation of budgets and extend their tenure in office. I develop a theory that links executive survival to budget transparency and implementation across political regime types, with a special focus on hybrid regimes.

This research brings together three distinct literatures and puts them in conversation with each other: information economics, social contracts/redistribution, and the political economy of hybrid regimes. Building on their major theoretical insights, I argue that fiscal transparency follows an S-shaped curve along the democracy continuum. First, I introduce a formal model that generates the main working hypotheses. The basic intuition behind this finding is built on the assumption that budgetary openness and
contestation allows executives across the full regime spectrum to collect information on the concrete distributive claims of the political opposition in order to co-opt some or all of its members and persuade them to invest in regime survival. Revealing full information on the fiscal contract, however, comes with a risk, as it provides a platform for collective action for the opposition. If a critical mass of challengers is already represented in the legislature, their coordination under conditions of transparency can lead to successful demands for redistribution from elites and possibly regime change. I find that this is the unique case of the so-called hybrid regimes and new democracies standing between full democracy and dictatorship, as they counter-intuitively tend to decrease transparency while political rights expand. Closed authoritarian governments do not need information collection in order to stay in power because they have the capacity to repress and effectively control a small winning coalition, whereas in established democracies, demands for accountability significantly reduce the scope and magnitude of information asymmetries characterizing annual budgets. This theory intuitively captures the mechanics of cooptation, through which the executive opens up budgets for contestation in order to identify and negotiate the “price of loyalty” demanded by the opposition whenever necessary for political survival, but closes it when the probability that the challengers may claim full redistribution or regime change is high enough.

This chapter proceeds as follows: first, it makes the case for studying budgetary information across political regime types. Second, it reviews the relevant literature. Third, it outlines the general framework of the theory. Chapter 1 presents two formal models to operationalize the theoretical intuition and assure logical consistency: a generic version meant to illustrate the evolution of fiscal information asymmetries along the
authoritarian to democracy spectrum, and a simple game focused on fiscal contestation in hybrid regimes. Subsequently, based on the implications and comparative statics of the model, I propose a set of working hypotheses. Chapters 2, 3 and 4 use several cross-national databases for their empirical testing. Chapter 5 juxtaposes in-depth case studies of Morocco, Turkey and Romania, and draws upon several original datasets to illuminate the theoretical mechanism (?) linking strategies of leadership survival with the relative transparency of the fiscal budget.

1.1 Information Asymmetries and the Social Contract

This dissertation uses interchangeably several closely related concepts: transparency of the social or fiscal contract, and budget transparency. The social (or fiscal) contract represents the broadest theoretical concept, and it refers to the fundamental relationship between governments and citizens through which resources are claimed and allocated. Annual government budgets are the concrete scripts of social contracts as they regularly record the distributive transactions between governments and society.

Economic and political markets are characterized by information asymmetries between contracting parties. One participant in the transaction knows more about the object of the contract, and/or about her private incentive to respect the contractual commitment. Fiscal contracts, as principal-agent relationships through which citizens (as the principals) delegate the design and management of resource allocation processes to the executive (as the agent), are inherently plagued by severe informational discrepancies. Governments have significant agenda setting powers: every year, country
specific central finance authorities estimate, based on macroeconomic conditions and political-economic factors, the amounts and structure of taxes to be collected or the expected non-tax revenue flow, and propose allocations of expenditures.

In some cases, the executive budget proposal incorporates fiscal claims formulated during extensive public consultations with businesses, unions, interest groups, and other parties. In other cases, the draft of the yearly budget reflects exclusively the concerns of the executive and the incumbent political party. Following this initial process, the executive proposal goes to a legislative body for debate and approval. Budgets are the most important legislative acts of the parliamentary year since they record both the distributive claims of the opposition and the government commitment to distribute resources.

What are the major types of information asymmetries on fiscal contracts?

1.1.1 Institutionally induced asymmetries

First, every year budget proposals contain thousands of pages and are often overly technical for the assembly floor. Second, the institutional capacity and authority bestowed upon legislatures vary tremendously across countries. In some contexts, parliaments “buy expertise” from public account committees; in other cases, such investments are not worthwhile since legislatures merely have a symbolic vote, with no significant influence. Some parliaments have authority only over taxation, but not over spending, or they are completely deprived of amendment powers; therefore the scope of informational asymmetries on the yearly allocation of resources is wide. Third, even prior
to the stage of parliamentary approval, large informational asymmetries are already embedded in the level of detail of the executive proposal. Perhaps there is no greater cross (and sub)-national variation than with respect to the precision and detail of budget information. Some national budgets not only disaggregate spending allocations at program and constituency level, but also simulate policy outcomes and implications. Other fiscal contracts present only highly aggregated and abbreviated information on the total amount of taxes and expenditure allocations. The national budget of Vietnam, for example, contained only four pages prior to 2000. Fourth, in some contexts, the entire pool of resources with any significant distributive consequences is managed through extra-budgetary accounts, and escapes any opposition altogether. Fifth, even if fiscal contracts are *de jure* and *de facto* approved in parliaments, the high fragmentation of the central budget authority allows multiple pockets of decision-making and control that effectively bypass legislature. Chapter 5 will use the case study of Morocco to demonstrate how the Ministry of Interior plays a much more important role in territorial allocations of resources than the political parties represented in the assembly.

### 1.1.2 Heresthetics

In addition to clearly identifiable discrepancies of information on fiscal contracts between the executive and elected representatives, reflecting the institutional setting, there is also a second type of asymmetries generated through *strategic obfuscation*. Obfuscation is conceptually broader than institutional secrecy, and relates to *heresthetics*, or the process through which leaders “structure the world so they can win” (Riker 1986).

“(…) We have obfuscation when the information provided to the stakeholders leads them to interpret in a different way the issue – that is, to give a different meaning to it. Obfuscation is thus compatible with omitting information,
transmitting information beyond the possibility of using it, or, clearly, transmitting false information.” (Brosio 2007: 174).

The economics literature has recently emphasized strategies of “optimal obfuscation” or “(de) politicization” of selected policies in both non-democracies (Dewan and Myatt 2008, Maghraoui 2002) and democracies (Bretton et al. 2007; Kono 2006; Lindbom 2007). Beyond the scope of institutionally induced information asymmetries, strategic obfuscation also includes framing, rhetoric, manipulated salience, induced changes of the dimensions of political competition, or issue tabooization (Riker 1986, Bretton et al. 2007).

Whereas heresthetics is undoubtedly a crucial component of information asymmetries, it is much more difficult to measure and operationalize in a manner that would allow comparison across time and space. Therefore, this dissertation is mainly concerned with institutionally induced information gaps on fiscal contracts that are more concrete and feasible to trace. Nevertheless, the case studies also pay attention to rhetorical signals sent by governments in order to structure or obfuscate the legislative debate on certain dimensions, as well as to tabooization strategies that completely shield sensitive political issues away from overt contestation in Morocco, Turkey and Romania.

Throughout this study, information asymmetries will be used interchangeably with “fiscal transparency,” “budget transparency” or “open fiscal contract.”

Fiscal transparency is defined…as openness towards the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities (…). (Kopits and Craig 1998, 1)¹

¹ For other definitions, see Lipford (2001, 575-6), and the IMF Code of Good Practices on Fiscal Transparency.
Whenever a fiscal contract and its accompanying script (the yearly budget) are transparent, it means that there are no significant information gaps or asymmetries with respect to tax and spending policies between the government and the opposition.

Why are information asymmetries important? How do they impact re-distributive claims and political regime stability?

For economic markets, prior to the insights provided by the field of information economics, the Arrow -Debreu general equilibrium model was built on the assumption of complete and perfect information. All participants in transactions had equal knowledge about the state of the world. The relaxation of this assumption led to the important discovery that even small amounts of informational imperfections caused large changes in the equilibrium. It also paved the way for a theory of government as corrector of market imperfections (Stiglitz 2000, 2009). In political markets, the problem is even more acute. The incentives for secrecy of government operations are often high, and the state has the monopoly of coercion. Therefore, under certain conditions, it cannot credibly commit to correct asymmetries and enforce contracts (Acemoglu and Robinson 2006). For political parties and civil society, even small sunk costs can undermine full contestability (Stiglitz 2009).

Transparency of government activities has recently become the panacea of development recommendations of the IFIs (IMF and the World Bank), and entered the popular discourse. Undoubtedly, budget transparency is the most prominent domain of inquiry. The recent case of Greece, whose executive managed to conceal crucial deficit data from both domestic political actors and international markets, raises questions about
the secrecy incentives and conditions facilitating it at work even in advanced industrial democracies, not to mention developing countries. Even in polities with robust democratic institutions, such as the United States, the politics of information has evolved hand in hand with the executive agenda. There is evidence that the Reagan administration resisted the statistical collection of basic data on poverty and inequality, whereas these days, there are pockets in the administration that are reluctant to incorporate green accounting (or the design of a green GDP indicator that would capture and measure adequately environmental degradation) (Stiglitz 2002: 29). Yet, to date, we do not know much about either the political economic origins of asymmetries or their consequences. Chapter 2 will explore this issue in greater detail.

Does transparency matter for the strategic interaction of political actors on the fiscal contract? Perhaps more importantly, do information asymmetries have direct distributional consequences? First, one of the major insights derived from the economics of information is that information is a public good in itself. Using publicly available data on education expenditures or the balance of payments has zero marginal costs for consumers, and the government has a comparative advantage in collecting and disseminating such data. Second, as any artificially induced scarcity, secrecy creates rents for various groups in society. Even mildly changing the ways in which the standards of living are measured, for example, has immediate consequences to the benefit of retirees and workers whose social security or wages will be immediately impacted by the new measurement. Third, the agency problems generated by information imperfections affect the selection incentives of politicians. Potentially inheriting a budget deficit that is not fully disclosed can deter certain opposition members from even wanting to participate in

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2 This section builds on Stiglitz 2002.
government. Unfortunately, sometimes even a free and vibrant media cannot correct information asymmetries if the executive is resolute in maintaining secrecy.

Instinctively, there are reasons to believe that secrecy about government activities only gets worse in non-democracies. How do executives in various regimes use the politics of information production and dissemination to stay in power? The conventional wisdom has it that some form of political accountability (to citizens/voters and international donors) goes hand in hand with general transparency, including information on social contracts; hence democracies, overall, have fewer information asymmetries than autocracies.

1.2 Transparency and Political Regimes

So far, we have some theoretical intuitions that the way in which basic economic/fiscal information is compiled and disseminated varies dramatically across countries. For years, states in the communist bloc resisted the standard computation and collection of data on the Gross Domestic Product. Their central statistical offices developed instead a parallel system of accounting and reporting based on the Gross Material Product that virtually rendered any attempt at comparison and country ranking futile.

The theoretical logic behind the relationship between political regimes and budget transparency is that as democracy expands, legislatures and voters are able to demand more information on the ways in which their tax money is allocated. After all, the Glorious Revolution is foremost a story of fiscal transparency.
Non-democratic executives, the narrative goes, have strong incentives to hide essential information about collected taxes and allocated resources, as transparency would reveal a skewed social contract that benefits only a potentially narrow group of regime supporters. Even in communist one party regimes, where social spending targets a much wider segment of the population, opening up the chapters of spending that conceal pockets of rents for the top echelon of party elites, or the resources used for the repressive apparatus would open a Pandora box of claims. Democratic regimes, on the other hand, face elections and political pressures for accountability; therefore they are theoretically more likely to open the fiscal contract for political contestation and, subsequently, to disseminate more data.

Despite these strong theoretical intuitions that non-democracies have more incentives to conceal and withhold crucial information on fiscal contracts, to date we have no empirical test of the relationship between political regime type and the scope and nature of fiscal information asymmetries.

The assumption that democracies are automatically more transparent is usually derived from the view of the unidirectional, bottom up role of transparency as embodying a relationship of accountability between citizens and rulers. But is it possible that the expansion/reduction of information asymmetries fulfills other strategic functions that are not part of the current theoretical intuition? This dissertation argues that budgetary information plays an additional political role. As much as fiscal transparency matters for political demands involving rents and redistribution, it also provides a platform for effective collective action on the side of the opposition, as well as surveillance, information collection, and effective cooptation on the side of the executive.
In a way, my approach is in line with Magaloni (2006) and Weingast (1997) who argue that “dictators trespass upon citizens’ rights by profiting from coordination dilemmas among their opponents” (Magaloni 2006: 27). Sometimes such coordination dilemmas occur naturally among opposition parties – i.e. because of ethnic and ideological rivalries. Sometimes they are induced. In my account, budgetary institutions (and political strategies regarding fiscal transparency in particular) are used to induce coordination dilemmas and impede or hamper collective action among real or latent opposition members.

1.3.1 Methodological caveats

Methodologically, there is a major problem in studying fiscal transparency across regimes: many countries do not publish any data at all, and the self-reported sources we use are often unreliable. It is likely that an underlying selection process makes autocracies less likely to disseminate budget information, and much less accurate information, to international databases than democracies.

Scholars have also repeatedly pointed out problems related to comparability and reliability of fiscal data in particular. Education and health expenditure are often divided between different levels of government, as well as fragmented among various ministries and bureaucratic agencies. Alternative methods of national accounting (i.e. cash versus accrual) render meaningful comparison difficult. Even if the difference in accounting methods, at a first glance, seems strictly technical, it can cause large discrepancies. For example, cash accounting would record a transaction when the payment is delivered, whereas accrual takes into account the transaction when it occurs. For countries with
large arrears as a result of delayed payment for, say, teachers’ salaries, the difference in terms of data reporting is not trivial.

Even in democratic regimes, distributional consequences of tax and spending policies are not immediately derivable. Moreover, “symbolic” politics, namely promises made by politicians without any commitment guarantees, while politically consequential, are not reflected in actual outputs.

Governments manipulate data for political purposes (Remmer 1978: 44; Bueno de Mesquita et al. 2003). Despite major cross-national efforts to harmonize national accounts, there are persistent inconsistencies of reporting stemming from both low statistical capacity and strategic political manipulation.

This dissertation uses a new analytical approach that factors in the very politics of the construction of fiscal information. The strategies of fiscal data dissemination are endogenous, I argue, to the political process through which revenues are raised and spending allocated from the state budget. Therefore, instead of working only with data reported to major international databases, the theory also seeks to explain the selection effect through which some political regimes avoid reporting information on taxes and expenditure altogether. Thus, the analysis of the strategic logic of budget transparency renders missing data points as valuable as reported information, and avoids the dangers of sampling on the dependent variable. Chapters 2, 3 and 4 will allocate several sections to the political construction of budgetary data under different regime types.

1.4 Fiscal Policies and Regime Types: the State of the Debate
Fiscal transparency aside, what do we know so far about the relationship between budgets and political regimes? Taxation, as one of the major components of state revenue, has been “charged” historically with an organic role in the origin of the modern state (Ardant 1971; Tilly 1992), the process of representation through democratization (Acemoglu and Robinson 2006; Bates and Lien 1985; Boix 2003; North and Weingast 1989; Ross 2004), and the linkage between the state and its citizens (Levi 1988). In the famous words of Rudolph Goldscheid, the founder of fiscal sociology, “taxation is the skeleton of the state stripped of all its misleading ideologies (Schumpeter [1918] 1954).” In spite of these rich theoretical and historical traditions, however, empirical work on taxation has tended to focus narrowly on advanced industrial democracies, mainly because of the availability and comparability of data (Beramendi and Rueda 2007; Garrett 1998; Kato 2003; Mares 2006; Peters 1991; Steinmo 1996; Steinmo and Tolbert 1998). Recent political economic analyses of tax outcomes have started to expand to developing countries (Bates 1989; Chaudhry 1997; Cheibub 1998; Dunning 2008; Eaton 2002; Fauvelle-Aymar 1999; Gelbach 2008; Lieberman 2003; Mahon 2004; Wibbels and Arce 2003) as state capacity (of which resource extraction is a crucial component) and its theoretical overlaps with regime type have gained prominence in the comparative politics and development policy literatures (Bergman 2003; Bessley and Persson 2007; Bräutigam, Fjeldstad, and Moore 2008; Levy and Kpundeh 2004; Moore 2007; Nelson, Tilly, and Walker 1997; Tilly 2007).

Expenditure, the other side of fiscal policy, has benefited from much more attention from scholars across disciplines. Starting with theories and debates on the welfare state, the relation between spending, political institutions, and inequality in
advanced industrial democracies has received significant contributions from economists, sociologists and political scientists alike (Esping-Anderson 1990; Hall and Soskice 2001; Lindert 2004; Mares 2003, 2006; Persson and Tabellini 2000, 2003; Pontusson 2005). As in the case of taxation, research has also increasingly expanded towards the developing world. The findings and implications span quite a diverse territory ranging from social policy diffusion (Brooks 2009; Wibbels and Arce 2003) to the interaction between political institutions and fiscal policy (Brown and Hunter 1999, Kaufman and Segura-Ubiergo 2001, Remmer and Wibbels 2000; Wibbels 2005). Large-N cross-national studies have also started to systematically sort out the factors that affect the overall level and change of expenditure (Haggard and Kaufman 2004; Mulligan and Gil 2002; Niskanen 1997, 2003; Remmer 2004). In parallel with increased efforts to understand the mechanisms of causation responsible for aggregated outcomes, recent work also explores the “invisible” territory of political spending. Clientelism and patronage in developing polities have been established as important areas of research with tremendous consequences for democratic accountability and fiscal policy (Grzymala-Busse 2007; Hagopian 2007; Kitschelt and Wilkinson 2006; Stokes 2007).

Nevertheless, the relationship between the duality democracy/autocracy and fiscal policy has been long debated among public economists and political scientists and is subject to continuing controversy. On one hand, the literature offers convincing theoretical and empirical evidence that democracies perform better in terms of both extractive and public good generating capacity (Acemoglu and Robinson 2006; Boix 2003; Bueno de Mesquita et al. 2003; Deacon and Saha 2006; Lake and Baum 2001; Meltzer and Richards 1981). On the other hand, other strands of research contradict this
seemingly “conventional wisdom,” arguing that dictatorships redistribute more than democracies (Wintrobe 1998), or that there simply is no systematic difference across regime types in terms of fiscal policy (Cheibub 1998; Menaldo 2008; Mulligan, Gil and Sala-I-Martin 2004; Timmons 2005).

What does fiscal transparency add to the debate? As already suggested in the previous section, the research on the impact of regime type on fiscal policy takes the information on tax and spending provided by the widely available databases at face value. As a result, the literature ignores variations in tax and spending aggregate outcomes that reflect the incentives of certain regimes not to disseminate such information at all.

Several seminal studies suggested that the relationship between political regime types and social contracts is intermediated by inequality (Boix 2003, Acemoglu and Robinson 2006). Democratization is more likely to occur at certain levels of income and wealth disparities that render transition threats credible to elites. Fiscal transparency ties organically into this debate since budgets ultimately feed distributional outcomes, but departs from its structural underpinnings. I reverse the causal arrow, and argue that strategically constructed information asymmetries on budgets allow the routine identification and clarification of the stakes of the re-distributive game for both the executive and the opposition, thus contributing to regime survival. Independently of the societal level of inequality, adjusting fiscal transparency allows the government to continuously collect information on budgetary claims and the opposition to bid their “price of loyalty” to the political regime. Thus, this theory shifts the focus from political claims formulated on the basis of observable inequality, an ossified outcome of the social
contract, to opposition demands routinely sought, made and accommodated based on a fiscal contract in flux designed to prevent regime change.

This dissertation emphasizes the relationship between the continuous renegotiation of social contracts and regime stability, at the expense of structural inequalities. As Robert Dahl suggested, “(…) when demands for greater equality arise, a regime may gain allegiance among the deprived group by responding to some part of the demands, though not necessarily all of them” (Dahl 1971: 89). My theory explores what the government does to assure categories affected by “perceived” inequalities that it is doing something to alleviate them.

Revenue generation and distribution are also simultaneous and interdependent decisions that political actors face. Therefore, the theory introduced here conceptualizes the fiscal contract as a joint product of taxation and spending. As policy tools, tax and spending also go beyond redistribution and economic incentives. Especially in certain political regimes, their enforcement can also perform a variety of tasks ranging from repression of political opponents all the way to economic efficiency and inequality alleviation. So far, the relatively few studies that analyze fiscal policies across political regimes look exclusively at outcomes at the expense of the study of policy formation and implementation processes (Cheibub 1998; Deacon and Saha 2005; Lake and Baum 2001).

Most importantly, this project, as the theoretical section will argue, attempts to explore the inner mechanics of budget transparency and implementation in hybrid political regimes. To this purpose, the research builds upon recent theories that open the “black box” of the state by embedding the leader’s survival in various coalitions of

1.5 Hybrid Regimes and Fiscal Transparency

Political regimes (both autocratic and democratic) have many subtypes and idiosyncrasies based on differing institutional features. In a certain sense, each country specific arrangement is unique. Theorists of authoritarianism approaching this fine line between theory building and specificity, have long argued that institutional mechanisms and configuration of actors should guide classification and comparison of regime categories (i.e. military) rather than origins or other idiosyncratic trajectories (Remmer 1978, 1991).

In the wake of the Cold War, scholars refocused their attention to regimes that creatively combine non-democratic features of rule with elections and contestation otherwise characteristic of polyarchies. This theoretical and empirical focus matched the rising number of polities falling in this category in a new era in which geopolitical alliances and the spread of democratization doctrines left fewer repressive strategies of rules available to leaders. In 1995, 33 countries fell into this regime type (Levitsky and Way 2008: 3). Even if the rate of democratization accelerated rapidly in the period immediately following the Cold War, the subsequent decade reduced it significantly (Brownlee 2010).

Today, hybrid regimes that combine some form of elections and civil rights with authoritarian features of rules are twice as many as full and stable autocracies. Around 2001, there were 58 electoral authoritarian regimes in the world, compared to only 25

33
closed authoritarian states (Brownlee 2010, Schedler 2002). The initial attempts to theorize about hybrid regimes operated with the assumption that they are short-lived, transitional states from authoritarianism to democracy. In more recent years, there has been an increasing realization that hybrid political regimes survive longer than initially expected, and they do not always democratize (Brownlee 2010). This study argues that the strategic construction of information asymmetries with respect to the social contract is one of the key mechanisms of stability and survival in hybrid regimes.

Taxonomically, the category of hybrid regimes includes a variety of political systems: some in which elections are held regularly and the opposition gets co-opted (“competitive or electoral authoritarianism” or semi-authoritarianism) (Diamond 2002, Schedler 2001, 2006, Levitsky and Way 2001, Ottaway and Olcott 1999), and others characterized by hegemonic party systems that rely on patronage machines in order to gain and maintain the loyalty of their constituencies (Magaloni 2006). In some hybrid polities, strong executives stand above partisan fights and arbitrate among competing factions. Chapter 5 shows how the monarchical institutions in Morocco managed to structure the rules of the game of the relatively open field of partisan competition so that the regime can avoid major political challenges.

The typologies, taxonomies and classifications of regime types, as useful as they might be, as has already pointed out, hinder theoretical development, by emphasizing the distinctions and idiosyncrasies of political arrangements rather than the *fil rouge* that unites them. In an attempt to by-pass these obstacles against theory building, despite heterogeneity of types and strategies of survival, I postulate that hybrid regimes share one key feature: *uncertainty* experienced by both rulers (with respect to the size and structure
of their own coalition of support) and opposition (in terms of the selective forms of repression potentially used against it). Even if the regime knows with some level of detail the size and composition of its own coalition of support, incumbents in hybrid regimes (unlike closed and stable autocracies) have the more difficult task of preventing the realignment of elites and members of its own support coalition with the opposition and threatening its tenure. This possibility of realignment makes information collection imperative for the leader.

Despite heterogeneity, most hybrid regimes have similar ways of dealing with uncertainty and information collection: unlike authoritarian rulers that rely on systematic repression, there are meaningful channels through which the opposition can participate in elections and gain access to benefits for their constituents and/or individual rents. Elections are usually held, and they allow the participation of the opposition. This does not automatically translate, however, into a level playing field for candidates who could potentially pose a political risk for the incumbent party or leader.

The additional strategies of insuring that the power status quo is preserved despite challengers competing to change it are numerous: often, the incumbent controls the flows of resources available to candidates, and patronage machines tilt the electoral balance to his benefit (Mexico 1994); in other cases, blatant electoral fraud secures the desired result. Interestingly enough, even in the absence of electoral fraud and significant patronage, manipulation of electoral rules, malapportionment, redistricting and gerrymandering divide and weaken the opposition candidates.

This study delves into a less explored political strategy commonly used by rulers, namely the construction of information asymmetries on the scope and nature of the social
contract. Needless to say, none of these strategies is pure. The tremendous complexity of political survival requires country specific combinations of strategies and tactics. Sometimes, such combinations are counterintuitive and seemingly contradictory. I find, for example, (as Chapter 2 explores in some level of detail) that expansion of civil rights and political liberties in hybrid regimes goes hand in hand with lower access to fiscal policy making for the opposition.

Most recent work on hybrid regimes focuses on strategies of executive survival that have something to do with elections (Boix and Svolik 2008, Blaydes 2008, Gandhi and Przeworski 2006, Lust-Okar 2006, Gandhi and Lust-Okar 2009, Lindberg 2006, Magaloni 2006). This exclusive focus on electoral mechanics, however, leaves out the routinization of politics that assures the perpetuation of rule and stability of hybrid regimes. Elections are usually the epiphenomenal symptoms, and not the deep cause of regime change or executive survival. Criticizing these theoretical developments, some scholars compared the evolution of the sub-field with earth sciences: the causes of earthquakes reside in deeper explanatory factors, such as the movement of tectonic plates and the geological life accompanying it. Studying only the moment when earthquake occurs while ignoring tectonics can provide only a narrow understanding (Brownlee 2010: 23). Budgetary politics, just like tectonics, unveils the everyday mechanics of cooptation and survival that paves the way leading to the ballot box.

Thus, this dissertation seeks to open up the strategic toolkit of executive survival between elections. The stability of authoritarian regimes in general and hybrid regimes in particular hinges upon institutions that solve elite conflict and prevent powerful challengers from gathering political support (Lust-Okar 2006, 2008, 2009, Gandhi and
Recent contributions to this literature made important theoretical headway in our understanding of the inner workings of hybrid regimes by focusing on institutional co-optation forums -- be they legislatures (Gandhi and Przeworski 2004, Gandhi 2008, Gandhi and Manzano 2011 or political party organizations (Brownlee 2010a, 2010b). This study complements such work by emphasizing a less explored and predictable area of co-optation: budgetary institutions. Such institutions, I argue, account not only for mediating and solving elite conflict, but also for the use of more subtle and selective forms of “legal” repression – a common denominator of hybrid regimes (Levitsky and Way 2008: 9).

I very much share with Gandhi (2008, 2011) the attention to institutions as forums of co-optation and concessions in authoritarian regimes. But even if the opposition holds a significant number of seats in non-democratic legislatures and committees, in order to be able to effectively formulate constituency claims and solve collective action problems for redistribution, it needs to be able to see and understand the stakes of the game being played, especially the use of fiscal policies and budgets as the main channels of resource allocation. Even in the presence of institutions that successfully regulate and intermediate elite conflict and provide concession to the opposition, the executive, in the absence of a minimally meaningful relationship of accountability to parliaments, can still completely disregard claims. Large information asymmetries on budgets reduce, this study argues, the level of fiscal concessions, even when a significant and vibrant opposition is represented in the legislature.

“[…] assemblies and parties facilitate transparency, because they serve as a forum in which regimes announce their plans and outside groups make their preferences known” (Gandhi 2008: 182).
This study delves into the nuances of this statement by asking: *under what conditions and why do non-democratic institutions facilitate or not transparency and accountability?*
1.6 A Theory of Coalitions and Budgetary Contestation across Political Regime Types

My argument builds heavily on the following logic: tax extraction and spending allocations are strategic weapons in the hands of the executive whose main political goal is to forge stable coalitions of support in both autocracies and democracies.

In his influential book on public policy and political survival in Latin America (1987), Barry Ames argued that political leaders skillfully used public expenditures to extend their tenure, because, after all “among groups and over time, budgetary politics is inherently a politics of winners and losers. (…) Public expenditures are central to survival coalitions. No arena of policy involves so many actors so intensely as public expenditures. Claims on the budget come from job seekers, economic groups, social classes, and regional interests, and the annual changes in programs unambiguously record winners and losers” (Ames 1987:1, 7). Some regions and constituencies are rewarded with larger resource allocations, whereas other areas are punished depending on their political loyalty.

Economists are usually more reluctant to match coalition patterns with budgets since the distributional consequences of fiscal policy are never clear. A defense against this critique is that political actors, despite the long and windy path from policy to outcome, debate budgets as if they understand clearly allocations in distributional terms (Ames 1987).

In addition to actual or “objective” shares of resources that buy political supporters, for my theoretical version of the story, the information, transparency and contestability over allocation amounts and shares, as the key ingredients of “perceived” fiscal contracts, also matter significantly for political survival. In contexts characterized
by large information asymmetries on budgets between the executive and opposition, formulating claims and solving collective action problems become costly actions for the opposition.

*How do executives forge coalitions of support?*

Ensuring good economic performance and avoiding the vulnerabilities inherent in economic crises extend government tenure considerably. Independently of background conditions, the executive has to keep his coalition of support (Ames 1987, Kenworthy 1970), or the winning coalition (Bueno de Mesquita et al. 2003) happy. Two different arenas define the terms of this transaction: a) the sizes, currencies and sites of the winning coalition; and b) the conditions governing the price paid to secure allies. The size of coalitions varies for individual policies, moments in time, and regime types. Sometimes, leaders aim to garner the political support of a minimal winning coalition; other times, they engage in a risk-hedging strategy that requires satisfying the distributional demands of multiple groups in society.

Analysts have already pointed out how hegemonic party regimes, for example, cannot rely on minimal winning coalitions, but rather need oversized coalitions (legislative supermajorities) to control institutional change to their advantage. In Mexico, for example, the Constitution was amended to the ruling party’s advantage for approximately 400 times. Many amendments referred to the centralization of fiscal resources in the hands of the government, the weakening of the Supreme Court and property rights restructuring, and required a supermajority (Magaloni 2006: 15).
The executive (or the leader) is relatively easy to identify as the political incumbent. The identification of the opposition is more challenging, as it includes two categories of members: one group of members who are *de jure*, self-identified challengers to the executive, and latent opposition (for example, members of the core winning coalition who are ready to switch sides if and when the opportunity arises). In this sense, I follow Ames’s experimental coalition making, and assume that the leader is never sure about his real following. For theoretical simplicity, however, I operate with the assumption of Bueno de Mesquita et al. (2003) that the basic size of the winning coalition that the leader has to monitor and satisfy increases monotonically as the political regime shifts from non-democracies to democracies.

*The currency of exchange* can range from clientelistic handouts before elections, rents, public sector jobs and lax business regulations, all the way up to ministerial portfolios or power sharing agreements.

*The sites* of contract negotiation between the executive and the winning coalition also vary dramatically. In some contexts, bureaucracies and legislatures are the main arenas of contestation; in others, clans, unions or business lobbies determine the price of acquiescence. Budgets transcend all these arenas and are not the exclusive focus of legislatures.

*How do executives maintain and stabilize their coalition of political support?*

As Ames suggests, the process of political accommodation requires old adversaries becoming friends and sharing the spoils of office, while old supporters defect and side with the opposition whenever they think they would be better off in the other
camp. Navigating this permeable terrain between the old core supporters of the leader/regime and the newly co-opted recruits is at the heart of political survival and regime longevity.

This means that the executive has to walk a fine line between delivering private goods to the loyal supporters, but also to identify and co-opt (through rents or constituency benefits) some members of the opposition in order to stay in power. Coalition formation is a particularly challenging process in hybrid political regimes in which the executive cannot endanger the private goods of its core supporters, but has to also co-opt members of the opposition and “trap” them in investing in his or her political tenure. This is, after all, what some students of authoritarianism coined the “tragic brilliance” of non-democratic regimes (Magaloni 2006).

The correct identification and accommodation of the size, currency and sites relies, I argue, on information collection. This is the core of my argument.

Information gathering is a task essential to the formation of a survival coalition. Some big questions such as the nature of societal cleavages or the resource endowments of key actors hardly need being asked. Other kinds of information, such as specific demands a political actor makes as the price of adherence, need to be repeatedly and explicitly sought. (…) Coalition formation is always uncertain and experimental (Ames 1987: 40).

Information gathering processes for coalition formation are fairly common in democracies (opinion polls, election results, open negotiations for cabinet formation, etc.). But they are even more needed for everyday political survival in autocracies. Ronald Win trobe (1998), building on Machiavelli, humorously asked his readers to have some sympathy for dictators because of the so-called Dictators’ Dilemma. The ruler is never sure of the true political support of his subjects because of their incentives not to reveal their private beliefs. The problem is similar on the side of the subjects. They
cannot reveal their true private preferences since the dictator cannot credibly commit not to punish them. This creates a double signaling game whose equilibrium renders even severe autocracies quite vulnerable (Wintrobe 1998).

Is there a way out of this trap of mutual mistrust? Wintrobe answers: “The Dictator’s Dilemma is not insoluble. Dictatorships with any permanence are those that discover and institutionalize programs or mechanisms:

1. that promote competition among agencies in the bureaucracy and among other powerful groups in the country;
2. that “automatically” both reward their supporters and monitor their support;
3. that fund these “reward” and “monitoring” programs through taxation and systematic repression of the opposition.” (Wintrobe 1998: 336)

My theory expands on this logic, but rather than focusing on assessments of true popular support for the leader, it suggests more pragmatic mechanisms through which the ruler gathers real information on “the price of loyalty” that opposition elites demand in order to provide popular support to the regimes. My version of the story is one of soliciting and satisfying private demands rather than private beliefs.

1.7 Research Design and Dissertation Structure

I use a set of mixed methods to approach the research questions. Chapter 2 first introduces a generic formal model in which the two main actors – the executive (or the

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3 Chapter 3 touches upon the logic of popular support in non-democracies, and presents a signaling game through which the executive (ruler) sends signals to the opposition regarding the implementation of the fiscal contract. The general argument is that, in autocracies, there is a tradeoff between voice (the “induced” or “tolerated” contestation on the budget among groups) and accurate implementation of tax and spending policies. In highly repressive regimes, given the lack of information on opposition’s private beliefs of support, the executive either attempts to demonstrate real competency of implementation to society at large, or to project power of control and warn potential dissenters. In hybrid regimes, in the presence of moderate fiscal contestation, the implementation is the last stage through which, following revelation of opposition’s demands, the ruler can insure that the final policy outcome will be close to his ideal point.
leader) and the opposition-set the fiscal transparency equilibrium across the democracy continuum. This model generates one of the broader hypotheses of the study, namely that budget openness and contestation follow a S-shaped curve as political rights linearly expand. Second, because the theoretical focus is on hybrid political regimes, the second part of the chapter presents a simple game in which governments open fiscal contestation, but the opposition refrains from formulating any claims that could lead to collective action and redistribution out of fear of discretionary fiscal implementation. I also compare and contrast this equilibrium obtained in regimes with limited multiparty competition with other institutional contexts. One of the rather intriguing results shows that the expected fiscal transparency in new democracies is lower than in competitive authoritarian contexts. The last section of chapter 2 summarizes the main hypotheses derived from the formal models.

Chapter 3 starts the series of empirical tests of these theoretical propositions. Until quite recently, it would have been difficult to perform this task since there were no available cross-national measures of fiscal transparency. Two fairly recent developments make this possible. Open Budget Index is a comprehensive database that records for 85 countries in the study most dimensions of fiscal transparency and contestability. This survey assesses the availability and interpretability of budgetary information exchanged between executives, parliaments, committees, public hearings involving interest groups and civil society, as well as regular citizens interested in obtaining concrete outcomes such as schools, roads and health clinics.

The data code the answers of civil society organizations specialized in budgets to 123 questions regarding the availability, comprehensibility and timeliness of budget
information along the full cycle, as well as the government’s engagement with society during the annual budget process. In parallel, OECD developed its own cross-national dataset for 97 polities, covering similar questions answered by a slightly different set of respondents: governments themselves. The comprehensiveness of the two datasets allowed me to create original quantitative indicators that capture best the theoretical constructs. The first section of chapter 2 takes makes the case for studying fiscal transparency and summarizes some of the previous findings in the literature. As the chapter progresses, I use several dependent variables to get at both short term and medium term budget openness. Following the generic result, I also test the factors that influence the transparency of distant fiscal policies: expenditure, revenue, legislative engagement of governments, etc. The theoretical hypotheses are partially confirmed. Finally, the last section of the section delves into the “politics” of data construction. I construct several variables that compare answers given by both governments and civil society to similar or identical questions regarding availability of information on annual budgets. Subsequently, I analyze the scope of divergence by regime type and level of development. The findings corroborate the hypothesis that autocracies in particular strategically manipulate fiscal information for achieving political goals and discipline or co-opt the opposition.

Chapter 4 continues the cross-sectional tests of the formal hypotheses, but instead of focusing on general transparency or contestability issues, it shifts focus towards the budget implementation stage. The main formal model motivating the study assumed that in hybrid political regimes, members of the potential or real opposition perceive a lower probability of tax and spending policy implementation than their counterparts in closed
autocracies or established democracies. This chapter is dedicated to theoretically motivate and then empirically test the assumption. First, I develop a signaling game played again between the executive (or the leader) and the opposition. The utility functions account for state capacity, political competition, regime types, and a track record of debt crises. The executive has two types (good or discretionary implementer) and he chooses the appropriate signal to the opposition contingent upon the regime type (credibly report on how they implemented budgets or not report at all and be opaque about its enforcement performance). The opposition chooses to challenge or accept the signal. One of the major findings derived from this model is that even executives with high enforcement capacity in competitive authoritarian systems strategically obscure implementation information, as revealing it would shed light on their “selective” repression tool, and would run the risk of being mistaken by the opposition for a low capacity regime.

After deriving the hypotheses, the chapter narrates a series of vignettes that illustrate how hybrid regimes use discretionary implementation of tax and spending policies to punish political opponents. I go beyond anecdotal evidence and also perform some cross-national statistical tests of signals sent by governments on key budget implementation dimensions: audits, extra-budgetary funds, end of the year executive reports, and secret expenditure (police and military spending). Finally, following the structure of chapter 3, I conclude with a section examining the data construction process itself. Similarly, I find that there is a significant difference between democracies and autocracies with respect to civil society organizations and governments’ disagreement. This systematic gap seems to be mostly confined to budget implementation and not to
fiscal transparency in general. This chapter also explains the dissertation title: ‘ambidextrous’ regimes manage to effectively use simultaneously both fiscal contestation and implementation in order to stay in power.

Chapter 5 concludes the cross-national tests, by tying together leader survival and fiscal transparency. After all, the entire theoretical setup operates with the assumptions that political leaders in both autocracies and democracies employ informational strategies in order to extend their political tenure. This chapter verifies if this is empirically true. I use two datasets for leader survival data and compute original indicators of transparency and implementation of various tax and spending policies. Although hybrid political regimes are the central domain of inquiry, I also test one party regimes, new and established democracies for hypothesized patterns. The results corroborate the original hypothesis from chapter 2. In contexts characterized by limited multiparty competition or military multiparty, the leader’s political tenure is significantly prolonged by increased fiscal transparency.

Chapter 6 sketches three case studies- Morocco, Turkey and Romania – in an attempt to cover the regime types that are crucial to my study. Morocco represents well the “electoral autocracies” that allow political competition on a restricted domain of issues. Turkey has a history of multiple alternations between democracy and autocracy, as well as an interesting recent fiscal history. Romania between 1950 and 1989 is the poster case of a closed authoritarian regime. These three cases also illustrate the temporal alternation between various fiscal mechanics associated with regime transitions. Through in-depth fieldwork, I collected and coded original archival data on annual votes on budgets, as well as on the evolution of budgetary allocations between private and public
goods for all three cases between 1950 and 2007. The case study narratives also draw upon in-depth elite interviews with major political actors involved in fiscal policy making (the Ministry of Finance, political party leaders, independent fiscal experts).

The conclusion summarizes the main theoretical and empirical findings and suggests unanswered puzzles that could guide further research.
2. A Model of Fiscal Information Asymmetries along the Democracy Continuum

2.1 The Generic Model

The main actors in this theoretical framework are the executive and the real or potential political opposition across regime types. To recap, a certain level of budget transparency allows governments to collect information and co-opt challengers. It also provides a platform that facilitates collective action and concerted demands for redistribution on the opposition side.

Methodologically, Bayesian decision theoretic analysis provides some unique tools for understanding the value and costs of information collection. According to its logic, a decision-maker, in order to reach a decision, takes into consideration information that is the result of a prior distribution of beliefs and sample data.

But the decision maker has always the option to collect additional data points that would sharpen his decision. For example, a medical team might decide to run additional tests before resorting to surgery; an oil company could commission additional geological diagnostics before drilling; similarly, a foreign investor could collect more information on the tax regime and overall regulatory environment before actually investing in a country. In general, additional information reduces uncertainty about the state of the world (Winkler 2003).

A family of decision analysis techniques called preposterior (or sequential) analysis assesses the utility derived by the decision maker from collecting additional information. One of the key concepts brought by preposterior analysis is the Expected Net
Gain of Sampling (ENGS), computed as the difference between Expected Value of Sample Information (EVSI) (as the benefit of each additional observation for the decision maker) and the Cost of Sampling (CS) entailed by the process of information collection.

\[ \text{ENGS}(n) = \text{EVSI}(n) - \text{CS}(n) \]

If ENGS >0, then the decision maker should collect additional information. Despite quite complicated computational formulae to obtain the expected net gain of sampling, the basic intuition is quite simple: as the sample increases towards \( n \) (the population under study), EVSI is increasing monotonically, but as the sample gets larger and larger, every additional sampled observation provides less and less utility.

Simultaneously, the cost of sampling increases linearly. Therefore, the expected net gain of information will increase up to a point \( n^* \) after which it will decrease, as the cost will exceed the benefits of sampling. \( n^* \) is the inflexion point after which the Expected Net Gain of Sampling decreases. The plot below illustrates a common type of ENGS curve (Winkler 2003: 283):
This logic can also help us understand the decision *the executive* has to make with respect to opening up the budget for political contestation by *the opposition*. If, in our case, the population \( n \) is the size of the winning coalition of support (\( w \)), then the leader would benefit from budgetary transparency as the number of members expands.

### 2.1.1 Executive’s utility

What are *the benefits* that the leader derives from making more information available to the opposition on key tax policies and spending allocations? Here I draw on previous literature to make the following arguments: first, transparency and contestation allows the opposition to formulate concrete claims to resource allocations (i.e. higher wages and benefits, individual rents, spending and development programs for their own constituencies, favorable tax policies, programmatic claims for increased health and education spending, campaign funds and subsidies, etc.). This knowledge is crucial to the executive as it determines the “price of loyalty” and the political strength and sites of the opposition (Ames 1987). Moreover, budgets transcend many institutional arenas or sites.

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1 EVPI is the *Expected Value of Perfect Information* and refers to the sampling of all observations of population \( n \).
of contestation. Some are formal (legislatures), others are informal but equally important for determining demands (i.e. business associations consulted by the executive during the budget formulation stage). Thus, \textit{first}, budgetary transparency allows for the identification of tangible claims and potential for co-optation of the opposition.

\textit{Second}, claims making (under conditions of accessibility and availability of budgetary information) reveals important information about the “true” size of the coalition of support. If a critical mass of opposition is already incorporated in the legislature, any elite realignment (i.e. members of the core pro-incumbent coalition crossing the aisle to side with the opposition on fiscal policies) might entail severe consequences for the executive that could threaten his political survival.

\textit{Third}, allowing contestation and formulation of individual and constituency demands, reveals not only partisan positions and loyalty to the executive, but also full societal chains of support for the opposition. An MP who demands a tax loophole for certain categories of exports automatically reveals the fact that businesses operating in the concerned industry are likely to contribute funds to her electoral campaign. In this sense, budget transparency and contestability draw for the executive the broad political map of fiscal demands. Navigating it and allocating resources accordingly is crucial for his survival.

\textit{Fourth}, as non-democratic regimes liberalize and co-opt some members of the opposition in the coalition of support, repression changes its nature and scope from systematic to selective in order to be efficient. But the key requirement of selective repression is foremost information about its targets (Hechter 1987, Kalyvas 2006). As Tocqueville wrote, “(…) the Sovereign can punish immediately any fault he discovers,
but he cannot flatter himself into supposing that he sees all the faults he should punish.” Revealing fiscal vulnerabilities can thus translate into information on specific targets of selective political harassing. Often, the areas of “legal” persecution are revealed to the executive by targets themselves during the lobbying process. Tax loopholes routinely reward or punish contingent upon political allegiances. As many works on hybrid political regimes have argued, the contemporary forms of repression most often used by competitive authoritarian governments against political opponents no longer take place in dark torture chambers, but rather in the offices of tax authorities. The allegations are usually couched in the accepted language of good governance (tax fraud or misuse of public funds) (Levitsky and Way 2010: 9).

*Fifth*, the emphasis in the literature so far has been placed on elections as sites where incumbents gather information about the strength and fiefs of the opposition. Budgetary contestation, unlike elections, by taking place every year, institutionalizes and routinizes co-optation and information collection to an even larger extent.

*Sixth*, the transparency and contestation of tax and spending policies can also allow divide and conquer strategies of rule, and thereby fragment an otherwise united opposition (Schedler 2002). In order to formally model the utility function of the executive for budget transparency across political regime types, I assume that the Expected Sample of Value Information (EVSI) (or simply put, the benefits that the leader expects to derive out of opening up significant budget information on resource allocation to the opposition) is a monotonically increasing function of the size of the coalition of support $w$. The logic of this assumption is very similar with the Bayesian rationale for preposterior analysis presented above: information becomes more valuable as the
executive has to please and manage an increasingly larger constituency of support.

Shifting from personalized politics where the leader can control a very small circle of influential elites to an institutional arena with multiple co-opted coalition members requires foremost information collection.

What are the political costs the executive has to face when allowing transparency and contestation of tax and spending? Transparency, as argued previously, reveals information and allows opposition to formulate claims. At the same time, it also allows the coordination of opposition groups, as well as the potential defection of members of the incumbent’s support coalition. In the absence of available, analyzable and contestable data on spending and tax policies and outcomes, the executive can offer rents or constituency benefits in a fragmented and individualized manner. Transparency, when the collective action potential of the opposition is high, can lead to concerted demands for redistribution and possibly regime change. In this model, the probability of collective action is the key strategic element linking the costs of transparency for the executive with the costs and benefits derived from collective action by the opposition.

The probability of collective action of the opposition \( p_{\text{CA}} \) is a function of the benefits the opposition derives from potential collective action under budgetary transparency \( B_{\text{CA}} \) and the costs triggered by it \( C_{\text{CA}} \):

\[
p_{\text{CA}} \approx f(B_{\text{CA}} - C_{\text{CA}}) \tag{1.1}
\]

I assume that both \( B_{\text{CA}} \) and \( C_{\text{CA}} \) can be expressed as linear, monotonically increasing functions of the size of the winning coalition, with different slopes. Figure 2 below
illustrates graphically these assumptions. To constrain the probability to fall between 0 and 1 and avoid the negative sign, I model $p_{CA}$ as:

$$p_{CA} \approx f\left(\frac{B_{CA} - C_{CA}}{\gamma - \theta}\right) : w$$  \hspace{1cm} (1.2) ^2

where the size of the winning coalition is standardized to fit between 0 and 1, and the slopes of benefits and costs of collective are strictly positive:

$$w \in (0, 1)$$  
$$\gamma > 0$$  \hspace{1cm} (1.3)  
$$\theta > 0$$

Now, we can write the expected utility of budget transparency for the executive:

$$EU_E (budget \_ transparency) = p_{CA} \frac{1}{w} + (1 - p_{CA})w$$  \hspace{1cm} (1.4)

To recast the expected utility that the executive derives from budget transparency in terms of the *Expected Net Gains of Sampling (ENGS)*,

---

^2 Formally, $p_{CA}$ is drawn from a logistic distribution with the cumulative distribution function: $F(x; \mu, s) = \frac{1}{1 + e^{-(x-\mu)/s}}$. For $w$ as the size of the winning coalition, the link function is $f(w) = \log\left(\frac{w}{1 - w}\right)$. For computational simplicity, I use $w$ as a proxy for $p_{CA}$ (1.2).
\[ \begin{align*}
0 & \Rightarrow P_{CA} \rightarrow 0, ENGS = w \\
1 & \Rightarrow P_{CA} \rightarrow 1, ENGS = \frac{1}{w}
\end{align*} \quad (1.5) \]

This means that as the probability of collective action gets lower (as a proxy for low costs of sampling), the benefits of information collection (EVSI) exceed the costs, and the expected utility of budget transparency increases with the size of the winning coalition.

If, on the contrary, the executive estimates a high probability of collective action on the side of the opposition, increases in fiscal transparency and contestability will be costly as it could lead to coordination, redistribution and regime change. It follows that the expected utility will decrease with the size of the winning coalition.\(^3\)

By substituting assumption (1.2) in the expected utility formula (1.4), we obtain:

\[ EU_p(\text{Budget transparency}) = w \frac{1}{w} + (1 - w)w = 1 + w - w^2 \quad (1.6) \]

2.1.2 Opposition’s utility

If the executive derives benefits from information collection about fiscal claims and co-optation, the opposition, as the second player of the game, gains from individual benefits for their constituencies \((B_c)\),\(^4\) as well as from potential outcomes of collective

\(^3\) Interestingly enough, in this conceptualization (1.4), the executive’s expected utility from budget transparency also allows for the possibility that some highly repressive regimes might face high political risks because of clubs of elite conspirators or international pressures (a high value of \(P_{CA}\)). In this case, information collection and transparency on budgets are also needed. This is a partial solution to the Dictator’s Dilemma.

\(^4\) Private rents could be substituted for constituency benefits as well.
action (for example, some range of redistributive policies). It also incurs costs related to collective action.

The expected utility derived from constituency claims and/or collective action will depend on the executive’s credible commitment on the implementation side (or the probability of accurate implementation of the fiscal contract), \( p_i \). The logic of modeling this utility function as such is the following: if the executive cannot credibly commit to implement the policies adopted in the legislature under conditions of budget transparency, then the costs of collective action for the opposition will exceed benefits.

At the same time, I assume that the constituency benefits \( B_c \), increase monotonically and linearly with the size of \( w \) (the coalition of support) (Figure 2). One of the gains that the opposition obtains from revealing information about itself and making claims are individual benefits (wages and salaries) or constituency benefits (pork barrel spending, for example). In the expected utility formula (1.7), the gains derived from transparency increase linearly with \( B_c \), and do not depend on \( p_i \):

\[
EU_o(budget\_transparency) = p_i (B_c + B_{CA}) + (1 - p_i)(B_c - C_{CA}) = \\
= p_i(\alpha + \gamma)w + (1 - p_i)(\alpha - \theta)w
\]

(1.7)

Here is the plot of the costs and benefits attached with fiscal transparency for the opposition:
In a sense, this reflects the assumption that rents or constituency benefits are “apolitical” since they are the result of a co-optation process and do not threaten the leader’s political tenure. Opposition demands that result from concerted action, however, are political as they risk reallocating rents from key elites supporting the executive and regime. Therefore, \( p_i \) impacts the benefits and costs attached to them.

I assume that \( p_i = f(w) = w^2 \). Chapter 3 presents a signaling game and some empirical evidence to support this functional assumption.\(^5\) Intuitively, this simply reflects the idea that executives in both highly repressive autocracies and stable democracies send stronger commitment signals on budget implementation than hybrid regimes that thrive on uncertainty. Substantively, \( 1 - p_i \) (discretionary implementation) covers a whole range of implementation deviations from the policy contestation result, from not committing spending or enforcing taxation, all the way to punishing potential opponents through “fiscal” or “legal” repression. The logic here is that, the higher discretion on implementation, the less benefits and higher costs of concerted political action under

---

\(^5\) Formally, \( p_i \) is common knowledge in the game and comes from a U-shaped Beta distribution

\[
f(x; \alpha, \beta) = \frac{\Gamma(\alpha + \beta)}{\Gamma(\alpha)\Gamma(\beta)} x^{\alpha-1} (1 - x)^{\beta-1}, \quad \alpha < 1, \quad \beta < 1.
\]

For computational simplicity, just as in the case of \( p_{CA} \), I assume \( p_i \) is a quadratic function of \( w \).
conditions of transparency are. Several studies found a strong curvilinear relationship between levels of democracy and corruption (Montinola and Jackman 2002), or between democracy and firms’ perceptions of policy uncertainty (Kenyon and Naoi 2010). Both highly authoritarian regimes and established democracies experience less corruption and more limited policy uncertainty than hybrid regimes.

By substituting the assumption on the functional form of $p_t$, we obtain:

$$EU_{o}(budget\_transparency) = p_t(B_t + B_{ca}) + (1 - p_t)(B_t - C_{ca}) =$$

$$= (\alpha + \gamma)w^3 + (1 - w^2)(\alpha - \theta)w = w^3(\gamma + \theta) + w(\alpha - \theta)$$

with $\alpha > 0$.

Equilibrium:

From equations (1.4) and (1.8), the joint payoff maximization problem for both the opposition and the executive becomes:

$$EU_o + EU_e = w^3(\gamma + \theta) - w^2 + w(\alpha - \theta + 1) + 1$$

(1.9)

$$\frac{\partial EU_{\text{joint}}}{\partial w} = 3w^2(\gamma + \theta) - 2w + (\alpha - \theta + 1)$$

(1.10)

By taking the first derivative, I find two solutions:
\[
w_1 = \frac{1 - \sqrt{3\gamma\theta - 3\gamma\alpha - 3\gamma + 3\theta^2 - 3\alpha\theta - 3\theta + 1}}{3(\gamma + \theta)}
\]

\[
w_2 = \frac{1 + \sqrt{3\gamma\theta - 3\gamma\alpha - 3\gamma + 3\theta^2 - 3\alpha\theta - 3\theta + 1}}{3(\gamma + \theta)}
\]

(1.11)

In order to understand the evolution of the transparency equilibrium curve as a function of the size of the winning coalition \(w\), we should first be able to verify if \(w_1\) and \(w_2\) are local minimum or maximum. By taking the second derivative, we obtain the inflection point \(w = \frac{1}{3(\gamma + \theta)}\), which means that \(w_1\) is the local maximum and \(w_2\) the local minimum.

Therefore, there is a size of the winning coalition \((w_1)\) where the level of budget transparency in equilibrium maximizes both utility functions of the executive and the opposition, and there is a point \((w_2)\) where the joint utility function reaches its minimum.

### 2.1.3 Theoretical implications of the formal model:

From (1.11) and the location of the inflection point, it follows that:

a) for \(w \in (0; w_1)\), both executive’s and opposition’s expected utilities will increase as \(w\) (the size of the winning coalition) expands;\(^6\)

---

\(^6\) In order to constrain \(w \in (0; 1)\), the slopes of constituency benefits, costs and benefits of collective action (Figure 2), have to meet the following conditions:

\[\gamma > 0.33, \theta > 1, \theta - 1 < \alpha \leq \frac{0.33(3\gamma\theta - 3\gamma + 3\theta^2 - 3\theta + 1)}{\gamma + \theta} .\]
b) for \( w \in (w_1; w_2) \), the joint utility of budget transparency decreases monotonically in \( w \) (the size of the winning coalition);

c) for \( w \in (w_2; 1) \), the joint expected utility from transparency increases in \( w \) again.

Here is the graph representing the central logic:
The last section of the chapter will formulate some specific hypotheses based on the theoretical implications of the model and its comparative statics. For clarity, I also present below in greater detail a simple game structure for specific regime types, with a focus on hybrid polities.

2.2 A Simple Game of Budget Contestation in Hybrid Regimes

Here is the extended form of a simple game with perfect information that intends to illustrate the logic of budget transparency equilibrium regime by regime. There are two players: the executive (or the leader), and the opposition. The executive’s survival depends on the rents he delivers to his winning coalition. In highly repressive autocracies, the executive power is embedded in a small circle of elites, whereas in established democracies, a large part of society is involved in his selection and tenure. Similarly, the opposition can take many shapes and forms, from a selected few autocratic elites who openly oppose and challenge the ruler’s policies, to fully institutionalized opposition parties.
The two players (the executive and the opposition) set a certain fiscal transparency levels based on their utility functions. The political regime type is exogenous to the model. The executive derives transparency benefits from identifying the fiscal claims of the opposition, and incurs the costs attached to the collective action potential (in other words, a certain level of transparency would ensure information collection and individual rents; if transparency increases above that threshold, there is a collective action and coordination danger triggered by new released fiscal information). Opposition’s payoffs depend on constituency benefits and potentially redistributive gains.

Whereas the general model is designed to apply theoretically to all regime types, its most informative and counterintuitive findings pertain to hybrid political regime and new or fragile democracies.

In the general extended form of the game (Figure 4), the executive moves first. He can decide to “open” or “close” transparency and contestation on the fiscal contract. “Opening” it up entails providing enough interpretable information and analysis of major tax and spending policies, as well as their distributional consequences. “Closing” fiscal
transparency means significantly reducing the domain of contestation, by not providing detailed budget information to the legislature, reducing the time of parliamentary involvement in the process, fragmenting the budget authority, or keeping a critical mass of crucial budgetary items out of the realm of claims-making altogether (i.e. through the extensive use of extra-budgetary accounts, or secret military and defense spending, etc.).

Budget transparency allows the executive to collect information on precise fiscal claims. Therefore, the benefit from transparency is EVSI (or the Expected Value of Sample Information introduced in the previous section). If the opposition solves collective action problems and actively formulates claims with distributional consequences, the executive pays a Cost of Sampling (CS). This cost of sampling refers to the fine line between transparency as an information gathering process and the potential risk entailed by transparency as a platform for collective action and budgetary reallocation claims of the opposition. If, on the other hand, members of the opposition voluntarily refrain from acting or are unable to act collectively, the incumbent leader’s payoff is EVSI, as he does not incur significant political costs in collecting information. Under conditions of budgetary opaqueness, when the executive chooses to “close” the fiscal contract for contestation by the opposition, his payoff is zero if the opposition refrains from contesting, but is \(-R\) (the costs associated with repression) if the opposition dissents and claims some level of redistribution.

In response to the action of the executive, the opposition has two options: it can either “claim” or “refrain” from formulating claims that, if satisfied, would trigger significant distributional consequences (i.e., by redistributing wealth and income from core members of the incumbent’s support coalition). It is important to note here that
opposition can claim and obtain two types of gains from contestation of budgets: a) $B_e$ represent “constituency benefits” (such as pork barrel spending, selective development projects for the districts of opposition members, tax loopholes for the business constituents of the opposition MP). These benefits can also include rents paid to the members of the opposition directly, as the “price of loyalty” (i.e. high wages and salaries, advantageous pension plans, favorable bank loans, subsidies for their own business interests, favorable tax implementation, etc.). The essence of $B_e$ (as constituency benefits or rents) for individual members of the opposition is that they do not pose major redistributive risks to the members of the winning coalition that keep the executive in power. Formally, $\sum_{i=1}^{n} B_{ei} < B_{CA}$. In a way, this is the core logic of any cooptation mechanisms: sharing a certain part of rents, but not endangering the key distributional interests of pro-incumbent elites. Another key feature of the individualized constituency benefits $B_e$ is that they can be obtained only under conditions of budget transparency where the claims can be formulated by the opposition and clearly recognized by the executive. In the absence of transparency and open engagement with the opposition, the executive discretionarily guesses a level of individual constituency benefits/rents $B_e^*$, where $B_e^* < B_e$.

The second type of gains from contestation (b) is $B_{CA}$, or the benefits the opposition derives from collective action. Unlike constituency benefits and individual rents for the opposition members, $B_{CA}$ imply redistribution from the pro-incumbent elite to the opposition, therefore potential withdrawal of political support for the executive. As
my modeling strategy for the democracy continuum suggested, I assume that $B_{CA}$ (as well as their corresponding costs $C_{CA}$) is monotonically increasing with the size of $w$.

The logic behind this intuition is the following: when the size of the opposition is small, even if, under conditions of budget transparency, the opposition groups manage to solve their collective action problem, they obtain at most some minimally redistributive gains since they would be outvoted by members of the pro-incumbent elite circles. As the opposition expands, some of these elites might be tempted to cross the aisle and unite their vote with the opposition. This uncertainty of support translates automatically in potentially higher distributional benefits. Budget transparency, I argue, creates the platform for coordination and collective action. On the other hand, under large asymmetries of budget information, the cost of collective action for the opposition is $C_{CA}^* > C_{CA}$, given that the opposition does not benefit from the coordination platform that transparency offers. As already explained, independently of the functional form of $B_{CA}$ and $C_{CA}$, the actual materialization of the benefits derived from collective action on the opposition side depends on the willingness of the executive to implement or not the policies that emerged from political contestation. $p_i$ in the model captures the common knowledge probability of budgetary implementation. Whenever there is some level of credible commitment that the executive will implement policies, the opposition will reap more benefits, as the final policy outcome will come closer to their ideal point. If such commitment is missing or is not credible, then the costs of collective action will exceed the benefits.

Now that the general game sequence and the attached payoffs have been introduced, we can study the incentives for each political regime type.
2.2.1 Hybrid regimes

Transparency allows the opposition to coordinate and claim benefits with distributional implications, but because of the anticipated discretionary implementation, the costs of acting collectively exceed the expected benefits:

If \( p_i \to 0 \), then \( B_c + p_i B_{CA} - (1 - p_i)C_{CA} < B_c \) and \( p_i B_{CA} - (1 - p_i)C_{CA}^* < B_c^* \).

Collective action towards distributional consequences is by definition a political act.

When the opposition reveals fiscal claims and coordinates while actively pursuing them, it raises a red flag in the eyes of the executive. The most prevalent political instrument of “punishment” or “policy adjustment” in hybrid regimes is the implementation stage. The forms of punishment (\( p_i \)) can vary tremendously: if, say, as a result of open budgetary contestation, a steeply progressive corporate tax is scheduled to affect the profit margin of large businesses with strong ties to the winning coalition, executive agencies can either neglect the collection of such taxes, or altogether, allow them the opportunity to exit the tax regime under ad-hoc regulatory acts. In other circumstances, the low \( p_i \) (discretionary policy implementation) translates into blatant forms of legal repression (random visits of tax inspectors or allegations of misuse of public funds). Chapter 3, dedicated to fiscal implementation signals sent by executives to the opposition, documents many instances of such discretionary enforcement in hybrid regimes.

In anticipation of retaliation at the implementation stage, then, the best response for the members of the opposition is to refrain from formulating any claims whose distributional consequences could pose threats to the interests of the executive’s support coalition. Following backwards induction, the executive compares the payoffs he derives
from closing and opening the fiscal contract. In hybrid regimes, \( EVSI > 0 \), as information about specific demands of the newly co-opted opposition is crucial for executive survival in office. The subgame perfect Nash equilibrium in this case is:

\[
\{\text{Executive Opens the fiscal contract for contestation,}; \text{Opposition Refrains from formulating claims on collective action bases if Executive Opens}; \text{Opposition Refrains if Executive Closes}\}
\]

Empirically, this restrained behavior on the side of the opposition, accompanied by relatively high budget transparency, is the story *par excellence* of numerous fiscal policy areas in hybrid regimes. Chapters 2 and 3 go into the empirical details, but four succinct examples can give us a taste of this equilibrium. In Malaysia, the government organizes every year broad consultations with businesses and unions, soliciting input on fiscal policy stakes, adjustments, etc. According to witness accounts, however, almost none of the participants reveal clear stakes or claims that could pose even remote threats to the rents of the executive, for fear of regulatory retaliation (Open Budget Initiative, Malaysia Questionnaire, 2010). Similarly, in Morocco, the general transparency of the public
procurement process increased significantly over the last five years. In 2007, the General Confederation of Moroccan Businesses (CGEM) and the Construction and Public Works Federation have been extensively consulted by the government prior to the design and promulgation of a Decree on public procurement. Despite clear rules of public tenders and appeals, firms in the private sector have been reluctant to either ask for information about winners or to appeal for fear of “informal” sanctions (OECD 2009, Froystad, Heggstad and Fjeldstad 2010: 28). In Saudi Arabia, as Chapter 3 describes, members of the Majlis fear expansion of budget responsibilities because of anticipated allegations of corruption. Tunisia under Ben Ali has been characterized by the “domination of uncertainty” in the banking sector and financial markets, and major bankers engaged in self-restraining behavior as a survival strategy in front of regulatory arbitrariness (Hibou 2006).

To recap the main logic, the political survival of executives in this regime type depends on the correct identification of the supporting coalition. As the size of \( w \) expands, the incumbent has to accommodate new entrants from the opposition. The uncertainty regarding the identification of new rent recipients, their sites of influence and “loyalty price” gives thus the executive incentives to open up some level of contestation on budgets and identify key tax and spending interests of new elites.

Because the probability of collective action is quite low here, there is no fear of redistribution (therefore transparency is high). The opposition accepts high transparency because of constituency benefits. As the size of the winning coalition expands, the collective action and redistribution potential follows, therefore the executive has incentives to reduce the overall level of transparency. The opposition accepts because it
fears discretionary implementation of the social contract if they formulate claims. On the other hand, if transparency were high here, and if the opposition members refused to formulate fiscal claims, they would suffer constituency costs. Therefore, the negotiated level is much lower close to the transition point.

2.2.2 New and fragile democracies

If, counter-intuitively, the hybrid regime equilibrium is characterized by a relatively open level of fiscal contestation combined with a self-restraining response from the opposition, as civil rights and political liberties expand, the incentives of the two actors, I argue, reverse.

In this theory, I treat political regimes and transitions exogenous. Unlike authoritarian regimes, in new democracies, the winning coalition expands significantly. The fiscally consequential opposition, in this case, is represented by pre-democratic elites whose main fear is the redistribution of their wealth and income to the members of the new pro-incumbent coalition of support.

\[ p_i \] (the probability of accurate policy implementation) increases. The benefits of collective action (i.e. preventing or blocking redistribution according to a Meltzer-Richards logic) exceed the costs: \[ B_t + p_i B_{CA} - (1 - p_i)C_{CA} > B_t \]. Similarly, \[ p_i B_{CA} - (1 - p_i)C_{CA}^* > B_t^* \], as the new opposition (pre-democratic elites) cannot trust the commitment of the executive to prevent redistributive attempts stemming from its own political coalition of support. This logic implies that the opposition will always choose to act collectively and formulate fiscal claims that actively block redistribution.

---

Several related concepts exist in the literature: “flawed” or “developing” democracies match more closely my definition of the category than others (i.e. “illiberal democracy” (Zakaria 1997)).
The executive has to choose between the two payoffs (EVSI –CS) if opening up the budget for contestation, and –R (the cost of repression) if closing it (or reducing the general transparency of the fiscal contract). If contestation is completely open, the cost of sampling (CS) is prohibitively high for the government: i.e. former elites withdraw altogether their support for democracy because of their fears that the large coalition of support will demand expropriation or large scale redistribution under conditions of full fiscal transparency. It follows that for high values of the cost of sampling, EVSI-CS<-R, the executive chooses to reduce the scope of budgetary contestation. The subgame perfect Nash equilibrium in this case is:

{Executive Closes the fiscal contract for contestation; Opposition Claims (Blocks redistributive threats from the winning coalition) if Executive Closes; Opposition Claims if Executive Opens}.

Figure 6: Extended form of the generic game

Leading theories of (re)-distribution and democratization argue that the tax and spending policies are set by elites in autocracies, and by the left-of-center median voter in democracies. Nonetheless, we have puzzling accounts of major tax reforms in new democracies of Latin America and Eastern Europe for which legislative politics and
broad national consultations mattered less than closed door extra-parliamentary bargaining or the technocratic prescriptions of international financial institutions (Appel 2006; Bergman 2003; Boylan 1996; Mahon 2004). This equilibrium enters thus a conversation with a new stream of empirical work that suggests that new democracies, on average, fail to redistribute income and wealth (Menaldo 2008; Ross 2006; Timmons 2005).

Established democracies and highly repressive autocracies (both regimes at the end of the democracy spectrum), follow a more predictable trajectory. In *established democracies*, the transparency level increases, as the executive needs permanent fiscal information about the winning coalition, general fiscal accountability improves, and the opposition does not fear discriminatory retaliation for formulating claims. Therefore, 

\[ B_c + p_i B_{CA} - (1 - p_i) C_{CA} > B_c \text{ and } p_i B_{CA} - (1 - p_i) C_{CA} ^* > B_c ^*. \]

The opposition members have incentives to act collectively and formulate distributional claims. The executive decides to open contestation on the fiscal contract given that EVSI-CS>R. Therefore the subgame perfect Nash equilibrium is: \{Executive Opens, Opposition Claims if Executive Opens; Opposition Claims if Executive Closes\}. 
In highly repressive autocracies, the costs of collective action for the opposition exceed the benefits: $B_c + p_i B_{CA} - (1 - p_i)C_{CA} < B_c$ and $p_i B_{CA} - (1 - p_i)C_{CA} * < B_c^*$. As a consequence, the opposition members will refrain from claiming fiscal policies that conflict with the leader’s ideal points. If the Expected Value of Sample Information (EVSI) = 0 (assuming that the executive does not need to collect information about claims since he can control\(^8\) a small coalition of support), then he can either opt to open or close the contestation on budgets.

### 2.3 Theoretical Implications of the Formal Model

The equilibria derived from the two versions of the formal model (for the democracy continuum and the discrete regime types) lead us to propose several

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\(^8\) To remind a famous Arendt quote that captures the logic of totalitarian control, “the permanent domination of each single individual in each and every sphere of life” (Arendt 1951/1973:326).
theoretical hypotheses for empirical testing. They can be grouped thematically in three broad categories: *executive survival, fiscal policy contestation, and implementation*.

1. **Leadership survival**

   To briefly recap the decision theoretic argument that led to the construction of the executive’s expected utility function, I build on the literature on the political survival of the executive (Ames 1987; Bueno de Mesquita et al. 2003, 2005), and assume that leaders want to stay in office as long as possible. To this purpose, they can manipulate budgets to reward political coalitions of supporters and punish and co-opt opponents. Fiscal politics inherently lies at the core of political survival. According to my theory, the mechanisms that convert budgetary politics into political capital for the executive are the strategic use of information asymmetries and manipulation of policy enforcement.

   Figure 1 and equations (1.4), (1.5) and (1.6) implied that, along the democracy continuum as $w$ expands, if transparent, leaders gain informational benefits over the fiscal claims of the opposition, and their collective action potential (EVSI). This process comes at a cost: the higher the collective action potential of opposition members that could lead to redistribution, the cost of sampling (or obtaining such information) exceeds the benefits. Too little fiscal transparency impedes the negotiation of a “loyalty price” demanded by the opposition. Too much transparency allows coordination and political challenges to the leader’s rule. Translating the peak of our Bayesian ENGS curve into concrete hypotheses about executive survival under various regime types, I expect the following:
H1: In hybrid political regimes, the executive’s tenure is longer if he opens up budget contestation and transparency in order to reveal the “price of loyalty” for the opposition members.

H1a: More concretely, I expect that the higher the transparency of chapters of the fiscal contract that would directly lead to individual rents or constituency benefits (\( B_i \)) (i.e. wages and salaries, property taxes, etc.), the higher the probability of executive survival.

As suggested in the literature review section, hybrid regimes include a variety of subtypes (i.e. monarchies, military, limited multiparty competition, etc.). Since my theory hinges upon a certain size of the winning coalition that causes uncertainty and drives the executive to search for information on its “price of co-optation,” I expect that regimes with limited multiparty competition or military multiparty will be more susceptible to comply with these theoretical expectations.

In contrast, in the case of new democracies, opening up the fiscal contract for full contestability entails the risk of former autocratic elites being expropriated by the new winning coalition. Given the large benefits from collective action the opposition obtains by blocking expropriation attempts, as well as the prohibitive cost of sampling (CS) the leader pays if these elites withdraw support for democracy altogether, the game equilibrium suggested that:

H2: In new or “fragile” democracies, a higher level of budget transparency, on the contrary, will lead to shorter duration in office for the executive.
For the case of highly repressive non-democratic regimes, if \( p_iB_{ca} - (1 - p_i)C_{ca}^* > B_c^* \), meaning that the constituency benefits the leader assigns to the feeble opposition are too low, the equilibrium would shift to \{open, claim\}. Therefore, in this case, providing more fiscal transparency would generate claims against the skewed social contract and potentially endanger the leader’s survival.

**H3:** In highly repressive autocracies (i.e. one party and personalist regimes), opening up the fiscal contract will shorten executive’s tenure. The hypothesis will particularly apply to components of budgets that reveal either severely skewed social contracts to the opposition (health expenditure, social security spending), or very low rents/constituency benefits \( (B, \ast) \) (wages and salaries).

Skeptics of the findings showing that fiscal transparency matters for political survival (as opposed to the clearly observable allocations of tax burdens and spending) would still want to see evidence of the net effect; namely that independently of benefits delivered to the coalitions of support, the executive tenure also depends on the level of transparency itself. Since I argue that fiscal contestability is crucial in hybrid regimes for the identification of the price of loyalty asked by the opposition, we should be able to observe, for example, that despite the actual benefit not being necessarily delivered to the opposition, budget transparency as a platform for voice and information collection still impacts survival.
H4: Independently of the actual implemented policy and tangible benefit, the mere contestability of the price of loyalty for the opposition is expected to lower hazard of failure for the executive.

H4a: In hybrid regimes, specifically, I expect that the actual amount of wages and salaries (as constituency benefits or rents) will be less consequential for leader’s survival than its transparency and contestability.

This hypothesis leads naturally to the second category of implications derived from the generic formal model.

2. Fiscal policy contestation

From (1.11) and Figure 2, it follows that budget transparency (or policy contestability) follows an S-shaped pattern along the democracy continuum:

H5: Hybrid regimes and established democracies are more likely than autocracies and fragile democracies to provide more information about the scope and nature of the fiscal contract to the opposition.

H6: If hybrid regimes behave indeed uniquely given that they host a counterintuitive inverse correlation between the expansion of political rights and budget transparency
(the decreasing slope of the S-shaped curve), we should be able to observe that the
constituency benefits for the opposition decrease as democracy expands \( B_e^* < B_e \).

Unlike Hypotheses 1 to 4, H5 is less concerned with duration of the executive tenure.
Instead, its empirical tests (presented in Chapter 2) will analyze the cross-national
variation in an index of budget transparency.

3. Fiscal policy implementation

Last, but not least, the generic model also used the assumption that the perceived
probability of fiscal policy implementation is lowest in hybrid regimes \( p_i = f(w) = w^2 \).
This conceptualization could be controversial without a theory and empirical test of its
own. Chapter 3 provides some evidence to support the functional choice.

Beyond the model assumption, given that the level of the ex-ante probability of
fiscal policy enforcement \( p_i \) is crucial for the utility function of the opposition (1.7),
there are two immediate implications. First, a hypothesis derivable directly from the
assumption:

\textit{H7: The executive survival will be a function of signals of accurate implementation of tax
and spending policies in both repressive autocracies and established democracies, but
not in hybrid regimes.}

Second, assuming that individual fiscal policies vary in terms of their \( p_i \) (for
example, the government incurs different political and administrative costs when
collecting income taxes, compared to disbursing subsidies), we would anticipate policy specific incentives to increase transparency or not.

Hybrid regimes, as showed through a simple game, will settle on an equilibrium in which the executive opens up information and contestability, but the opposition refrains from making redistributive claims. In its current form, the equilibrium hinges upon the assumption that \( p_i \) is low across the board. Nevertheless, if the probability of accurate implementation is higher on some fiscal policies, it might be the case that\[ B_e + p_i B_{CA} - (1 - p_i) C_{CA} > B_e, \]
which will give the opposition incentives to claim redistribution. I expect that the lower \( p_i \) is, the safer it is for the executive to induce transparency for information collection while the opposition refrains and obtains only constituency benefits or rents. Applying this logic to tax and spending policies, taxation entails, I suspect, higher political and administrative costs for the state than expenditure disbursement. Politically, progressive taxation implies concentrated costs and diffuse benefits. Zealous implementation is always costly. Administratively, income and profit taxation implementation is much more expansive than VAT systems or transfers. This should also translate into a lower a priori probability of implementation of income tax. If that is the case, in the opposition payoff, a low \( p_i \) would diminish the potential benefits obtained through collective action and push its members to refrain while the executive opens up transparency. In exchange for moderation, they would obtain individual rents (i.e. tax loopholes).

\[ H8: \text{In hybrid regimes, the lower the ex ante probability of implementation is for the executive, the more likely the equilibrium \{Open; Refrain\} becomes.} \]
increases because the executive anticipates not implementing policies that diverge from its ideal point, and the opposition accepts just constituency benefits, being aware that collective action is futile given low ex ante implementation.

H8a: Concretely, I expect transparent income and property tax policies in general to be more consequential for leader survival than other tax or spending policies in hybrid regimes.

The rest of the chapters will provide empirical tests of these hypotheses by using a mixture of methods ranging from cross-national statistical analysis to in-depth case studies of Morocco and Turkey.
3. Strategic Governance: Fiscal Transparency across Political Regime Types

A multitude can only use their eyes: their eyes should therefore be addressed\(^1\)

Visibility is a trap\(^2\)

Good bureaucrats know how to design a budget properly – politicians stymie them\(^3\)

What are the political economic factors driving the transparency of fiscal contracts? What are the strategic origins of information asymmetries characterizing the budget process?

Theories linking social contracts and political regime change often assume complete and perfect fiscal contracts between rulers and citizens. Parties know with some precision distributional/allocational consequences of tax and spending policies and act politically based on this information and related perceptions of inequalities. But is this assumption valid, under what conditions does it hold? What are the political consequences of informational gaps between different participants in the social contract?

Sellers know more than buyers about the idiosyncrasies of their product, and the insured know more than insurers about their own risk. Similarly, in the political market, incumbent parties and executives have a clear informational advantage over voters regarding the feasibility, risks and equity/efficiency implications regarding the budgets they construct. Lack of information (or transparency) generates a different pattern of

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\(^2\) Foucault 1977: 200
\(^3\) Conversation between former Finance Secretary of the Government of India and World Bank staff, Personal Communication, March 2011.
interaction between political actors, as it affects the collective action potential of
challengers, as well as leading them to base their actions on policy signals rather than
content. Some time ago, the field of economics of information gave us a different
reconceptualization of the general market equilibrium by demonstrating that even small
changes in the extent of information available to market participants can lead to dramatic
equilibria shifts (Stiglitz 2000, 2002).

In development policy circles, there is an increasing realization that transparency
matters. Accuracy and availability of information produced by governments and
communicated to citizens are seen as crucial ingredients of accountability relations. As a
consequence, most policy recommendations include now clauses and incentives aimed at
promoting Freedom of Information Laws and other similar instruments that can correct
information asymmetries between principals and agents. Increased transparency allows
legislatures, citizens, media, and markets access to governments’ intentions, real actions,
strategies, and policy outcomes. Among the array of domains plagued by severe
information asymmetries, perhaps there is no more urgent substantive area of interest in
transparency than the fiscal contract.

Fiscal transparency can be defined as being open to the public about the structure
and functions of government, fiscal policy intentions, public sector accounts, and fiscal
projections (Kopits and Craig, 1998). Despite increasing policy interest in correcting
information asymmetries on the fiscal contract, and the fact that transparency is
conceived intuitively as being endogenous to the political process, there are not any
systematic studies trying to tease out the effects of political factors on observable
variation in the scope of information asymmetries.
Instead, given the importance of fiscal (or budgetary transparency) for policy outcomes, there is a substantial body of literature spanning public economics, political science and sociology assessing *the effect* of fiscal (or budgetary) institutions on outcomes. Despite a wealth of research, the analytical agenda suffers on two dimensions.

First, the concentration of scholarship on institutional consequences at the expense of origins has generated its own knowledge asymmetries. We understand now more about the effect of fiscal rules on spending and taxes than we do about institutional choice. The neglect is not trivial. Policy alternatives and outcomes are endogenous to institutions that, in turn, reflect incentives and strategies of political actors targeted at achieving ideal points. Without understanding why specific fiscal institutions have been deliberately chosen in the first place, it is difficult to isolate analytically their impact on final outcomes (Alt, Lassen, and Rose 2006). Teasing out the strategic origins of information asymmetries sheds light on their intended consequences.

Second, because of data scarcity, the literature on transparency traditionally circumvented the crux of political strategies on information transparency in most developing countries: regime variations, as well as the nature of party competition and ideological polarization.

Third, fiscal transparency is also relevant to one of the most vibrant areas of political economy research focusing on the link between social contracts and democratization.⁴ This family of studies links the institutional mechanics of political regime types with economic redistribution. They often assume complete and structurally resilient social contracts in which all parties in the redistribution-democratization game

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know with a great deal of precision the content, structure and scope of the revenues and spending flows between government and citizens, as well as their distributional consequences.

As argued in the theoretical chapter, strategically constructed information asymmetries about the fiscal contract significantly alter actor’s incentives for regime transitions. Reversing the causal mechanism, this dissertation proposes that political regimes continuously shape social contracts rather than simply inheriting them. Implicitly, major shifts in the political order, including democratization, occur when rulers trespass upon them, whether intentionally or not.

This chapter conceptualizes and investigates empirically the factors that lead to variation in the transparency of the fiscal contract, with a theoretical focus on political regime types, polarization, party competition, and state capacity.

Until recently, lack of systematic data on budgetary transparency made cross-national tests impossible. Two new surveys (OECD Budget Practices and Procedures Survey 2008 and Open Budget Initiative survey 2008) with broad sample coverage render this task feasible. For the first time, these large cross-national databases containing a comprehensive array of indicators and puzzling variance on the dependent variable of interest (fiscal/budget transparency) allow researchers to systematically test hypotheses and tease out causal factors.

As the empirical analysis will demonstrate, there are two clusters of countries according to their budgetary transparency values. The high opaqueness group is characterized by low state capacity and democracy levels, and often has a significant
share of non-tax revenue (i.e., natural resources or foreign aid). Variance in the higher transparency group, the chapter argues, is substantively shaped by three major political factors: regime type, party competition, and political polarization. Among regime types, I find that hybrid regimes behave “most strategically” in terms of using optimal levels of information availability and transparency for achieving political goals of punishment and reward.

The chapter contains six sections. Sections 1 and 2 briefly peruse the extant literature and examine the range of variation in fiscal transparency across countries. Sections 3 and 4 summarize the methods and findings of empirical testing. The last section reflects on the politics of data compilation and information disclosure by comparing answers to identical questions on fiscal transparency from two sets of respondents: state officials (the OECD database) and civil society organizations (the OBI survey). The conclusion wraps up the chapter.

### 3.1 Transparency and policy relevance

This theoretical puzzle meets a timely policy concern. Simply put, budget (fiscal) transparency refers to the availability to parliaments and citizens of data on how the government resources are collected and spent. This decade, international financial institutions (the World Bank and the IMF) incorporated prescriptions aimed at enhancing budget transparency in their policy recommendation packages. Closely related, there is an increasing trend towards developing social accountability mechanisms through

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5 For example, the OECD and the IMF have designed and implemented Codes of Best Practice for Fiscal Transparency.
participatory budgeting tools, believed to lead to better outcomes in terms of public good production and development.

The current narrative of development operates with the corollary that citizens are empowered and can prevent “elite capture” by participating directly in the budget process. According to International Budget Partnership, a non-governmental organization specializing in budget transparency, in 1990 there were only 10 organizations in the world that were pushing for “budget work” involving citizens in the design and monitoring of the fiscal contract. In the following decade, the number grew dramatically, up to over 100 organizations across 70 countries.  

The left-wing mayor of the Brazilian municipality of Porto Allegre, elected on the platform of the Workers’ Party (Partido dos Trabalhadores), is commonly credited with the earliest success of participatory budgeting. In 1990, his “experiment” in citizen involvement with city budgets included 100 participants. In only two years, the number of people involved expanded to 20,000. This policy instrument de facto shifted decisions on the capital component of the city budget to neighborhoods and community associations who were given full authority to determine local investment priorities. Notwithstanding the complexity of the new policy making process, by almost all accounts, it managed to increase citizens’ knowledge about budgets as well as direct participation as accountability mechanism. Some studies found that up to 10% of the adult population participated in one form or another to establishing investment priorities for the community, with major involvement from the poor. The rise of the participatory process has also led to a reduction in clientelistic exchanges for political support. Neighborhood associations that previously used political channels to derive tangible

6 The peak has been reached in 2005.
benefits, were found less likely to access such intermediary channels after the participatory budgeting experiment (Baiocchi 2005, Avritzer 2002, Fung 2005).

Budgetary transparency claims through direct participation is somewhat limited in coverage and level. In most cases, the process covers between 10% and 30% of the overall budget and it takes place usually at the municipal level. In Latin America, however, there are a few cases of participatory budgeting covering 100%, as well as the national level (Peru being a unique case in this respect).

As administrative and bureaucratically dull as it might seem, the fight for revenue and spending transparency sometime took epic proportions and became the real locus of political contention. In some policy domains, norm-promoting transnational organizations attempt to confront opaque governments on the issue of transparency. EITI, EITI++ (Extractive Industries Transparency Initiative), for instance, is an international platform for action that formed initially around the issue of revenue opacity in oil and mining industry reliant countries, and incrementally extended to downstream and upstream operations entailing allocations of non-tax revenues and issues of sustainable development at the community level.

In other circumstances, disclosure of budget appropriations is the lonely, risky and passionate battle of committed individuals against high-level political corruption. In Nigeria, for example, a junior finance minister started to publish the state-by-state allocation of resources to the 36 state governments in national newspapers each month. This information released to the public became particularly uncomfortable to some of the governors involved, and, as a consequence, the minister received a number of credible death threats.
Information availability on budgets, far from being merely epiphenomenal and derivative of political inclusion of oppositions in the decision-making process, has a life of its own. From a normative point of view, transparency can also travel two ways. Despite the fact that its lack is commonly associated with negative outcomes, occasionally opacity carves opportunity spaces for opposition and reformers to promote policies that would be unpalatable to vested interests in a perfect and complete informational environment.

Public procurement reform in Kenya, for instance, is a case in point.\(^7\) In 2001, during the last days of the Moi administration, the incumbent party was desperately trying to use government funds to finance its patronage networks in order to maintain power. Public procurement turned out to be one of the main venues of funding the party by discretionarily awarding contracts to private firms and individuals. A small circle of Kenyan reformers started to approach the procurement reform from a public visibility angle. Making the issue salient and initiating a national debate that would help coordinate unorganized reform supporters from different segments of society, the conventional wisdom (confirmed by the advice of international donors) had it, would weaken resistance. Animated by this impulse, the reformers approached the permanent secretary in the Ministry of Finance. They were in for surprising advice. The strategy suggested to them was exactly the opposite. Instead of becoming easy targets of political vengeance under conditions of open claims making, a successful reformer should proceed as “quiet” as possible through procedural channels. Taking the advice, the group of reformers identified a package of implementation rules (*Omnibus Bill*) that in Commonwealth countries automatically follow the yearly budget, insuring the precision and scope of

\(^7\) Personal communication with one of the leading reformers, June 2010.
implementation. To its own surprise, circumventing debate altogether with help from within the bureaucracy, the team was able to insert the desired amendments as if they were yet another strictly technical regulation. Paradoxically, crucial reforms that would have never succeeded, had the issue been clear and open to contestation to all political actors, passed because of strategic obfuscation.

The theoretical and normative logic behind such policy prescriptions is closely tied to the concept of information asymmetries between citizens (as principals) and governments (or politicians in general) as agents in a principal-agent relationship. If citizens (or their political representatives in the legislature) had accurate and timely information about the financial resources available to the state and the venues of allocation of such resources, the story goes, then governments would become more accountable, and citizens would receive more public goods. As already suggested here, in the development policy community, transparency of budgets has recently been considered the key component of “good governance” in general and of PFM (Public Financial Management) in particular. OECD, IMF, and the World Bank all designed and attempted to operationalize agendas of PFM best practice whose essential feature consists in strong budget transparency, social accountability of expenditures, and legislative engagement in the budget process.\(^8\)

Despite the quasi-uniform international policy recipe to increasing transparency, as well as to the lip service paid by all governments in developing countries without

\(^8\) OECD documents (OECD 2002), the multi-donor Public Expenditure and Financial Accountability work (PEFA 2005); the IMF Code of Good Practices on Fiscal Transparency revised by the IMF in 2007, which contains 45 good “practices” governments can incorporate in order to maintain accurate and available budgetary transparency, the IMF budget assessment tool (ROSC), etc.
exception to the virtues of transparency, there is large and puzzling cross-national variation in terms of degrees of budget openness and data availability.

![Cross-national variation of budgetary transparency (2008)](image)

**Figure 8: Cross-national variation on budget transparency**

The availability and comprehensibility of budgetary information to all political actors is a product of both the technical capacity of governments to produce and disseminate such information, as well as of strategic political manipulation. *Why is transparency hard to achieve from a technical point of view?* First, budgets are complicated, and require specialized expertise that in many developing countries is simply missing. The executive has agenda setting power on fiscal contracts; therefore there is an incumbent advantage on yearly budgets. Second, distributional consequences and even the ratio public/private goods are hard to know a priori (for example, the equity and efficiency effects of VAT taxes, or education spending). Third, taxation and spending policies are often separated in the policy arena. The policy process rarely allows rational calculations of the net effect of budget revenues and allocations.

*What can transparency (or lack thereof) achieve politically?*

In line with extant studies, transparency of state budgets (at both stages of policy making and implementation) is a political tool, Chapter 1 has argued, for both the incumbent and the opposition. This chapter will develop theoretically and test
empirically three key institutional variables of interest: political regime type (with a focus on hybrid regimes), party competition and political polarization.

3.2 Theoretical advances on information asymmetries in the budget process

The availability as well as accessibility and comprehensibility of collected and allocated fiscal resources, the conventional wisdom holds, improve the relationship of accountability between governments and citizens. The more data are available on the state coffers, the more robust the checks and balances acting against abusive extraction and spending. Theoretically, transparency has been associated with overall electoral accountability of politicians as early as early 19th century (in the work of Jeremy Bentham, for example). Contingent upon reelection probabilities, incumbent politicians have incentives to perform well and be accountable to their principals (political constituencies). However, lack of information among voters, as a major form of political market imperfection, can significantly reduce the effectiveness of such accountability mechanisms. The effect of information asymmetries between politicians and citizens has so far received careful analytical treatment in the formal literature (Barro 1973, Ferrejohn 1986, Buchanan 1989, Humphreys and Weinstein 2010).

A second formal stream emphasizes selection effects in poor informational environments. According to this theoretical perspective, trustworthy politicians are more likely to select themselves into the electoral process in contexts with more informed voters and vibrant media (Besley 2005). In a principal-agent relationship, the principal overall benefits from more information about the actions of the agent because it allows them to write complete contracts (Holmström 1979, Humphreys and Weinstein 2010).
Findings on the consequences of information asymmetries on budgets

Given the lack of systematic data collection efforts on budgetary information asymmetries, empirically, to date, we have only scattered findings. Again, we know more about the consequences of transparency (or lack thereof) than about its origins. For OECD countries, there is increasing evidence that budget transparency has a large and positive effect on fiscal performance (Alt and Lassen 2006a, 2006b, Benito and Bastida 2009). Some studies have also identified a persistent pattern of pro-cyclical spending in low transparency countries, and a lack in the case of states with more available and accessible data on budgets (Alt and Lassen 2006b). Opportunistic deficit spending before elections is less likely to occur when there are no systematic information asymmetries between the incumbent and the opposition.

Lack of transparency on state budgets can have serious consequences extending well beyond domestic fiscal discipline. The recent example of Greece whose government obfuscated basic budgetary information and managed to conceal a 12.7% deficit in 2009 (more than four times the magnitude allowed by the Maastricht Treaty) generated massive negative spillover effects in other European Union countries. The Euro lost value against the dollar, and the economic recession in Europe was subsequently prolonged.

Recently, there is increased theoretical and empirical attention to the relationship between many economic policy outcomes and the transparency of the political process. The majority of studies conclude that higher fiscal transparency provides, overall, less political incentives to accumulate debt (Milesi-Ferretti 2003, Shi and Svensson 2006, Alt

Despite the positive hallow surrounding it, there are some normative caveats in the literature against the motherhood and apple pie view of transparency. “More transparency trades off the value of sunlight with the danger of overexposure,” causing excessive politicization (Heald 2003). Transparency can also affect incentives negatively (politicians keeping promises under costly conditions) (Cavaats 2002, 2005). Levy (2007a, 2007b) and Mattozzi and Merlo (2007a, 2007b) find that some degree of secretiveness might lead to better reform or resource outcomes (Gavazzi and Lizzeri 2008).

In a similar argument, the agent has incentives not to act on private information that would lead to a Pareto superior outcome under conditions of full transparency (Prat 2005). Some formal studies also suggest that lack of transparency may increase politicians’ efforts to deliver to their constituencies in order to overcome the obstacles of a poor informational environment, or may decrease politicians’ incentives to “posture” and signal policy positions to their voters without reaching policy compromise (Holmström 1999, Humphreys and Weinstein 2010, Stasavage 2004).

Transparency of government also has the potential to bias the general public, by unintentionally facilitating debates on mistakes rather than accomplishments, and in the long run, possibly undermining trust in government and legitimacy, or feeding ideologically driven anti-government skepticism (Fung and Weil 2010).

If even advanced industrial democracies face electoral cycles and vary on budget transparency, the relationship is perhaps even more prevalent in developing countries
where complex webs of opaque state institutions conspire to uphold crucial information from citizens. Alesina et al. (1993) found that there is a direct relationship between transparent budgetary procedures and deficits in developing countries as well. If the budget documents are not intelligible beyond a narrow circle of fiscal experts, or if the budgetary policy is subverted at the implementation stage by other political actors, even the strictest and most detailed laws can be circumvented, leading thus to fiscal indiscipline for electoral purposes. Opacity (or optimal obfuscation) is a convenient political strategy of avoiding accountability. Alesina et al. (1999) test their theoretical argument on 20 Latin American countries and the analysis confirms the hypotheses. The results have been echoed as well by other studies investigating the impact of fiscal rules and transparency on budget discipline in developing countries (Campos and Pradhan 1996, Filc and Scartascini 2004, Benito and Bastida 2009). Among other non-economic outcomes, transparency, some argue, could even stimulate electoral turnout and reduce corruption (Lassan 2005, Benito and Bastida 2009, Olken 2007, Reinikka and Svensson 2006).

Despite these findings, over the last ten years, most international institutions in the business of development reform have started to shift the paradigm of intervention from economic policy making as a “technocratic” domain to broad citizens participation that would correct the issue of reform ownership. Subsequently, they have started to encourage and support programs involving directly citizens in understanding and making decisions on budgets.

The arguments paralleled the third wave of democratization, and made the case for citizens’ voice that would lead to more public-goods and ‘pro-poor’ policies in
developing countries. Transparency through participation became the new mantra of development. Critics of the approach argue, however, that the effect of this ‘induced’ form of budgetary transparency on outcomes is not independent of underlying political-economic factors. Successful participatory programs were initiated by strong, democratically elected, left wing political parties. Moreover, current programs of citizens’ participation address only spending while ignoring the revenue side of budgeting (Bräutigam 2004).

Findings on the origins of fiscal transparency

Paradoxically, we know more about the consequences of low transparency than its causes. What explains the dramatic variation in the availability and accessibility of budget information? Do information asymmetries in the budget process exist because of weak state capacity, or are they strategically constructed by political entrepreneurs?

From the point of view of political economy, this is perhaps the key question since its eventual answers could shed light on the political and socio-economic conditions that generate transparent institutions in some countries but not in others. Otherwise, institutional endogeneity is a major obstacle in assessing the net impact of fiscal institutions on policy outcomes.

Since reliable indicators of budget transparency have been scarce and labor intensive to construct, to date we have very few systematic answers in the literature. In one of the pioneering studies on the causes (rather than consequences) of budget transparency, Alt, Lassen and Rose (2006) analyzed factors of variation in fiscal transparency among American states, and found that political competition is positively
associated with transparency whereas political polarization is inversely correlated with it. Real per capita debt also seems to be positively associated with increased transparency. Similarly, Andreula, Chong and Guillén (2009) analyzed variation in the indicator of budgetary transparency across 82 countries and find that institutional quality (regulatory quality, lack of corruption as key features of good governance), and accumulated deficits over the previous decade have the highest explanatory power. De Renzio (2009) used an innovative measure of public expenditure performance and financial accountability as the dependent variable and found that the level of income, population size and higher aid dependency levels explained most of the cross-national variation. Political institutions (such as regime types) attain significance in some models, but the findings do not seem to be robust.

3.3 Data on fiscal transparency

Until relatively recently, the lack of reliable cross-national indicators on budget transparency impeded many attempts at empirical evaluation of its causes. Despite indicator paucity, some studies have used creative measures of economic data transparency as proxies. Bueno de Mesquita et al. (2003: 180-184), for example, assumed that the capacity and willingness of national governments to report basic economic data to major cross-national account databases capture the political crux of transparency manipulation by governments. The authors recorded World Bank and United Nations GDP and taxation missing data, and found that the dummy variable of “unreported” official statistics correlates significantly with the political regime type. Democracies were more likely to report basic economic data to international organizations than autocracies. In a similar vein, using another creative measure to test transparency of economic data,
Herrera (2009, 2010) tested the likelihood of compliance with SNA (System of National Accounts) standards across post-Soviet states. She found that even when controlling for structural and economic factors, political bureaucratic factors explained best variation in data transparency.

For the first time, however, researchers have now access to indicators of transparency from two different surveys. The OECD Budgeting Practices and Procedures Database is a unique source of such cross-national information on a national budget’s life cycle, spanning between formulation and final implementation / audit. The 2008 version compiles 97 countries from the OECD, Latin America, Africa, Eastern Europe, Middle East and Asia. The data was assembled from a comprehensive survey containing 99 questions completed by officials from the Ministry of Finance for each respondent country. Subsequently, taking into account feedback from academics, practitioners and civil society, as well as from a meeting of all respondent teams following survey completion, the dataset was submitted for final validation.

Besides the intrinsic informational richness that the database offers, it also has the advantage of a happy coincidence. In parallel with the OECD’s efforts to assemble data from governmental sources, Open Budget Initiative (OBI), a civil society advocacy program promoting public access to information and accountability, initiated its own dataset on budgetary institutions. The OBI survey contains 123 questions on transparency and accountability. Moreover, it is the mirror image of the OECD Budgeting Practices and Procedures given that its respondents are civil society organizations as opposed to

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9 For more detailed information on the two databases, please refer to the last section of this chapter on the “politics” of data construction.
10 The database and further information related to it are available at: www.oecd.org/gov/budget/database
government officials. The first OBI wave was completed in 2006 and assembled answers from 60 countries. The biennial data collection was then carried out in 2008 and 2010 on an expanded sample of 85 countries\textsuperscript{11}. For further discussion of inter-reliability checks, see the research note section of the paper.

Here is a visual portrayal of correlations between the aggregated OBI indicator measuring budget transparency (\textit{OBI 2008 Index}) and a series of other cross-national indicators of governance (\textit{b15nwe} refers to the only available measure of political clientelism developed from a cross-national expert survey (Kitschelt et al. 2010); \textit{PG}. \textit{WB.} are the World Bank Governance Indicators displayed in the following order: Voice and Accountability, Corruption, Government Effectiveness, Rule of Law, Regulatory Quality and Political Stability):\textsuperscript{12}

\textsuperscript{11} The Open Budget Initiative database and resulting reports are available at: http://www.openbudgetindex.org/

Figure 9: Correlation between our indicator of fiscal transparency and other governance measures

Guided by theoretical arguments, let us explore some of the cross-national origins of information asymmetries on budgets.

3.4 Transparency of the fiscal contract: cross-national variation and its causes

The inspection of the histogram of our indicator of budgetary transparency (Figure 8) reveals a bimodal distribution. On one hand, a significant number of countries in the sample score close to zero (or under 20) out of a total possible score of 100, marking a cluster that lacks variation. On the other hand, the second cluster of “non-0” survey measures of transparency is normally distributed and includes most hybrid political regimes that are of theoretical interest for this study (see Chapter 1). This empirical
observation matches theoretical expectations from the literature about possible factors that cause very low levels of transparency.

3.4.1 The “zero” fiscal transparency cluster

Previous cross-national findings converge on three major factors that cause severe budget opaqueness, strategic information shortages and major information asymmetries between executives and citizens: *low state capacity* to generate and update information on the social contract, a high percentage of *non-tax revenue* that causes lack of accountability between politicians and citizens, and *low levels of democracy* that thrive and survive on non-transparent public policies.

*Low state capacity* to produce and disseminate even basic budget documents, to collect and use information strategically has been identified as a major obstacle against bureaucratic modernization or economic and political development in many low-income countries. Inadequate civil service/bureaucratic capacities to generate data on tax obligations, or on spending allocations, not to mention the ability to monitor the implementation of the fiscal contract render fiscal transparency virtually impossible to achieve.

H1: *Low levels of state capacity to collect accurate data on tax obligations and spending allocations are likely to have opaque and rather uninformative budgets.*

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13 The International Budget Partnership Report on the Open Budget Initiative Report 2008, 2010 also find these three sets of factors to explain variation in the transparency indicators, but refrain from multivariate statistical testing with controls.
Non-tax revenue such as oil and other natural resources, foreign aid or strategic rents increases the stakes of political contestation and allows incumbents to survive in office as long as they manage to control its flows and rent distribution. The “resource curse” literature argues convincingly that oil revenues and aid flows, contingent upon regime type, often bypass accountability and become discretionary coffers for incumbents. They also inhibit the regularization of taxation as a catalyst of political representation and, subsequently, result in inefficient bureaucracies. Given the political sensitivity of such non-tax revenues, they tend to avoid yearly budgets, through special reserve funds, SOE profits and creative accounting. Lack of transparency of revenues generated by natural resources has been systematically associated with high corruption levels (Sachs and Warner 1999, Collier and Gunning 1999, Marshall 2001, Schloss 2002, Ross 2003), and with authoritarian governance (Ross 2001, Lam and Wanotchekon 1999, de Soysa 2002).

Some empirical examples are notoriously telling of the relationship among lack of transparency of oil and mineral wealth revenues, grand scale corruption and authoritarianism. In 2002, the government of Angola could not account for approximately one billion dollars of oil revenues from the previous fiscal year. As Global Witness suggests, “missing” revenues may have been underestimated and seemed to gradually disappear every year.

Chad offers yet another example of chronic lack of mineral revenue transparency. Many years after the discovery of oil resources in the early 1950s, a new Petroleum Revenue Management law established a special account for funds derived from oil exploitation. The (benign) legal stipulations indicated that these funds should be allocated
according to a strict formula (80% to education, health care, social sciences, rural
development infrastructure, environment and water resource management; 5% of
royalties to be returned to the local communities from the oil region). The law also
instituted an independent audit organization: the revenue allocation was placed under the
supervision of a board with a widely participatory membership (government officials,
labor, human rights organizations, etc.) (Ross 2007).

In January 2006, the government adopted a series of revisions to the law,
dramatically reducing the transparency of revenue extraction and allocation, and
abrogating its previous commitments. As a consequence, the World Bank suspended its
loan in Chad until April 2006, when the government decided to sign a memorandum of
understanding that remedied some of the infringements on transparency.

In a similar empirical vein, in spite of one of the world’s most significant oil
wealth, in 2001, Saudi Arabia’s domestic debt exceeded its GDP. During the last 25
years, Nigeria’s cumulative oil revenues exceeded 300 billion dollars. Paradoxically,
60% of its population still lives under 2 dollars a day (Switzer 2001). It is therefore
likely that high levels of oil incomes will obfuscate political transparency of budgets in
order to create pockets of patronage and act as de facto tools of political survival for
incumbents.

H2: Countries with significant non-tax revenue (mineral resources, foreign aid,
etc.), on average, will have significantly lower levels of fiscal transparency.
The theoretical connection between political regime types such as democracy and autocracy, on one side, and the transparency of fiscal contracts, on the other side, might seem almost tautological. Democracies are, by definition, open political systems where tax burdens and public goods are negotiated in institutionalized arenas of robust political contestation. Members of legislatures make claims of transparency and accountability on behalf of their constituents and expect complete and perfect informational environments. Autocracies, in contrast, do not subject their policy decisions to any political authorization from the opposition, rely on repressive machines, and attempt to conceal discretionary or “secret” spending from the public eye. We also have significant empirical evidence that democracies produce more public goods than non-democracies.

**H3: Countries with low levels of democracy will have significantly lower levels of fiscal transparency.**

These three hypotheses test the institutional process that selects observations in the cluster of “zero” budgetary openness. For state capacity, closely related to human and financial resource scarcity, GDP per capita (at purchasing power parity for the current year) can serve as a fair proxy. For non-tax revenues, I choose the percentage of fuel exports in total merchandise exports, as well as the percentage of Foreign Aid flows in the GNI, both measures available in the World Development Indicators 2008 database. For democracy, the combined Freedom House/Polity index has been found to outperform all other cross-national measures in an independent evaluation study (Hadenius and Teorell 2005). This composite indicator has been constructed as an
average of Polity & Freedom House scores (scaled 0–10), with missing values imputed to provide greater coverage. Countries with scores larger than 7.5 are coded as democracies (Hadenius and Teorell 2007).

Table 8 (in 3.9 Tables and Figures) presents the findings of the logit analysis whose dependent variable is dichotomous and takes values of 0 for the low transparency cluster (<=20), and 1 otherwise. The results confirm our theoretical intuition, as well as previous empirical findings. Democracy, non-tax revenues and state capacity significantly impact the selection process that organizes countries in clusters of “zero” and “non-zero” budgetary transparency.

3.4.2 The “non-zero” fiscal transparency cluster

Countries above the threshold of the .20 quantile on the dependent variable, according to the OBI database, already provide some minimal information on the budgetary process, starting with the executive’s budget proposal, and culminating with implementation. Within this group of polities, the variance of the quality, magnitude and resilience of budgetary openness is quite dramatic and more interesting in terms of its political economic origins.

Because this censured sample already “qualifies” in the higher groups of openness, previous investigations of fiscal and institutional causes of transparency on advanced industrial democracies give us some useful theoretical clues. The political institutional factors that have been identified as explanatory for variance in budgetary openness are: the political regime type and other governance related institutions, the level and intensity of party competition, and policy polarization in legislatures.
3.4.3 Fiscal contract transparency under different political regime types

The political regime type should matter almost by definition. Conventional wisdom teaches us that every move towards more political rights and civil liberties translates linearly and steeply into more demands for complete information on tax burden and public good provision. More democracy, tautologically, means more transparency. But does this relationship hold irrespective of regime type? This is the central question running through various sections of this dissertation. I argue, in line with the theoretical hypotheses derived in Chapter 2, for the strategic idiosyncrasies of hybrid political regimes.

To recap, the theoretical logic here goes as follows: unlike in autocracies or consolidated democracies where no opposition, respectively institutionalized and credible political, exists, executives in hybrid regimes have the challenging task of accommodating some share of political contenders without endangering their own survival invested in the fiscal status-quo. Therefore, the strategic tools “of rule and revenue” become general transparency (in terms of full and complete information available to all political actors for effective policy contestation) and discretionary implementation.

Transparency of the social contract is important as it allows for “surveillance.” An executive budget proposal that details sources of expenditures by agencies and individual programs, or that presents a narrative discussion of individualized revenue sources and policy proposals that impact specific categories of taxpayers, solicits the input of the opposition. Such participation of official (or future) political opposition at the debate
table can do several things for the regime: 1) it can provide information on the fiscal interests with whom opposition members are affiliated. A plea for tax cuts benefiting specific large taxpayers, for example, might establish campaign finance connections; 2) the search for policy loopholes that would benefit a particular politician and his supporters (such as tax exoneration or selective subsidies), and that might be conceded in committees or legislatures, suggests to the “surveilling” executive the potential vulnerable points that could be used at the implementation stage should the opportunity arise. The more “politicized” and individualized the budget becomes, through often incoherent loopholes, tax expenditures, earmarked revenues or subsidy concessions, the larger the margin of discretionary maneuver at the implementation stage.

The benefit of “surveillance” for the executive would imply that it is in her interest to propose a high level of budgetary transparency. The opposition, however, understands the vulnerabilities that full transparency entails given the shadow of discretionary implementation, and engages in a self-restraining behavior by demanding less transparency than optimal. Increases in the share of the opposition (as political rights expand in hybrid regimes) are expected to reduce the equilibrium level of transparency as the executive fear a possible “tipping point” of fiscal consequences (i.e. some degree of redistribution), as well as relinquishing significant control over selective implementation. The formal model presented in Chapter 2 allowed for the derivation of the following hypothesis:
H4: Unlike in autocracies or consolidated democracies, in hybrid regimes fiscal transparency decreases (or remains constant) as democracy levels expand. Transparency follows a S-shape curve as democracy levels expand.

This theoretical angle argues that transparency is a double-edged sword available to the executive, contingent upon regime type. In democracies, its effects are beneficial as they contribute to better budgetary accountability. In contrast, some non-democratic incumbents (in hybrid regimes in particular) thrive from high overall transparency but low implementation. The plots below depict this contingent effect:

**Figure 10: Contingent effect of Budget transparency on the probability of discretionary law enforcement**

The first graph fits a linear regression line (shown here with confidence intervals) of regulatory implementation quality (tax audits, fire inspections etc.) and our general transparency index (OBI 2008). The second graph substitutes regulatory implementation (“the ability to punish through law”) with government contract award quality (“the power to reward”). Both indicators come from Kitschelt et al.’s cross-national experts survey of clientelistic practices (2010). Within both graphs, the plot on the left illustrates this transparency-implementation dynamic in non-democracies (mostly hybrid regimes in this sample) and the plot on the right – in democracies.
The direction of correlation confirms our theoretical intuition. Fiscal transparency increases the probability of random regulatory retaliation in non-democracies but not in democracies. Government contracting does not seem to have the same causal effect, behaving in line with more conventional expectations. Hybrid regimes seem thus to perversely benefit from increased transparency as they can activate more efficiently their political weapons of selective implementation against potential opponents. Chapter 4 on policy implementation signals will carry on this theoretical lead.

In order to evaluate empirically the factors causing variation in budgetary transparency for countries belonging to the second cluster, I use a series of indicators. For tapping into the effect of democracy scores on hybrid regimes’ “degree of fiscal openness,” I constructed an interaction variable between the dichotomous category “hybrid regimes” (2.5 ≤ Hadenius-Teorell composite indicator ≤ 7.5) and the continuous transparency indicator. A positive sign would indicate an increasing curve, a negative sign – an inverse relationship between transparency and democracy for our hybrid category.

Table 10 in the 3.9 Tables and Figures presents the results of a more systematic statistical test of the effects of political regimes on transparency. Since such a test relies on an interaction effect, the plot below translates the main results and allows for the graphic visualization of the marginal effects and their substantive significance (also included in the table below).
As we can see from Figure 11 and associated Table 1, the change in the magnitude and significance of the marginal effect of a one unit increase in our democracy indicator as regime changes from non-hybrid (Z=0) to hybrid (Z=1), decreases dramatically (from 8.82 to 0.52). Although not fully robust, this interaction effect attains negative signs in several models (Table 3). We have now confirmation that hybrid political regimes behave exactly in the opposite direction compared to repressive autocracies and democracies, as
expanding winning coalitions (or democracy scores) fail to correct information asymmetries (if not increasing their magnitude).

More precisely from a theoretical point of view, according to the implications of the formal model presented in Chapter 2, if the executive opens up strategically formal consultations as a form of political cooptation and surveillance, but then closes them as the winning coalition expands, we should be able to observe that in hybrid regimes, the pattern differs from either repressive authoritarian states or consolidated democracies.

Uniquely and counter-intuitively, as democracy levels expend, the breadth of formal engagement of the executive with the opposition and society at large goes down on budgetary issues. The theoretical and empirical implications are paradoxical: it is likely that at democratic transition points, the general level of participation and engagement of various political actors is *de facto* and *de jure* lower or equal to budgetary engagement and participation in some authoritarian contexts.

**H4a: The executive in hybrid political regimes is more likely than its repressive authoritarian or democratic counterparts to gradually restrain general levels of political engagement with the opposition on the yearly budget, as democracy levels expand.**

Unlike the case of Hypothesis 4 that examined political economic determinants of our aggregate indicator of fiscal transparency, the test of Hypothesis 4a requires higher conceptual and measurement precision. This time, we need a dependent variable that would capture accurately and specifically the scope and quality of legislative and public
participation in decisions on the budget. Luckily, the Open Budget database dedicates an entire section to public engagement in the budget process.

The theoretical implications derived from the formal model presented in Chapter 2 specifically predict that hybrid regimes do not fit the general pattern of correlation between democracy levels, on one hand, and transparency and inclusiveness of the opposition on budgetary process, on the other hand. Therefore, I also constructed two variables meant to capture with greater precision the specific component of budget transparency that entails the information released by the executive to the opposition, as well as the general level of political inclusiveness. The first variable, named *Budgetary contestability* was constructed according to the following formula:

$$\sum_{n=66}^{81} \frac{q_n}{16},$$

where $q$ denotes questions from the OBI2008 database. Essentially, this indicator takes the unweighted average of all the questions contained in the two parts of the survey analyzing *the budget process* (the Executive formulation of the budget and Legislative approval of the budget). The second variable named *Legislative engagement* measures specifically the average of survey answers to questions tapping into the transparency of the political process concerning budgets. These questions cover public hearings, the role of legislative committees, availability and analyzability of budgetary information, etc.

The computational formula is:

$$\sum_{n=74}^{81} \frac{q_n}{8}.$$
<table>
<thead>
<tr>
<th>Indicator</th>
<th>OBI 2008 survey questions and method of aggregation</th>
<th>Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall budgetary contestability</td>
<td>(question 66 +…+ +question 81)/16</td>
<td>Executive deadlines for submitting budget proposals to legislatures, public and legislative consultations, public hearings, legislative capacity to analyze budget, committee work, legislative authority for passing or amending budgets</td>
</tr>
<tr>
<td>Legislative engagement on budgets</td>
<td>(question74+… +question81)/8</td>
<td>Parliamentary authority on budgets, timeline of budget proposal submission, public hearings held by committees, level of program budget detail presented to legislature, etc.</td>
</tr>
</tbody>
</table>
As we can see in the scatter plots above, the Polity2 space between –5 and 6 is characterized by a pattern of societal inclusiveness in debates over national budgets that diverges dramatically from the rest of the distribution. A cursory visual inspection suggests that indeed, according to our theoretical intuition, as democracy scores expand and hybrid regimes approach a tipping point towards a new regime type (democracy), the general level of inclusiveness of the opposition decreases. The following empirical section will test systematically this theoretical claim.

Testing for conditional effects of hybrid regime types on overall budget contestability implies again an interaction effect. Table 9 (in 3.9 Tables and Figures) presents the findings. As we can see, the conditional impact of democracy scores (measured here with the Polity indicator) on legislative engagement on budgets for non-hybrid regimes (highly repressive or fully democratic) is significant and substantive.14

Overall, in non-hybrid regimes, as democracy (or winning coalition) scores expand, yearly legislative debates on the budget become more transparent and inclusive.

---

14 Unlike the previous test of Hypothesis 4, these results hold in the entire sample of countries, and not just in the “non-0” cluster.
In contrast, if we look at the regression coefficient for the effect of democracy scores in *hybrid regimes*, we notice that it is also highly significant but changes sign. Thus, we have a first clue that might suggest that hybrid regimes follow an exceptional pattern: the more a country improves on its democratic scores in this regime type category, the more likely the executive is to reduce or limit the scope and vibrancy of societal debates on budgets. With this first indication in mind, I proceed to compute substantive marginal effects and standard errors for the variable of interest according to by now established practices of interaction effect visualization (Brambor, Clark and Golder 2006).

The two figures below plot the substantive marginal effect of democracy (Polity) scores on *Legislative Engagement on Budgets*, as regime type shifts from non-hybrid (highly repressive or full democracies) – value 0, to hybrid (value 1 on the X axis). In addition, the histograms of the dependent variable plotted by regime types helps us reach the correct empirical result of the test.
Marginal Effect of Democracy on Legislative Engagement on Budgets As Regime Type Changes

Figure 13: Marginal Effect of Democracy on Legislative Engagement on Budgets as Regime Type Changes

Figure 14: Histogram of the Legislative engagement indicator for Hybrid regimes (group 1) and other regime types (group 0)
The table below summarizes the substantial effects and their corresponding standard errors.

<table>
<thead>
<tr>
<th>Interaction term</th>
<th>Other regime types</th>
<th>Hybrid regimes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democracy scores (Polity)</td>
<td>n=53 (8 closed autocracies, 45 democracies)</td>
<td>n=32</td>
</tr>
<tr>
<td>Marginal effects</td>
<td>2.01***</td>
<td>-1.00</td>
</tr>
<tr>
<td>Standard errors</td>
<td>0.34</td>
<td>0.92</td>
</tr>
</tbody>
</table>

The visual examination of the marginal effect plot shows that as democracy scores expand with 1 unit in the non-hybrid regime category, legislative engagement scores on average increase with about 2 points. The effect is large and significant. The most interesting empirical part is observable only within the hybrid regime type category: the substantive marginal effect becomes negative, suggesting the opposite pattern: as civil rights and political liberties exogenously expand in hybrid regimes, the executive increases constraints on political contestation on budgets. Table 3 shows the magnitude of the marginal effect to be around –1.

According to established norms of dealing empirically with interaction terms, in order for the marginal effect in hybrid regimes to be substantially meaningful, we should observe that the upper and lower markers for our 95% Confidence Interval should be both below the natural 0 line. In this particular case, we do not. The fact that the standard error on the substantial effect is also quite large (0.92) raises suspicion in terms of substantive significance. The only empirical strategy that could help us tease significance in this particular case is a visual inspection of the histogram (Figure 14). By doing so, we notice that the full range of variation for Legislative Engagement scores in hybrid regimes is 12.5 to 66.75. This means that a –1 substantive effect of Polity scores over the entire Y
axis range (-5 to 5) translates into 10 points of decrease in Legislative Engagement transparency and inclusiveness, which accounts for 18% on the range of variation of the dependent variable. If the outlier Russia is left out for testing, the effect exceeds 25%.

Given recommended strategies of empirical tests for interaction effects (Berry, Golder and Milton 2010), we conclude that increasing democracy scores in hybrid regimes have a large, negative, substantive and statistically significant effect on legislative openness and contestation on state budgets.

Going beyond the effect of political regime types on the scope of information asymmetries inherent in the budget process, the literature on budget transparency in advanced democracies has previously identified party competition and political polarization as important determinants.

*Party competition, political polarization and budget transparency*

Party competition translates into better bureaucracies and transparency, it has been argued. The uncertainty of political victory in the next round of elections makes the incumbent insure that, should defeat occur, she would not suffer from biased policy enforcement from the former opposition. The same logic applies in the case of fiscal institutions. Robust party competition has been positively associated with higher levels of budgetary transparency across the American states (Alt, Lassen and Rose 2006).

*H5: Party competition is directly related to the transparency of the fiscal contract.*
The level of political polarization is also closely related to competition. The gap between party positions can make defeat costly given expected policy switches (Hanssen 2004, Frye 2004). More polarized informational environments might not be able to generate the minimum consensus needed for increasing the level of transparency. Also, following the tumultuous ‘80s decade that witnessed severe left-right polarization in many developing countries, the standard technocratic recommendation of IFIs emphasized the fact that the budget should not be politicized and should become a technical instrument in the hands of the executive. This conventional wisdom of “good budgeting practice” survived until recently when a new wave of public involvement in budget work started to emerge in policy circles. Both arguments suggest that political polarization should be inversely associated with transparency.

*H6: The more polarized the political environment, the more obfuscated the fiscal contract becomes.*

On the list of fiscal variables of interest, previous debt and fiscal deficits are suspected to predict higher levels of transparency, although the relationship is endogenous and the direction of causality is hard to identify.

*Political competition* is a notoriously difficult concept to adequately capture empirically. In the absence of superior measures, I use the share of the largest party’s seats in the legislature, controlling for multiparty competition. The higher the share, the less competitive the electoral environment is, with consequences on variance in the...
transparency of the social contract. This indicator (corresponding to variable \textit{partsz1} in the Hadenius-Teorell database) omits one-party regimes.

A cross-national empirical measure for political polarization is even a rarer gem and did not exist until recently. The Kitschelt et al. (2010) database computes the variable \textit{dwnsdwe} as the standard deviation of national-level left-right ideology weighted by electoral support. The data is the result of a cross-national expert survey on clientelism that records (among many useful indicators) policy positions for the most important political parties in a given country. To date, it offers the only cross-national index of political polarization for 88 countries. The higher the standard deviation of party left-right positions, the more polarized the political environment is. According to our theoretical expectations, this indicator should be inversely correlated with transparency.

I also control with GDP per capita, population size, regional dummies and the average percentage of public debt over the previous five years.

Tables 8, 9 and 10 of 3.9 \textit{Tables} introduce the main findings. Most of the theoretical predictions are confirmed empirically. Transparency increases with political competition, decreases as new political rights and inclusive practices are added in hybrid regimes, and, once we leave out the GDP per capita because of collinearity, decreases significantly and substantively with political polarization. I could not find evidence that the fiscal indicator of average debt over the last five years impacts transparency. Chapter 3 shows its significant impact on budget implementation signals.

***

So far, this chapter looked at political economic determinants of information asymmetries on the yearly budget as a whole. But are there any distinct informational
trajectories for the two main components of a budget (taxation and spending)? Is one more open to contestation than another?

In line with recent theoretical advances emphasizing the separability of tax and spending policies (Alt, Lassen and Rose 2006, Gavazza and Lizzeri 2008), I am separately assessing the effect of our theoretically identified independent variables on revenue and expenditure transparency.

3.5 Ambidextrous budget transparency: revenue and expenditure

In order to test the distinct impact of theoretically identified variables on the existence of information asymmetries on revenues and expenditure, I derive two sets of indicators based on the OECD Budget Practices and Procedures Survey (2008) and OBI. Unlike the Open Budget Survey Initiative that is more concerned with availability of information on the social contract to civil society and the general public, the OECD data capture fiscal institutions and rules through which executives “tie their hands” with respect to discretionary spending and taxation at a future date. From this perspective, if OBI provides useful data on short-term transparency, OECD, by allowing us to derive a composite indicator based on fiscal rules, offers an analysis of long and medium term transparency on budgets.

How are fiscal rules related to budgetary transparency? Ex-ante rules (on revenue, expenditure, balance, etc.) are numerical constraints of budgetary aggregates such as expenditure ceilings, revenue increase limits, or deficits/balanced budgets. Attempting to trace the origin of such rules, historical evidence shows that the establishment of budget rules traditionally stemmed from taxpayer mobilization against overspending by their elected representatives or against rising taxes to cover expenditure (Eichengreen and von

A burgeoning literature has been assessing the impact of ex-ante budget rules on outcomes such as deficits and the size of government. The findings fail to reveal a close link between the two variables. Some studies found that ex ante budget rules prevent governments from engaging in discretionary policies (Fatas and Mihov 2003), whereas others showed that constitutional budget limits can be easily circumvented by creative accounting (Wolff and von Hagen 2004), or that there is no significant relation between tax and spending limits and total spending (Rueben 1997, Shadbegian 1996). The jury is still out with respect to the effectiveness of fiscal rules on concrete outcomes. The general sense of this line of research is that even in the presence of tight budget constraints, there are easy means to avoid them and that political actors are usually not refraining from simply avoiding such budgetary constraints (von Hagen 2006).

For our theoretical purposes, however, linking strategic political environments to budget openness, the puzzle of fiscal rules stays alive. The question of political origins of such rules deserves further attention. Why would politicians agree to tie their hands (or signal that they are willing to tie their hands even if they do not really mean it) on either side of the fiscal contract?

How do such revenue rules work in practice? Several examples might help us. The Democratic Republic of Congo has a revenue rule that limits the power of the central state to raise revenue. The Central Budget Authority, the Supreme Audit Institution and the Parliament all share responsibility with respect to monitoring of compliance.
However, the rules of enforcement are not defined ex-ante. Haiti, similarly, adopted a revenue rule tying the hands of the Government in terms of the future developments of tax-to-GDP ratios that relies on the political commitment of the government, and has zero enforcement rules. Tajikistan’s rule is concerned with the use of higher than expected revenues with the possibility of sanctions. Morocco and Tunisia stipulate that every revenue receipt must be approved by the Parliament and included in the general Finance Laws. In terms of enforcement, this triggers an automatic correction mechanism, and there are no sanctions attached, as opposed to expenditure rules. It thus follows that, even in the absence of credible commitment on the side of the executive to enforce revenue and expenditure rules, the contestation process these rules trigger should contribute to the transparency and credibility of the social contract in the medium and long run.

In order to test the differences between expenditure and revenue rules, I construct two separate indexes based on the OECD survey questions, aggregating evaluations of the coverage and level of formalization of the rule, parliament’s role, politics of rule setting and enforcement procedures.\(^\text{15}\)

An empirical investigation of *revenue and expenditure rule indexes*, as proxies for medium and long term transparency attempts, revealed by Table 11 (in 3.9 *Tables and Figures*) finds that, paradoxically, albeit in line with the theoretical argument exposed in Chapter 2, regimes characterized by limited multiparty competition, of all types, are more likely to adopt revenue rules, to ingrain them into Constitutions and to grant them

\[^{15}\text{Revenue rule index}= (\text{Taxlegalrescaled+ Q14revrulerescaled+ q15revrulepoliticsrescaled+ q15revrulelawrescaled+ q15revruleparlrescaled})/5\]

\[^{15}\text{Expenditure rule index}= (\text{Splegalrescaled+ Q14exprulerescaled+ q15exprulecoveragerescaled+ q15exprulepoliticsrescaled+ q15exprulelawrescaled+ q15exprulenforceparlrescaled+ Offbudgetexpmngrescaled+ q46offbudgetsharerescaled+ q60extrabudgetsharerescaled})/9\]
larger territorial coverage. The result partially holds for expenditure rules as well, although it is far less robust.

Second, the impact of hybrid regimes’ increasing winning coalition on revenue transparency seems to follow the pattern identified when working with the full index. It is interesting to note that our indicator of democracy is significant and its coefficient negative with respect of revenue rules, but insignificant for expenditure rules. Non-democracies seem indeed to be more likely to adopt procedures of political commitment over future evolutions in revenue extraction.

Another interesting finding correlates positively political polarization with expenditure rules. Because of a high probability of dramatic policy switches, antagonistic parties seem to be willing to place some restraints on overspending but not on the revenue side.

Finally, for robustness checks, I computed an indicator averaging indicators of revenue and expenditure transparency from the OBI survey (for short-term dynamics), and OECD survey (fiscal rules meant to capture medium to long term trends in information asymmetries construction). The plots below illustrate visually the differences on revenue and expenditure when averaging these OBI and OECD indicators:
Following this initial visual hint, we perform the full statistical test on the aggregate indicators of revenue and expenditure transparency (see Table 10 for detailed results). Table 11 and Figure 17 below depict the marginal effects of democracy scores (representing the size of the winning coalition) on the two main budget components as regime changes from $Z=0$ (non-hybrid) to $Z=1$ (hybrid).
Marginal Effect of Democracy Scores on Overall Revenue Transparency As Regime Changes

Figure 16: Revenue transparency (aggregate indicator - OECD OBI)

Marginal Effect of Democracy Scores on Overall Expenditure Transparency As Regime Changes

Figure 17: Expenditure Transparency (aggregate indicator OECD-OBI)

Table 4: Fiscal Transparency in Hybrid Regimes

<table>
<thead>
<tr>
<th>Interaction term</th>
<th>Other regime types</th>
<th>Hybrid regimes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democracy scores (IFHPOL) X Hybrid regimes (Revenue)</td>
<td>n=22</td>
<td>n=16</td>
</tr>
<tr>
<td>Marginal effects</td>
<td>4.12***</td>
<td>-2.50</td>
</tr>
<tr>
<td>Standard errors</td>
<td>2.21</td>
<td>1.72</td>
</tr>
</tbody>
</table>

Interaction term

Table 4: Fiscal Transparency in Hybrid Regimes
It is interesting to note here again that whereas the marginal effect of increasing democracy scores on revenue transparency is negative and of significant magnitude in hybrid regimes (-2.50 change for one unit increase in the Hadenius-Teorell democracy indicator), it is much lower and of insignificant size for expenditure (0.38). In other regime types (repressive autocracies and democracies), the results are reversed and gain strong significance on both sides.

Certainly, further theoretical work is needed in order to elucidate why hybrid regimes (and limited multiparty competition environments in particular) adopt revenue rules and correct information asymmetries slightly more on the revenue than on the expenditure side.

We can only speculate by bringing in the similar theoretical argument as in the case of general fiscal contract transparency. Unlike expenditure that conceals “secret” spending on repression and patronage benefiting the incumbent, the revenue side of the budget makes the executive less vulnerable to detrimental informational disclosures. Revenue, unlike expenditure, also offers the most powerful political tool among the entire set of economic policies: selective implementation of tax for political punishment and reward (Chapter 4 expands on this point). Even if the ruler never intends de facto enforcement of the rule, by committing (albeit symbolically) to future debates on revenue development, it fulfills the “surveillance” function that insure his political survival.
3.6 Transparency for whom? Coordinated information disclosure and political regime types

Information asymmetries entail various dimensions: *scope, origins, and actors* among many others. So far, the chapter dealt almost exclusively with the first two by exploring the variation in the degree of budget transparency, as well as by testing empirically some hypotheses about their strategic institutional origins. With regard to the final beneficiaries of information on key tax and expenditure policies included in the yearly budgets, the operating assumption so far has been that the main actors in the transparency game are *the incumbent government*, on one hand, and *the opposition and/or civil society*, on the other hand.

Despite central budgets being a domestic policy territory, in high non-tax revenue contexts in particular, a significant share of resources comes from foreign aid. In order to monitor aid effectiveness, donors often demand budgetary data. Moreover, IMF and the World Bank have traditionally been involved in Public Financial Management training and reforms, and solicited/obtained relevant budgetary information with a much higher success rate than domestic actors.

When attempting to understand transparency dynamics, it thus becomes imperative to analyze the dimensions of informational asymmetries according to *who the actors soliciting such information about budgets are*.

*Is there a significant difference between the scope and quality of information available to donors and IFIs, on one hand, and to domestic civil society actors, on the other hand?*
The answer has implications on both relationships of accountability of governments in terms of the final beneficiary of information, as well as on the strategic construction of information asymmetries by different regime types.
If asymmetries of information in the fiscal contract are not strategically generated and sustained by incumbent politicians, one would expect that availability of data to donors and civil society should be quite similar. The case of divergence (i.e. data on the fiscal contract available only to donors, but not to civil society or vice versa), suggests that the domestic informational game is independent from the political decision (often dictated by pragmatic considerations) to present budget data to donors. Particularly in high aid environments, governments whose revenue depends on donor requirements and other forms of conditionality often have to disclose information that they can conceal internally. At the other extreme, in some cases, even if budgets are acceptably disclosed to national legislatures, nationalist undertones of public debate, or fear of anticipated discrepancies with respect to the real scope of transparency once data are available for comparison across beneficiaries, hamper efforts to adequately report to donors.
If regime types are at the core of strategic manipulation of information, as these chapters have so far argued, one would expect significant differences in mean across democracies and non-democracies with respect to information disclosure on yearly budgets.

*H 7: Democracies are more likely to display a pattern of coordinated disclosure of fiscal information (similar levels of disclosure) to both donors and domestic constituencies.*

*H 7a: Autocratic governments, on the other hand, are expected to use uncoordinated disclosure in order to pursue strategic political goals domestically.*

This empirical task of testing these hypotheses is not trivial. As previously noted, Open Budget Index (2008) provides scores of fiscal transparency according to evaluations of civil society organizations. For government reporting however, the available OECD or PEFA data allow information content comparison, but do not capture the intrinsic process of coordination of information disclosure on budgets.

In other words, even if there are available databases built on government reports and self-assessments, they do not tell us much about the strategic process of disseminating assessments on transparency to donors. Fortunately, the OBI Index relies on some form of “reporting” from governments to civil society. Therefore, we can safely assume that strategic calculations of information dissemination are already embedded therein.

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16 Coordinated disclosure refers here to the degree of similarity in the informational approach of the government towards the two different constituencies: international donors and domestic civil society.
On the donor side, it is even more challenging to obtain data (beyond anecdotal evidence) that reveal the strategic behavior of governments vis-à-vis international institutions with respect to budgetary transparency, or on any fiscal data for that matter.

There are several sources of data generated by international organizations with support and/or participation from national governments that might allow the researcher to assess information release gaps: 1) *Public Expenditure and Financial Accountability* (PEFA) indicators produced by the PEFA Secretariat (a consortium of organizations such as the World Bank, the IMF, and eight donor countries), 2) the ROSC indicators generated by the IMF; and 3) the OECD International Budget Practices and Procedures Survey. The former two are not cross-country comparable.

Despite this limitation, the PEFA framework of transparency assessments has a major advantage. Procedurally, the PEFA methodology serves as a methodological framework of assessment for independent experts, with buy-in from governments. However, once the report has been finalized, it is the decision of the national government to widely disseminate the assessment or not among the members of the donor community.

This selection process (countries deciding to share or not transparency assessments) is key to this investigation of final recipients of budgetary information and can shed light on strategic consideration, according to a logic illustrated by the table below.
Table 5: Fiscal Disclosure to Domestic Civil Society and International Donors

<table>
<thead>
<tr>
<th>Civil society</th>
<th>Independent assessment made public</th>
<th>Independent assessment not public</th>
</tr>
</thead>
<tbody>
<tr>
<td>High transparency</td>
<td>Coordinated informational disclosure</td>
<td>Uncoordinated information disclosure</td>
</tr>
<tr>
<td>Low transparency</td>
<td>Uncoordinated informational disclosure</td>
<td>Coordinated informational disclosure</td>
</tr>
</tbody>
</table>

In order to assess the process of disclosure to donors in a quantifiable form, I first obtained a unique PEFA database (updated as of August 2010) that records the public or non-public status of national assessments based on the decision of national governments to disclose or not the information. I constructed then an indicator of information coordination whose score varies between 0 (report not public) to 1 (fully public). In some cases, there are multiple PEFA assessments for different years, with only some being public. Whenever there were such situations, the final score reflected the percentage of public reports in the total number of PEFA assessments for that particular country.

The figure below plots the correlation between the OBI transparency index (interpreted here as information on budgets available to domestic civil society organizations) with our new disclosure index for international donors. As we can see, democracies fit the profile of “coordinated information disclosure”: the more transparent budgets are for domestic actors, the more likely the government is to choose full disclosure of its PEFA assessment report to the donor community in general. In contrast, autocratic regimes behave in an “uncoordinated” manner, disclosing more to one group of actors (domestic or international) and less to others.
3.7 On the politics of data construction: a research note on data compatibility between the OBI and the OECD survey

Until recently, cross-national data on the transparency of the fiscal contract and budgetary institutions was simply not available. Fortuitously, OECD, in cooperation with the World Bank, initiated a first survey of OECD member countries in 2003, followed by two new waves of data collection in 2007 and 2008 that expanded the sample to developing countries as well. The final database surveys budgetary practices in 97 states covering all geographical areas and income levels. The questionnaire asked more than 99 questions on the entire cycle of the budgetary process from the initial stages of executive formulation and preparation of yearly tax and spending policies to performance information and policy implementation. The respondents are senior budget officials, and
the participation of any given country in the survey had to be directly confirmed by national governments to the OECD through official channels. Moreover, Vice-Ministers and Budget Directors of countries within the surveyed regions originally selected the key themes covered by the questionnaire. From this perspective, the responses can be treated as official information provided to the OECD with the blessing of the high level bureaucracy of the state.

The Open Budget Initiative survey (OBI), designed and implemented by an organization interested in transparency and public participation in spending allocation, follows a similar methodology and theme structure. On the list of differences, the OBI instrument is primarily aimed at assessing information availability to the public whereas the OECD survey focuses on rules and procedures affecting transparency. There are, however, a few overlapping questions for inter-reliability checks. The interesting difference between the two surveys resides in the position of respondents. Unlike the OECD instrument directed towards national governments of the sampled countries, OBI’s respondents are civil society organizations with expertise in transparency and likely to do advocacy work for participatory budgeting outside the sphere of the state.

Given the relatively objective intention of most survey questions and some content overlap, the analyst is uniquely situated to compare and contrast the “politics” of information provision contingent upon the power position of the respondent: state or civil society. In general, there are very few surveys that allow us to tap empirically into the incentives of officials to disclose or not information as well as into the “match” or degree of response compatibility between officials and civil society. From this angle, the OECD and OBI are rare analytical gems.
Figures 20 and 21 depict the correlations between responses to sets of identical questions from the two sources (OECD or state officials, on one hand, and OBI or civil society, on the other hand). Visually, the higher the bar, the stronger the response match between the two surveys. For the vertical bars, the correlation is positive, and for reversed bars, negative.

In a perfect and complete informational environment, if transparency and disclosure of budgetary information were not strategic tools employed by politicians, we should observe perfect (or close to perfect, given differences of scale and coding) agreement between the state and civil society responses to identical questions (H0). Incompatibility (or disagreement) – expressed as either low correlation between the two sets, or as inverse (negative) correlation, might imply that disclosure and transparency of even basic data on the social contract are themselves subject to political calculations (H1). Another possible explanation of lack of agreement between state officials and civil society organizations as respondents could reside in low state capacities that make difficult, if not impossible, even the identification by insiders of basic rules, procedures and documents used in the yearly budgetary process (H2).
### Table 6: Table of Hypotheses for Strategic Information Disclosure

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Agreement magnitude</th>
<th>Agreement sign</th>
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<tr>
<td>H0 Complete and perfect information disclosure</td>
<td>High</td>
<td>+</td>
</tr>
<tr>
<td>H1 Strategic information disclosure</td>
<td>Medium</td>
<td>-</td>
</tr>
<tr>
<td>H2 Low state capacity to identify and report</td>
<td>Low</td>
<td>+/-</td>
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</table>

Unfortunately for empirical testing, we have only a few identical questions that can be adequately compared. Therefore, standard regression techniques cannot be used to adjudicate among these competing hypotheses. Instead, for the six identical sets of comparable questions, it is analytically useful to plot the *agreement indexes* (the correlations between state and civil society responses) on two potential explanatory variables capturing hypotheses 1 and 2 (*strategic information disclosure* and *state capacity*).

Information disclosure as political strategy of rule, following the argument put forward in the previous sections, is endogenous to the political regime type. Overall, autocrats are more likely to manipulate data generation, dissemination and international reporting than democratic governments. Hybrid regimes, it has been argued, have divergent and quite sophisticated political incentives to produce and communicate information on the fiscal contract. Given that our theory operates with regime types as major analytical categories that generate *strategies of rule*, Figure 20 plots state-civil
society response agreement indexes by three distinct categories: repressive autocracies, hybrid regimes and democracies.\textsuperscript{17}

Low state capacity is often cited as a common culprit of inadequate reporting, low statistical capabilities, and lack of knowledge of real economy or fiscal contract even by bureaucracies and governments themselves. Vivid images of unorganized piles of dusty documents sitting on official desks and untouched for years, depict an institutional environment of severe resource scarcity. In such a low bureaucratic equilibrium, even the production of the basic GDP per capita or the calculation of the real debt service are statistical luxuries and cannot be taken for granted. International financial institutions and donor organizations have increasingly started to generate cross-national indicators meant to capture statistical capability endowments of national governments.\textsuperscript{18}

The dramatic sample variation of such indicators is particularly puzzling in a world of international systems of national accounts and reporting conventions in which diffusion of norms and standards is often assumed to have made its way through. If we assume that low state capacity is the consequence of human and financial resource scarcity, then the national income level should be able to act as computational proxy. Less developed countries are less likely to have high levels of information disclosure on the fiscal contract between executives and citizens. Figure 21 plots the state-civil society response agreement indicators by two “capacity” categories/thresholds identified on the

\textsuperscript{17} The regime indicator ($ijhpol$) computed by Hadenius – Teorell (2005) ranges between 0 and 10. Values higher than 7.5 are coded as democracies and lower than 2.5 as repressive autocracies, following authors’ empirical recommendations.

2008 GDP per capita (at purchasing power parity): low (below the variable mean) and high (above the mean).

Figure 20: Government/civil society response compatibility across political regime types
In the absence of standard statistical analysis because of the nature of the data, a simple visual inspection of the two graphs above reveals meaningful differences. Among state capacity categories, the divergence in state-civil society response agreement is, on average, not high. Simply put, civil society and state official respondents were quite likely to agree on the answers to similar questions in both high and low categories. High capacity states do score slightly higher on the agreement index, with the most dramatic difference characterizing the transparency of spending on “secret” repressive items (mainly national security and military intelligence). Low capacity state officials’ assessment of “secret” item transparency goes against civil society’s perception. The negative correlation, however, hints at deliberate informational strategies rather than to disagreement caused by state official’s lack of knowledge of “repressive spending” transparency.
In contrast, Figure 20 paints a more interesting picture. The agreement index for most sets of issues is surprisingly high and positive in both highly repressive autocracies and robust democracies, and negative in hybrid regimes. The negative correlation pertaining to four out of six sets of questions on the fiscal contract suggests a fundamental disagreement between government officials’ responses and civil society assessments of information disclosure and transparency in hybrid regimes. Such disagreement seems to be quite systematic and likely to capture an official over-assessment of transparency given the “look good on paper” politics of reporting data to an international organization like OECD.

Even if we rule out official over-assessment, and are willing to concede potential anti-government bias on the side of civil society organizations, the fact remains that transparency of relatively easily identifiable policies (such as tax expenditures or impact of new policies on yearly expenditures and revenues) is not broadly acknowledged and is subject to some degree of state-society contestation. This contested territory can be seen as marking the intersection of informational strategies for both governments and civil society, with civil society being suspicious of the “high” transparency of budgetary policies reported by state officials.

The other surprising finding here is the almost perfect match between state and society responses in highly repressive autocracies. On one hand, this result might be artificially driven by the small sample size. On the other hand, it might also shed some light on the politics of forged information consensus. Again, the potential explanations depend on the assumed reporting bias.
Civil society organizations in high-risk political contexts are usually afraid of upsetting the executive with negative portrayals of the regime. Therefore, they might be more likely to engage in self-refraining behavior. Repressive governments, from the opposite power angle, could either blatantly misreport the degree of information disclosure, or could be honest and indifferent at consequences of being revealed in a “bad equilibrium” state (the “nothing-to-lose” scenario). No matter which one of the two informational strategies governments choose, civil society compliance with official reporting suggests that budgetary transparency is not a contested issue per se (for reasons of fear or honesty). Additionally, it is also interesting to note that expenditure transparency solicits overall more disagreement than revenue.

**Table 7: State-Civil Society Information Game in Hybrid Regimes**

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<tr>
<th>State</th>
<th>Civil society</th>
<th>Misreport</th>
<th>Report accurately</th>
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</thead>
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<tr>
<td>Highly repressive autocracies</td>
<td>Civil society fears retaliation for accurate reporting</td>
<td>Hybrid regimes (contested informational environment)</td>
<td>Lack of broad consensus on the scope of fiscal transparency</td>
</tr>
<tr>
<td>(“high risk information environment”)</td>
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<td></td>
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<tr>
<td>Hybrid regimes (contested informational environment)</td>
<td>“Look good on paper” state reporting strategies contested by civil society</td>
<td>Democratic accountability state-society relations</td>
<td>or “nothing to lose” autocratic strategies</td>
</tr>
</tbody>
</table>
3.8 Conclusion

This chapter searched for the political institutional factors explaining variance in fiscal/budget transparency in the first comprehensive cross-national sample for which such data are available. First, the empirical findings point at two different clusters of countries on the dependent variables. Budgets characterized by extremely low levels of budget openness are associated with low state capacity and economic development, a significant share of non-tax revenue, a significant share of foreign aid flows, and authoritarianism.

In the sample of countries that score above a certain threshold on our budget transparency indicators, the variance is overwhelmingly driven by political factors. Overall, robust political competition increases the level of transparency whereas ideological polarization decreases it. These findings confirm existing literature.

The chapter attempted to pay considerable attention to hybrid political regimes for reasons that point at a very strategic environment of information manipulation. In the theoretical framework of this dissertation, transparency in equilibrium was conceived as the result of a strategic game between the executive and the opposition. I argued that, paradoxically, hybrid regimes (particularly those characterized by limited multiparty competition) are quite open on the general transparency indicator, although budget information asymmetries between the executive and the potential opposition increase as political rights and civil liberties expand. In order to test this central hypothesis, I constructed two indicators that quantify the degree in which governments engage with legislatures and society at large on annual budgets. When I tested the working hypothesis on both dependent variables, I found robust confirmation. Both closed autocracies and
established democracies are characterized by a simultaneous expansion of political rights and civil liberties, on one hand, and budgetary inclusion and contestability. Competitive authoritarian regimes counter-intuitively follow the opposite trend. In these contexts, executives organize vibrant consultations with legislations and interest groups on taxation and spending policies in order to identify their fiscal claims. Nevertheless, once the opposition’s share in parliaments increases and civil liberties expand, governments fear effective collective action that under conditions of high budgetary contestability could lead to redistribution and regime change. Therefore, preemptively, executives in hybrid regimes are more likely to limit engagement with society on budgets precisely when they increase accountability and democratic participation on other policy dimensions. As a result, these two indicators of budget contestability and legislative engagement follow an S-shaped curve along the democracy continuum. This pattern is less robust when we used the composite indicator of fiscal transparency as our dependent variable.

The chapter also examines the relationship between political regime types and the contestability of taxation and spending. I used several original indicators of fiscal rules transparency and I find that countries characterized by limited multiparty competition are significantly more likely to adopt more transparent fiscal rules than all other regime types. The result holds particularly well for revenue rules. Last, the chapter also addressed in its final sections questions regarding the “politics” of data on fiscal transparency. I used original data on the final recipient of budgetary information (international donors, national governments or domestic civil society actors). The analysis from the last empirical section suggests that democracies and autocracies differ significantly in terms of their strategies of disclosure of budgetary information.
Democracies seem to be characterized by coordinated patterns of disclosure. In these contexts, governments report similar data on budgets to both civil society actors and international donors, and the former do not challenge the government’s official narrative on transparency. Non-democracies, on the other hand, show the opposite pattern and there are large information asymmetries between executives and civil society.
### 3.9 Tables

#### Table 8: Determinants of membership in two clusters of transparency

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<th>(1) Cluster membership for “non-zero” fiscal transparency</th>
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* t statistics in parentheses
* p<0.10 ** p<0.05 ***p<0.01
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### Table 11: The Political Economic Determinants of Fiscal Rules

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Note: For regime types, all controls are included in the estimation, but are omitted here for clarity purposes. Results hold.
Chapter 4: Navigating Minefields: Budget Implementation Signals in Democracies and Autocracies

If we told you where the mines were, it wouldn’t be a minefield [...]’

Robust fiscal transparency requires information availability at two major stages: policy formulation and debate, on one hand, and implementation, on the other hand. The previous two chapters dealt mainly with the former, and argued that executives in hybrid regimes strategically use information asymmetries in order to reveal the fiscal claims of the opposition and co-opt its members. Chapters 2 and 3 focused on strategies of information extraction that executives often employ to determine the price of coalition building. Now, we shift emphasis towards strategies of information transmission or dissemination. I assume that the signals governments send to their challengers with respect to how they implemented fiscal contracts in the end of the year are official scripts of regulatory commitments in future rounds of interaction, and set expectations of budgetary policy enforcement.

In Chapter 2, one of the assumptions of the formal model illustrating the core theoretical logic relied on a U-shaped implementation curve, with both closed autocracies and democracies being more predictable in terms of the implementation of budgets than hybrid regimes that thrive on uncertainty. This chapter asks: is this relationship empirically true? Are incumbents more likely to build legal and regulatory minefields in hybrid regimes? Are they indeed more likely to keep the opposition in a state of uncertainty with respect to the implementation of key tax and spending policies? Why is

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1 This is a quote from the response of state officials to an American Chinese scientist who intended to open a research institute in China (Tsai 2010).
this the case? Although this chapter is about enforcement signals on budgets, the theoretical take is meant to illustrate the mechanics of ‘legal’ or ‘soft’ repression in hybrid regimes compared to the more blatant use of the coercive apparatus in closed autocracies.

My argument is that executives in hybrid regimes, unlike in full autocracies or established democracies, rely on a strategic logic of informational uncertainty at the implementation stage that conveys three key messages to the real or potential challengers: first, by not clearly identifying *ex-ante* the areas of discretionary implementation, they set the regulatory ‘landmines’ through which prospective dissenters can be selectively repressed; second, vagueness at the budget implementation stage does not allow the opposition to mistake the deliberate political strategy of discretionary enforcement for weak state capacity to enact taxation and spending policies; third, opaqueness of fiscal implementation in hybrid regimes allows the government to conceal sensitive areas of the budget such as military and police spending that are crucial for selective repression, from the opposition. As a result, implementation uncertainty increases the cost of collective action for political challengers in hybrid regimes.

Before moving forward, one clarification is in order: this chapter is not about implementation of budgets, although it derives some observable implications regarding policy outcomes. The theoretical story here is rather concerned with the informational signals about the intention to implement budgets that governments in autocracies and democracies convey to their political challengers. Are such signals important? Is the information executives provide on how they implement annual budgets relevant for the
meta-argument of this dissertation? Here is a short anecdote to anchor the theoretical puzzle.

One of the first measures Vladimir Putin took after he got elected to the Russian presidency aimed to institutionalize the state-business relations and announce the dawn of a new social contract with the oligarchs. On July 28, 2001, he invited 21 leading businessmen to Kremlin, mainly representatives of the largest energy companies, and committed to maintain ‘equidistance’ of policy treatment towards them as long as they stay out of politics.² The more tacit implication of this new signal was that discriminatory enforcement of tax policies, as a form of ‘legal’ repression, would target any oligarch who opposed Putin politically. Indeed, by 2007, the state-business contract was fully executed according to the initial commitment: in general, large businesses that obeyed the new rules imposed by Kremlin were allowed to prosper at an unprecedented pace. Those who disobeyed, Khodorkovsky being the notorious example of political dissenter, were heavily sanctioned by the tax police and imprisoned on severe allegations of tax fraud.

Unfortunately, beyond anecdotal evidence, it is quite difficult to capture systematically such explicit implementation signals transmitted by executives to the opposition across countries and time. Nevertheless, despite obvious limitations, studying cross-nation budget implementation signals, as opposed to actual budget implementation, comes out of a feasibility concern. Gathering evidence of tangible discrepancies between policy and outcomes is a daunting task even at the local or national level. Cross-nationally, the endeavor is almost impossible since the factors that translate budgetary

policy in tangible outcomes on the ground are too numerous to control for in a limited sample.

To circumvent operationalization problems, this chapter uses three sets of empirical evidence. First, it narrates a series of vignettes from various countries and time periods meant to theoretically locate discriminatory enforcement of tax and spending policies within the political mechanics of rule in hybrid regimes. Second, I use several cross-sectional indicators that capture the level of government commitment to provide detailed and accurate information on the implementation of budgets: the availability and scope of audits and executive reports explaining implementation gaps at the end of the fiscal year, the quality of information available on extra-budgetary funds, as well as a measure of legislative oversight of ‘secret’ expenditure that fuels the repressive apparatus.

Why are implementation information and its level of detail an adequate measure of the executive’s political commitment to enforce or not discretionarily? Here, I build on arguments put forward by Huber and Shipan (2002) to justify my answer. Vague or specific statutes make a significant difference in terms of the transparency of the policy process. Vagueness gives a large space of maneuver to bureaucracies to pursue and enact policy, whereas specificity brings outcomes closer to legislators. Even if in this chapter, I do not explicitly use a principal-agent framework of analysis, the principle of information disclosure is quite similar with Huber and Shipan’s, albeit it works from the opposite angle: the agent’s (or the executive’s) vagueness on implementation gives him the opportunity to discipline politically the principal (or the legislature).
Third, I report findings from the analysis of a unique dataset that records the executive and the opposition’s disagreement of perceptions regarding the transparency of budget implementation processes.

The chapter proceeds by first proposing a theoretical argument. Subsequently, it narrates a series of vignettes meant to illustrate the core theoretical logic across a wide geographical area and temporal span. Finally, the section concludes with findings from several cross-national statistical tests of budgetary implementation that support the argument.

4.1 Exit, neglect and punishment: on the construction of a fluid social contract

Politically, budget contestation is by definition more transparent than implementation because it involves the executives’ proposal to legislatures. The previous chapters argued that non-democracies are overall likely to choose lower levels of debate transparency that suit the strategic interests of the executive. Nevertheless, even in democracies with institutionalized accountability relations between politicians, parliaments, and citizens, the level of transparency in policy debates varies dramatically. Powerful executives can strategically bypass contentious legislatures, send the budget late for review, or simply deprive parliamentary assemblies and committees of technical expertise to understand and make decisions on the most complex bill of the legislative process – the annual budget. It has been argued that new or unstable democracies are particularly vulnerable to technocratization processes that take core economic policies out of the open agenda of political contestation. Their legislatures tend to be less versed in teasing out clear policy consequences affecting their constituencies from overwhelmingly

Robust implementation, as the second stage of the budget process, adds a new layer of intractability. It depends on a functioning and apolitical bureaucracy, and on well-designed mechanisms of monitoring and enforcement. Unlike policy debates whose results are immediately observable at the conclusion of legislative voting, implementation outcomes are decoupled in time and suffer from principal–agent misalignments of incentives, hence more difficult to accurately trace and observe. Impartial bureaucracies are, after all, endogenous to the political process. Therefore, they are the last strategic resort for executives to bring the final policy outcomes close to their ideal point if the opposition resisted concession during debates. The extant literature on fiscal contracts too often assumes that implementation follows closely policy-making transparency.

This dissertation so far has taken a strategic view of fiscal transparency. According to the core argument, the level of overall transparency in equilibrium is constantly negotiated between the executive and opposition across the three regime types: autocracies, hybrid regimes and democracies. The nature and scope of public access to the “real” social contract that stipulates in detail and with clarity allocations of public goods and tax burden among different constituencies depend on the executive’s strategy of co-optation and surveillance of potential competitors, and the opposition’s payoff of formulating policy claims and revealing fiscal information about itself. This strategic game over the optimal level of transparency is played in the shadow of the second stage of budget work: implementation.
In those circumstances in which transparency can be politically dangerous for the opposition because it discloses its supporters and their key tax and spending interests, the threat is driven by the use of discretionary implementation as a key political tool of selective repression in the hands of the executive. Chapter I has already introduced $p_i$ - the opposition’s probabilistic perception of accurate enforcement of budgets. Modeling the utility function of the opposition as such allowed us to operationalize the costs and benefits of collective action related to redistribution more realistically, by discounting them with the estimated probability of implementation. In other words, if $p_i$ is high, then the baseline costs of collective action (or anticipation of state repression) for members of opposition contesting budget allocations have a low discount rate and the benefits are high. The intuition is relatively straightforward: independently of regime type, if, the executive plans to implement accurately the distributive policies that resulted from fiscal contestation, there are low costs associated with transparency and claims making. If, on the contrary, $p_i$ is low, members of the political opposition anticipate discretionary enforcement of budgetary policies. This discount factor thus triggers an increase in the baseline cost of collective action (fear of retaliation through tax persecution, for example), and a decrease in the actual size of benefits that would have resulted from open contestation (i.e. skewed expenditure enforcement that fails to benefit the opposition according to the policy blueprint). This chapter explores the signaling strategies employed by governments to shape the opposition’s perception of the $p_i$ value.

In order to sketch a theory of budget implementation signals, let us recap the core assumptions of regime survival underpinning the findings so far: a) executives are
embedded in a coalition of support, and in order to stay in power, they have to satisfy and control the members of this crucial political coalition; b) the size of the coalition expands linearly as regime shifts from autocracy to democracy; c) the state budget, as the official script of distributional relationships in society, reflects this specific contractual dynamic.

Based on these assumptions, executives and members of the opposition, contingent upon the regime type they operate in, are expected to have different evaluations of the costs and benefits of revealing detailed information on the implementation of budgets. I argue that, to a significantly larger extent than other institutional settings, hybrid regimes signal discretionary enforcement of tax and spending policies and cultivate a climate of policy uncertainty. Additionally, I examine theoretically and empirically other factors that impact the propensity of governments to reveal to the public how they implemented budgets: state capacity, political competition, and previous debt crises.

So far, we modeled the overall level of fiscal transparency and contestation as the result of the interaction between the government and real or potential opposition members. What are the payoffs of these actors in terms of information related to the budget implementation dimension? How does implementation of budgets interact with state capacity and competency, on one hand, and repression, on the other hand, for incumbents across political regime types?

4.2 The Executive

In autocracies, the size of the coalition of support is small and the economies of scale of repressive technologies increase the effectiveness of systematic control of
potential opposition. In the absence of contestation on budgets, as a mechanism of cooptation, executives can only signal their ability to rule and allocate resources to their coalition of support by signaling complete fiscal contracts and letting them know that they are accountable in terms of implementing accurately the terms of the fiscal contract.\textsuperscript{3} Simply put, absent any space for voice and claims making on budgets, the incumbent is likely to signal some level of competency, and project capacity to control on the implementation side of the social contract. Proper budgetary implementation, whenever the signal matches the underlying true state of tax and spending enforcement, also fulfills a demonstration effect and builds political support for the regime.

By publishing detailed reports on enacted and audited fiscal contracts, some autocratic executives attempt to prove that they act as efficient enforcers and cater to their coalition of support even in the absence of democratic mechanisms of accountability. Additionally, sending a signal of strong budget implementation by publishing detailed audits creates the illusion that the state knows exactly who the targets of control and cooptation are, independently of the true state of the world. Comparably, students of authoritarian contexts suggested that the projection of capacity and willingness to record granular data on the informal economy (despite problematic estimations) communicates a similar signal of precision and control, thus becoming a technology of rule (Hibou 2006).

China and Vietnam are two cases that illustrate quite well such a strategy of search for popular support and credible capacity to control through the implementation

\textsuperscript{3} A complete contract, in contract theory vocabulary, specifies the legal consequences of every possible state of the world. In contrast, an incomplete contract contains vague or inexisten stipulations with respect to what would happen if a certain situation occurs. Here, I assume that executives that produce and disseminate information on budget implementation write “complete contracts” with their constituents by stabilizing their expectations of tax and spending enforcement for future fiscal years.
side of the social contract. Despite total lack of information on the proposal of the executive and on the enacted yearly budget, the only documents available throughout the budget cycle concentrate in the audit area. They highlight gaps between planned revenue collection and spending allocations, on one hand, and actual levels on the other hand with a high level of granularity. Despite persisting political constraints, the National Audit Office in China is also fairly independent and can decide with significant discretion the public audit priorities. In fact, as some studies pointed out, China has one of the most effective public accounts committees anywhere in the world that has established a systematic and credible track record of monitoring and correcting malfeasance as far as collection and allocation of public money are concerned (Dye 2007). In a similar vein, the World Bank governance indicators have consistently emphasized the contrast between the relatively high score China receives on the Government Effectiveness dimension as opposed to the low ranking on Voice and Accountability. After 2000, in a similar vein, Vietnam shifted from a four-page budget to a full-fledged yearly document.

Additionally, the Chinese central government is particularly sensitive to the general perception of its implementation results. First, experimental policies are systematically tested at the local level before they are introduced on a permanent basis, and citizens are encouraged to openly evaluate the probability of future individual compliance with the policy as it is at the experimental stage. If a majority of the future policy recipients have a low assessment of future compliance, the policy is revised according to the public input. Second, extreme sanctions applicable whenever

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malfeasance is detected in the state bureaucracy lower the ex-ante probability of bureaucratic deviation. Third, the central government has developed creative strategies to compensate for low state capacity of some localities to implement policy. Often, it decides not to allocate resources nor implement reforms in areas where the reform capacity is low. This strategy has the obvious negative consequence of increasing inequalities among localities and discriminating against precisely those who might have the most pressing need for development (Tsai 2010). On the other hand, this selection effect and ensuing emphasis on monitoring and sanctioning leads to the political demonstration effect of a “good enough” proof that budgetary implementation can generate.

In contrast, hybrid regimes introduce some modicum of contestation, uncertainty and fluidity with respect to both the size and identity of the members of the key coalition. Repression is more costly and becomes selective in order to be effective (Kalyvas 2006, Hechter 1988). Intuitively, students of competitive authoritarianism have long noted the changing nature of repression that governments often employ against political opponents. Following the end of the Cold War, international pressures and increased visibility softened the visible side of state coercion. Unlike closed autocracies that can afford to escape or ignore scrutiny altogether, and whose governments do not shy away from using the full arsenal of repressive technologies, hybrid regimes by definition have to accommodate some members of the opposition and to put on the semblance of a quasi-democratic polity (Levitsky and Way 2009). As we saw in the previous chapters, competitive authoritarian governments often co-opt dissenters, identify their fiscal claims to constituency benefits and rents, and build broad coalitions of support by paying a
loyalty price. They also allow protests, some degree of open policy contestation and project the image of confident states that can deal with challenges from the opposition and yet survive politically (Magaloni 2006, Robertson 2011). The full blown repressive apparatus therefore becomes much harder to employ because of both high reputational and monetary costs. In a political environment in which civil liberties are at least nominally guaranteed, overt use of police and military tactics of intimidation would trigger perceptions of closed authoritarianism in the domestic and international communities. Financially, the apparatus of systematic repression used to control a vibrant opposition that is legally allowed to stage protests and voice disagreement with the government is more costly than in autocracies. Competitive authoritarianism marks a transition from systematic to selective repression. This observation builds on previous findings. Students of state mandated violence in other contexts, for example, observed a similar dynamic. In civil war areas that are not fully controlled either by the incumbent or by insurgents, selective, targeted use of violence is more widespread than in territories in which one of the parties definitively asserted its rule (Kalyvas 2006).

The empirical section of this chapter will show that the propensity of regimes to reveal and audit the total amount of spending on the repressive apparatus (police and military intelligence) follows a U-shaped curve. Closed autocracies strategically signal to potential opponents their full capacity to repress. Democracies, because of mechanisms of accountability embedded in the budget cycle, disclose, submit to parliaments for approval and audit with a significant level of detail such categories of expenditure. Hybrid regimes (especially in contexts of limited multiparty competition) are quite opaque in terms of the signals they send to the opposition with respect to their repressive
capacity. Selective repression requires resources that could be greatly diminished or re-allocated in a situation in which the members of the opposition represented in legislatures had full access to them.

Beyond the logic of repression, signaling *incomplete contracts* on budgets between the executive and her broader and continuously changing coalition of support communicates accommodation, discretion and a fiscal contract in flux from which every member of the coalition of support *can* benefit, contingent upon political discretion of the executive. Signaling competency and complete contracts would be costly, as the opportunity costs of strict and predictable budget allocations that accurately portray implementation outcomes and stabilize expectations of enforcement exceed benefits.

The rules of the budgetary games in hybrid regimes are Hirschman’s *exit and neglect strategies of rule* as long as the member of the coalition is apolitical. Needless to say, discretion on the implementation of budgetary tax and spending policies is a double edge sword: as it allows accommodation and cooptation due to its flexible and discretionary nature, it also allows punishment of dissenters. Implementation is thus the space of the true social contract. Signaling expectations about the “true” size of this space reduces discretion as a political control technique. At the same time, sending a false signal would have high costs, as the gap would be easily detectable and undermine the credibility of the regime. Perhaps the eloquent metaphor of a high level state official that opened this chapter captures best this paradox of discretionary implementation:

"If we told you where the mines were, it wouldn’t be a minefield [...]."
Democracies differ from all other regime types because they are characterized by accountability relations between politicians and voters. Since coalitions of support evaluate tangible results, the benefits of signaling competency in budgetary allocations and management exceed the political costs entailed by complete contracts.

Disseminating detailed and quasi-complete information on budget implementation poses a key-signaling dilemma for the executive. As the formal model below suggests, if the published record indicates low enforcement and major discrepancies between planned and actual spending and tax extraction, the opposition cannot distinguish between low state capacity and deliberate strategies of discretionary taxation or spending. Widespread perceptions of low capacity undermine repression and open up windows of opportunity for collective action on the opposition side.

The government’s decision to make public the audited taxation and spending records depends on the implementation gap (or the discrepancy between the planned and actual amounts). If the budget is correctly implemented and there are no major deviations, then there are no reasons to conceal information and not to take political credit for a job well done in any regime type. If, on the other hand, the audited record fails to signal accurate implementation of the fiscal contract mandated by legislatures, the opposition cannot distinguish between the two core causes of inaccurate implementation: low state capacity or deliberate strategies of discretionary enforcement. The first circumstance would pose political survival threats for executives, as the opposition would discount their collective action costs with a factor proportional with the lacking capacity.
So far I argued that through public audited records, executives signal capacity, competency and political strategies of rule (systematic or discretionary implementation). What do members of the opposition infer from these signals?

4.3 The Opposition

Political challengers receive signals of tax and expenditure implementation from audits and budget execution reports. The higher the level of detail (for example, program and constituency-level spending reports), the more likely they are to infer the executive’s capacity, competency and willingness. Given that implemented budgets are blueprints of executive commitments for future years, the opposition attempts to use the implementation signals to clarify the $p_i$ term mentioned above, and discount its baseline benefits and costs of collective action adequately for subsequent rounds of interaction. If the executive credibly demonstrates accurate implementation, then challengers perceive a high $p_i$ value, and anticipate both capacity and willingness to enforce budgets to be high.

A problem arises when governments cannot credibly commit to correct budget enforcement because of either lack of capacity or because they want to use legal repression via tax and spending policies to discipline potential political challengers. If audited records are public, then the opposition can observe the low government performance. What it cannot do is distinguish between lacking state capacity and political will of the executive to maintain discretion. The perception would impact significantly strategic reactions: fledgling capacity translates into a vulnerable state that cannot monitor dissent and can open the political opportunity of collective action; discretion, on the other hand, as technology of ‘legal’ repression reduces this space of dissent. Many
governments, depending on the regime type are reluctant to reveal any information on low capacity and prefer, in such cases, not to publish or disseminate at all audited records of budget implementation.

The formal model introduced below shows that both lack of capacity and will lead to a low level of enforcement transparency. Hybrid regimes are unique in terms of the clarity of signal. Unlike other contexts, even under conditions of good implementation capacity, the executive decides to be opaque about implementation of fiscal contracts and the opposition infers a high probability of discretionary enforcement. This hypothesis corroborates previous cross-national findings suggesting that firms in hybrid regimes perceive a significantly higher level of policy uncertainty than either in closed autocracies or in established democracies (Kenyon and Naoi 2010), or that partial democracies are characterized by higher corruption levels than all other regime types (Montinola and Jackman 2002).

4.4 A signaling game of budgetary implementation

Modeling the utility function of the executive

Governments take into consideration a number of factors when deciding to disclose or not credible information to society about how they implemented fiscal contracts at the end of the year. This chapter takes into consideration two major groups of variables that shape this decision: the first group pertaining to political strategies of disclosure, and the second to state capacity and competency. The former groups of factors that impact information dissemination on the budget implementation dimension is more compact. This category usually refers to political institutional factors, regime types
and political competition being the most prominent. The second set of factors is quite difficult to adequately capture empirically, as it contains heterogeneous concepts and measures (level of development, bureaucratic development, administrative and political reactions to previous financial and debt crises, to name just a few). Below, I attempt to include both groups in the executive’s utility function. Let’s start with regime types since this has been a key independent variable of interest throughout this dissertation. Here are two simulated plots of costs and benefits for executives of signaling complete fiscal contracts and competency of budget allocations:

**Figure 22: Configuration of executive’s costs and benefits of signaling across regime types**

The X axis plots the size of the political coalition of support, while the Y axis measures the magnitude of costs and benefits of signaling complete contracts. Benefits of signaling budgetary competency increase linearly (the red line), while costs follow an inverted U-shaped curve (in blue).

The utility function shows the incentives the executive has to signal correct implementation of the fiscal contract to his or constituency. The benefits of signaling

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5 This plot simulates executive’s costs and benefits for parameter $\beta = 5$ and $0 \leq X \leq 10$. 

168
competency on implementation increase linearly, as irrespective of the political regime type, governments have incentives to project a minimal image of good managers to their coalition of support (assuming that they were able to implement policies). Even if not good managers, governments, by emitting the “bills” of implementation demonstrate capacity to control the fiscal contract. If $R_{wc}$ represents the size of the winning coalition, then the executive’s benefits of producing and disseminating information on budgetary implementation are:

$$B(y_t | R_{wc}) = \frac{\beta}{2} (R_{wc} + 1)$$

where $\beta \geq 1$ and $-1 \leq R_{wc} \leq 1$

The costs of being transparent about implementation gaps across regime types, unlike the benefits, follow an inverted U-shape curve:

$$C(y_t | R_{wc}) = 2\beta R_{wc} - R_{wc}^2$$

The figure below simulates 3D costs (the upper plot) and benefits (the lower half), for parameter $\beta = a$, $a > 5$, and $0 \leq x = R_{wc} \leq 10$.

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6 Modeled as such, for any value of parameter $\beta$, there are two values of $R_{wc} = \frac{1}{4} (3\beta \pm \sqrt{\beta(9\beta - 8)})$, for which benefits $B$ exceed costs $C$. Here is a depiction of the benefit and cost curves for $\beta \in [\cdot]$.
Figure 23: Configuration of costs and benefits of signaling across regime types

The intuition behind choosing this particular functional form for the executive’s costs of disclosure comes from the arguments introduced above: in closed autocracies, the government can blatantly distort information if it is not a good budget implementer and simply preempt or repress dissenters. Therefore, the costs of transparency are quite low. In established democracies, given that mechanisms of accountability are already institutionally guaranteed, audits and parliamentary approval of most taxes and expenditure routinely occur, and that a free and vibrant media demands accountability, hiding or obfuscating implementation information would have a large opportunity cost.

In the 3D plots above, $\beta = a$, and $a > 5$. If $0 \leq x = R_{wc} \leq 10$ (the democracy indicator approximating the size of the winning coalition), the graphic results hold for $\forall \beta \in \bar{i}$. 

7
that the opposition could use in order to win the next round of elections. As we will see in the empirical section of this chapter, the more robust the level of political competition, the more detailed information on budget execution becomes.

The only segment of the executive’s cost curves in which the government does not have incentives to disclose or audit any data on implementation roughly coincides with hybrid regimes on a democracy continuum. As already argued, both the opportunity and real cost of disclosure are high independently of the “true state of the world.” If the executive is a good implementer, by publicizing details of performance on spending programs and tax extraction and stabilizing opposition’s expectations, as well as disclosing the real resources invested in the repressive apparatus, it can no longer employ selective repression and enforcement strategies. Thereby, the opportunity cost increases. On the other hand, if the government is a discretionary implementer, by revealing major discrepancies between planned and actual levels of revenues and expenditure allocations, the opposition might mistake deliberate strategy for capacity, and rebel. Thus, the real cost becomes prohibitively high.

Let us now move to the second set of factors that condition government’s propensity to disclose or not information on implementation: state capacity and bureaucratic managerial competence. State capacity to implement budgetary policies plays the role of a key condition that determines the incentives of the executive to signal competency. If certain tax and spending policies cannot be implemented because of ineffective channels of delivery, the benefits of signaling competency on the implementation side will be greatly reduced by the high costs of observable unsuccessful results on the ground across all regime types. In a similar spirit, previous debt crises are
likely to have an impact over government propensity to disclose information on actual levels of spending and revenue collection. In some cases, post-crisis monitoring mechanisms are put in place by international donors who bailed debt out. In other cases, domestic actors become aware that deficit prevention is beneficial politically.

If \( C_{it} \) = the state capacity to implement policy \( i \) at time \( t \), \( \Delta P_{ct} \) represents the intensity and robustness of party competition in a country \( c \) at time \( t \), and \( D_{t-1} \) symbolizes debt crises at a previous point in time \( t-1 \), the utility \( U \) of the executive of sending a signal of complete contracts on budgetary implementation is:

\[
U(y_{it} | C_{it}^*) = \begin{cases} 
C_{it} \geq C_{it}^*, & \alpha C_{it} + \frac{\beta}{2}(R_{wc} + 1) - 2\beta R_{wc} + R_{wc}^2 + \Delta P_{ct} + \delta D_{t-1} \\
C_{it} < C_{it}^*, & -2\beta R_{wc} + R_{wc}^2 + \Delta P_{ct} + \delta D_{t-1}
\end{cases}
\]

The utility function of the opposition

If the executive has two types (good versus discretionary implementers) and two actions (disclose versus not disclose any information on budget implementation), political challengers observe the signal and attempt to infer the government’s type. Since their goal in the end of the game is to evaluate the probability of implementation of the fiscal contract in the future and calibrate their policy expectations, they can either challenge the government’s narrative and ask for signal clarification, or accept whatever the executive decides to disseminate. At each decision node, they then calculate the payoffs associated with the action.
The opposition incurs various configurations of benefits \( f(\gamma) \) where \( \gamma \) is a parameter capturing the intrinsic value of the “true” information about the performance gaps of the executive on implementation. Simply put, \( \gamma \) captures the magnitude of the discrepancies between actual and planned revenue and expenditure in the end of the year. The higher this parameter is, the larger the ‘implementation gap’ is. \( 2\gamma \), obviously, introduces a higher gap and more uncertainty with respect to its root cause: low state capacity or discretionary implementation strategies.

The opposition also incurs costs inherent in asking the government to reveal credible information about budget enforcement. These costs are modeled here as a combination of opportunity costs of value of information \( \gamma \) and the baseline cost of collective action for challenging the government narrative \( \frac{1}{R_{wc}} \). Just like in Chapter I, when the size of the winning expands from closed autocracies to democracies, these basic costs of collective action decrease as civil liberties is tolerated and the use of systematic repression contained. Parameter \( \gamma \) adjusts these costs of collective action that vary with political regime types and constructs the interval boundaries. In the end of the game, opposition members will infer a full range of adjusted costs: \([-2\gamma; 2\gamma]\). The narrower this interval is, the more precise and higher the probability of accurate policy implementation \( (p_f) \) is in the future.

The stylized signaling game presented below generates the formal hypotheses of this chapter. The sequence of the moves is the following: nature chooses with probability \( p \); the executive has two possible types (good implementer and discretionary implementer of budgetary policies) and moves first by publishing/disclosing information (P) or not (N)
key documents on implementation (audits, executive reports, secret expenditure, extra-budgetary funds). The opposition follows by challenging (C) or not (N) the signal sent out by the government in order to clarify their policy expectations.
Figure 24: Signaling game on budgetary implementation played by the executive and the opposition
Proceeding to solve this signaling game, let us try to find first if any separating equilibria exist. In the only separating equilibrium, good implementers make audits and other implementation documents public, whereas discretionary executives choose not to publish them at all. The opposition does not challenge the signals. This equilibrium holds under two sets of conditions: \( \frac{1}{R_{wc}} \) and

\[
R_{wc} \in \left( \frac{1}{4} (5\beta - \sqrt{\beta(25\beta + 8)}), \frac{1}{4} (5\beta + \sqrt{\beta(25\beta + 8)}) \right) \text{ (2).}
\]

If condition 2 (that approximates a hybrid political regime in terms of the intermediary size of the winning coalition) does not hold, then the discretionary implementer has incentives to publish audits and mimic the good budget implementer. The finding is interesting also because of condition (1) which suggests that either the level of implementation discrepancies is low, or the cost of collective action is very high. This means that even in hybrid regimes (condition 2) have relatively high state capacity or high repressive potential (condition 1), it pays the discretionary executive to maintain ambiguity and not to disclose any information.

In addition, two pooling equilibria exist: first, if condition (1) holds (namely that the intrinsic value of information is exceeded by the cost of collective action), then in other regime types (autocracies and democracies), both good and discretionary implementers will publish their implemented results

\[
(R_{wc} < \frac{1}{4} (5\beta - \sqrt{\beta(25\beta + 8)})) \text{ and } R_{wc} > \frac{1}{4} (5\beta + \sqrt{\beta(25\beta + 8)}) \text{ (3).}
\]

Second, if \( \frac{1}{R_{wc}} > \frac{1}{R_{wc}} \), and condition 3 holds (which implies de facto that the political regime is either a democracy or a repressive autocracy), we obtain a second pooling equilibrium: both the good and discretionary implementers decide not to publish audits.
and executive yearend reports on budgetary implementation, and the opposition challenges them given that the intrinsic value of information (i.e. the gaps between published audits and concrete outcomes on the ground) is higher than the cost of collective action. This would be the case, for example, of executives publishing audits that depart dramatically from tax revenues or spending allocations perceived by the opposition. If the opposition benefited from this informational gap leaking to the international media and publicly shaming the regime, and if this benefit exceeded the cost of collective action, then the good implementers would also choose not to publish any information on budgetary implementation out of fear.

Note that the utility of sending a signal on implementation varies with individual policy $i$. It is thus possible that, given different capacities and political sensitivities posed by various fiscal policies, the benefits and costs of signaling competency on their piecemeal implementation may vary.

In other words, based on the results of this model, we would expect executive signals of competency to be contingent on regime type as follows: in hybrid political regimes, whose logic is based on incomplete fiscal contracts, “good” implementers will be likely to publish detailed audits, whereas discretionary implementers will not publish. In other regime types (repressive autocracies or democracies), based on publication signals, it becomes harder to tell apart good from discretionary implementers as one type will mimic the other in pooling equilibrium. If $\gamma < \frac{1}{R_{wc}}$ (the intrinsic value of the implementation information is lower than the cost of collective action, or simply put, the regime is either very repressive, or the information does not shed light on any severe deviations from the social contract), executives are likely to signal competency and be
transparent about enforcement. If, on the other hand, the cost of collective action is low enough for the opposition or the value of implementation information is higher, executives will fear publication of implemented social contracts.

The implications of the model suggest that hybrid regimes are significantly more vulnerable than other types. Even relatively good implementers would prefer a climate of uncertainty rather than either disclosing the ‘landmines’ that the opposition could avoid, or having their deliberate strategy of selective repression mistaken for lack of state capacity.

These equilibria derived from the signaling model lead us to propose the following theoretical propositions:

**Working hypotheses:**

*H 1: Executives in hybrid regimes are expected to promote policy ambiguity and not disclose information on budgetary implementation even when they could take political credit for competence.*

*H1a: Democracy (as the size of the key coalition of support) and the government’s transparency with respect to the implementation of the fiscal contract follow a U-shape curve.*

As argued, beyond deliberate strategies of obfuscation, state capacity to implement budgets is also an important factor for executives when deciding to signal competency on implementation, since it reveals credibility. If signals of competency fail
to match observable outcomes, then the incumbent reveals weaknesses rather than strength and complete contracts.

**H2: State capacity to implement specific policies will increase the scope of dissemination of incumbent signals on budget implementation.**

If capacity passes a certain threshold, then the competency signals will reach a wider audience, as they are more likely to reveal the executive’s type as good implementers. China disseminates detailed enacted and audited budgets, and their level of precision is only matched by the wide scope of public diffusion and accessibility of the reports. Regimes with low capacity, on the other hand refrain from wide signal dissemination, but do show the “rent receipts” to the few members of the winning coalition, reassuring them that the fiscal contract has been adequately fulfilled. For less developmentally oriented autocracies in particular, a high level of policy execution is not synonymous with “good” implementation for the wide majority of citizens, but it does entail a complete contract between the ruler and the narrow coalition of support. Failure to promptly and correctly deliver rents according to the informal (or formal) terms stipulated by such a contract may result in deposal and political replacement (see Chapter 2).

The Democratic Republic of Congo is an illustrative example of such strategy. In 2007, the only document produced and somewhat disseminated out of the eight key documents related to the yearly budget cycle is the *enacted* budget that details the actual revenue types and spending allocations for the previous fiscal year. This key blueprint of governmental accountability is posted on a website, thus superficially “fulfilling” the
requirement of dissemination. Needless to say, in a country where 80% of the population
does not have access to basic food and shelter, not to mention technological literacy, this
means close to nothing. Moreover, the information provided on the website (following
donors’ pressure) is extremely concise and fails to provide any crucial details on the
resources raised and allocated the previous year. This “public” version of the
implemented fiscal contract stands in stark contrast to the entire document presenting the
enacted budget and having a limited distribution.

Just to get a succinct picture of the large content discrepancy between the
executive budget proposal and the end-year enacted budget, it is enough to mention some
striking distribution data. In 2003 (a civil war year for the Democratic Republic of
Congo), there were only 13 national budget booklets available to researchers. Even in
2008, some years after the end of the civil war, despite the ever- present eyes of the
international donor community involved in post-conflict reconstruction, the executive
budget proposal was still produced for internal purposes only, and the number of copies
did not exceed the number of ministries plus MPs in the legislature. By comparison, the
enacted budget for 2007-2008 was much more detailed than the approved budget,
consisting of two volumes (for a total of around 800 pages). However, their
dissemination was very limited. According to DRC state officials, there were no more
than 200-300 copies available.\(^{37}\) This enacted budget, on the other hand, does not detail
many individual sources of revenue, for lack of capacity to do so, therefore relying
mostly on revenue estimates according to official interviews.\(^{38}\)

\(^{37}\) Idem, 86.
\(^{38}\) Interview with a government official of the Budget Preparation and Monitoring Head Office on
20/02/2008 and 21/03/2008 (International Budget Partnership. 2010. Report on the Democratic Republic of
Congo: 16).
Paradoxically, in spite of the extremely low level of budgetary transparency, certain information is more detailed than one would expect on average, especially given the baseline level of the capacity of the state to produce reliable and detailed statistical reports on budget. For example, despite the fact that the degree of off-budget expenditure is not observed by the general public, the coalition of political support for the executive often benefits from unexpectedly detailed and precise financial information as well as of studies highlighting distributional consequences of budgetary allocations. In 2007, the DRC Financial and Economic Commission published a report in conjunction with the adoption of a draft law on state budgetary regulations, and found that the 2005 percentage of off-budget expenditure (that circumvented completely any legislative process) reached 23.5% of the enacted budget. On a similar note, the report detailed a highly unequal distribution of resources among various ministries and agencies. In 2007, 80% of ministries received less than 10% of resources legally allocated to them, whereas 10-20% of state ministries and agencies benefited from approximately 1 billion USD allocations redirected from the remaining ones.  

As expected, audits are not systematic and the relatively low state capacity limits the already weak powers of the Cour des Comptes - the Supreme Audit Institution. The institution is severely deprived of resources. However, challenging a causation story over determined by state capacity, it is worth mentioning that in 2007, despite the common claim of low implementation capacity, only 7.7% of its allocated share of resources has

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been used. This reveals a more strategic story than the often-invoked narrative of low state capacity alone would want us to believe.\(^{40}\)

Interestingly enough, highly repressive autocracies that do not signal budget implementation because of low state capacity to do it credibly, resemble the logic of hybrid regime: the fiscal contract is fluid, co-opts and punishes members of the coalition of support.

In Saudi Arabia, the appointed *Majlis Ash-Shura* (the quasi-legislative institution) does not have budgetary powers, despite the fact that it can veto tax bills. As a matter of fact, recently, a majority of its members refused the proposed imposition of a planned income tax on foreign workers, due to the resistance of business circles who rely heavily on foreign labor. Because of the lack of signals that would communicate complete contracts, the attitude of *Majlis* members with respect to claiming powers to debate, pass or amend the yearly budget is quite mixed. There are some political pressures in this direction, although several *Majlis* members reportedly are reluctant to be involved in the contestation and management of state budgets, as they are afraid of becoming privy to corruption in the process. As previous chapters already alluded, self-refraining behavior is on the equilibrium path for opposition members in political regimes where the executive strategically constructs budgetary uncertainty.

Apart from regime type and state capacity, budgetary implementation has been associated with other variables of interest as well. Robust political competition is identified as a crucial factor for de-politicized bureaucracies, as incumbents fear alternation in power and political consequences resulting from failing to insulate the implementation function on budgets during their mandate (Geddes 1997, Grzymala Busse

\(^{40}\) *Idem*, 78
2008). Under conditions of high replacement probability, incumbent parties will be more likely to build independent central budget authorities and signal accurate implementation of tax and spending policies. If the opposition perceives the incumbents as failing to comply, they might suffer retaliatory measured when other parties come to power.

**H3: The more intense the competition between political parties is, the more likely incumbents are to produce and disseminate information on implementation of key tax and spending policies, independently of objective performance.**

Budget policy adjustments often follow fiscal turmoil. In the wake of debt crises, many developing countries had to follow recommendations of the international financial institutions, imposed fiscal rules and had to make commitments of long term repayment of foreign debt.

**H4: The higher the track record of public debt in the recent past, the more likely executives are to signal adequate budget implementation to a wider constituency.**

So far, the chapter argued that hybrid political regimes score least on transparency of budgetary implementation because the costs of disclosing records exceed the benefits of concealing budget implementation traps of selective repression. The following section will present a sample of stories that demonstrate how implementing tax and spending policies becomes key in the persecution of political opponents or the general pursuit of other political (as opposed to macroeconomic) goals by the executive. Despite
showcasing individual stories, most of the vignettes below feature large, if not the largest taxpayers in their countries. Co-opting or repressing them selectively, besides the mere demonstration effect this generates, as well as the semblance of legal legitimacy, have a large impact on the capacity of the state to raise revenues and allocate spending according to the initial budget plan. Such public accusations of tax evasions and embezzlement of public funds against political actors are common stories.

*Shaping the fluid social contract: stories of selective exit and punishment in hybrid regimes*

On the night of July 27, 1992, Samuel Dyer Ampudia, one of the leading Peruvian businessmen, distinguished member of the Chamber of Commerce and of the Association of Citizens against Drug Trafficking and Consumption, was arrested at the Lima airport. The police received a direct order from Vladimir Montesinos Torres, the influential and feared head of the Secret Police and the right hand of Alberto Fujimori – then the Peruvian president. After a complicated arrest saga, he was illegally taken to the headquarters of SIE – the security service. Following the publicity surrounding his arrest, he received a notice on the three accusations against him: tax evasion, drug trafficking and terrorism (implying financial ties to *Sendero Luminoso*). Coincidentally enough, the very same year, SUNAT, the Peruvian national tax office, started a national campaign for raising tax consciousness among citizens. This time, SUNAT directly accused Dyer of evading import taxes on steel products during the previous five years. In response, the defendant’s stance emphasized that his company’s imports qualified as tax exempt under

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41 *La Supeintendencia Nacional de Administración Tributaria (SUNAT)*
the tax exoneration program adopted by the government. It is very likely that, as one of business leaders of his community, and member of the Chamber of Commerce, Dyer was instrumental in obtaining these very tax exonerations in the first place. Years later, Dyer Ampudia’s case was resolved in his favor. The judge appointed for the trial confessed that he had initiated the case after a direct phone call from Luis Serpa Segura, the head of the Supreme Court. In 2008, during the Fujimori trial, several witnesses also testified that the order to arrest the businessman came from the president himself via Montesinos. Asked about the accusations brought against the businessman, Fujimori only referred to the tax evasion charges, and placed them in the context of SUNAT’s national campaign meant to increase tax morale. In 2009, Fujimori was found guilty for ordering the kidnapping and arrest of Samuel Dyer among other crimes and abuses of power during his presidential mandate.

In Putin’s Russia, the most common accusation against major media tycoons and businessmen with political ambition often (if not always) took the shape of tax evasion and fraud. Among the Russian oligarchs, no case illustrates better the struggle between economic elites and the highest echelons of the state than the prosecution and trial of Mikhail Khodorkovsky. In 2003, the wealthiest man of Russia expanded his philanthropic activities towards political horizons and broke the tacit “incomplete” contract governing the relationship between business and politics in hybrid regimes: as long as leaders of key business interests stay apolitical, they can take advantage of the

loose implementation of the rule of law. Breaking this tacit contract, Khodorkovsky started to fund political campaigns run by various opposition parties aspiring to hold State Duma seats in the upcoming legislative election. His fund recipients included the Communist Party of Russia and Yabloko among other anti-Kremlin parties. The pre-election rumors also pointed at a possible coalition between otherwise unlikely allies with the purpose of gaining two thirds of the Duma vote. Indeed, in October 2003, various parties funded by Khodorkovsky won around 80 seats altogether in the elections. This was also the moment when the businessman was arrested on accusations of tax evasions and fraud. The authorities claimed that the tax irregularities registered by some of his companies cost the Russian state a large loss in revenues (billions of dollars) with a significant impact on the state budget, and the court gave him a prison sentence that has just been renewed in the end of 2010.

This is not a singular case in the context of Russian struggles between political and economic centers of power. It has rather become the norm, including cases involving foreign businesses. Recently, in the end of 2009, the death of Sergei Magnitsky, a tax lawyer working for William Browder, the CEO of Hermitage Fund and the largest foreign investor in Russia, initiated a national debate around prison conditions and state abuse. Again, the charges brought against both the businessman and his attorney included accusations of tax fraud. The case is even more intriguing given the fact that Browder has always been a vocal supporter of the former president Putin. Magnitsky, however, filed complaints against the police and tax inspectors who abusively investigated the case. The Tax Inspectorate, a branch of the Ministry of Interior of Russia, has a track record of
coercively and selectively enforcing tax laws in cases of businessmen challenging political authority – be it the presidency or the powerful law enforcement apparatus.

In Ben Ali’s Tunisia, one of the most repressive political regimes in Middle East and North Africa, the Social Security Office (Caisse Nationale de la Securite Sociale - CNSS) and the VAT tax authority used to be considered the only truly autonomous and efficient units of state bureaucracy. Unlike other administrative units, CNSS was allowed to bypass the justice system in order to enforce its strong decisions against employers who failed to contribute.43

“Good” or prompt implementation signals of social security collections are illustrative of the logic of repressive autocracies with high state capacity exposed previously: given concrete results in terms of collections and allocation of social security contributions and a relatively high bureaucratic capacity in general, Ben Ali signaled to his constituency of political support that he (and his central political organization, RCD) can competently and credibly enforce a part of the social contract. There is no better example of this strategy than the notorious Fund for National Solidarity (Fond de Solidarité Nationale (FSN)), also known publicly as 26.26 (nicknamed after the postal code for delivery). This fund operated for many years as the de facto instrument of social redistribution in Tunisia, its main mission being “the eradication of shadow areas of the economy and poverty.” The more tacit political goal of the Fund was to prevent Islamist organizations from co-opting and eventually mobilizing the poor against the regime. In that sense, 26.26 formalized simultaneously a social and security pact (Hibou 2006).

43 According to Hibou (2006), most economic actors in Tunisia consider social security contributions to CNSS a de facto fiscal tool, given the important level of contributions compared to a very low level of redeemable benefits (footnote 3, 164).
Despite its voluntary nature, the shadow of state coercion rendered continuous donations to this Fund obligatory: every firm had to pay 2 DT (Dirhams Tunisiens) per employee every month; in addition, it was expected that individual and business donations would increase significantly on special holidays (November 7, December 8), and before elections. If the payee had the capacity to do so, his donation could be in kind (for example, building a part of a road or providing some fraction of a public good). 26.26 was initially established in 1994 as an extra-budgetary fund, but a significant part of the yearly state budget was dedicated to it. The official estimates of receipts between 1994 and 2000, highly publicized, are around 15 million DT.\textsuperscript{44} The change in the attitude of the administration from this period to the following decade is particularly telling for the theoretical argument of this chapter. Before 2000, all the individual and business donations were published in national newspapers as a method of payment pressure. Moreover, signaling competency in revenue collection and allocation was not just the strategy employed by the administration, but also by taxpayers. Most businesses used to display framed pictures of receipts of payment to the 26.26 Fund next to Ben Ali’s picture, as a signal of fulfilling their obligations, thus preempting police harassment and buying some political goodwill. After 2000, as estimations of actual receipts of payments went down, detailed publication stopped completely (Hibou 2006: 238). Signaling effective budget implementation is on the equilibrium path as long as it credibly projects capacity and willingness to control and enact the mandated social contract.

With respect to tax policies in general, however, Tunisian survey respondents repeatedly and unanimously evaluated tax policy as the most visible and powerful

\textsuperscript{44} Economists challenged these estimates, and argued that the collected funds amounted to around 40 million, out of which 38 were « donated » by the largest Tunisian businesses alone (\textit{Le Monde}, October 22, 1999). The reporting gap, some argued, was used for clientelistic purposes.
economic instrument used by the executive for political control. In fact, taxation tended
to be perceived to a lesser extent as an economic tool because of “the absence of any
coherence among fiscal amendments and modifications, (…) contradictions and
incompatible policy instruments “ (Hibou 2006, 163). As a tool of persecution of political
opponents, however, it excelled. Members of LTDH (Ligue Tunisienne des Droits
Humains), the most active human rights organization with a strong record of condemning
abuses of the Ben Ali regime, became targets of state control and punishment via
personal (or family) fiscal files.

For example, one member suffered political retaliation on grounds of alleged
charges of failure to pay social security contributions on behalf of his brother. One of the
most famous Tunisian cases of punished dissent featured Judge Yahyaoui. On July 6,
2001, Yahyaoui wrote a letter to the Palace condemning the lack of separation of powers
between the judiciary, the executive and the legislative. Reversing the mechanism
described in the previous vignettes, this political position was a direct result of a fiscal
case involving taxes assessed on a land property belonging to the judge. Yahyaoui’s
dissatisfaction with the court verdict prompted him to directly confront President Ben
Ali. This open conflict had immediate consequences: first, the judge was never able to
recover his property. Second, his lawyer, Abderrazak Kilani, also founder of the Tunisian
Center for the Independence of the Judiciary, lost all public and private clients. In
addition, the Ministry of Finance asked tax authorities for his personal fiscal records
(Hibou 2006, 145).

Even broader than fiscal policies, one of the major techniques of repression
during Ben Ali’s regime was built on the bank system allowing and encouraging
uncollected debts. The relationship between bank and borrower was continuously personalized and intermediated by the political standing of the borrower. If apolitical, businesses were allowed not to repay large loans. If politically vocal, on the other hand, enforcement and debt collection was promptly and publicly initiated.

Fiscal implementation gained prominence as the key tool in the political economic toolkit of repressive technologies to the point that authorities had grounds to deny that there is a political police in Tunisia. Instead, administrative departments (with fiscal agencies in the forefront) worked as the de facto political police. According to observers, “the police force became banal because of the preponderance of administrative services that exercise its functions” (Hibou 2006, 88).

In addition to budget signals, in hybrid regimes, one of the most common techniques of signaling such precision to control and project capacity, while keeping the space for discretionary implementation, is strategically leaked information. In the early 2000s, a highly publicized list of the 107 most indebted personalities of the business circles “leaked” from a computer of the Central Bank of Tunisia. At a time when the head of the Central Bank was M. Daouas, Ben Ali’s nephew, and when the regulatory measures against these businesses were never enforced, the list served strategically to project precision of control and warn potential trespassers. Similar techniques have been used in Russia.45

Ukraine under former president Leonid Kuchma provides perhaps the most compelling example of selective fiscal repression targeted at political opponents in

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45 “Surtout, elle materialise l’exercice d’un pouvoir disciplinaire qui entend montrer que le pouvoir sait, connait et pourrait, le cas echeant, agir (...) (G. Favarel-Garrigues, Hibou 2006: 81).
autocratic regimes. Unlike the other narratives for which the evidence was gathered mostly from the victim’s accounts and always vehemently denied by authorities, secret tapes recording Kuchma’s direct orders to tax officials render the mechanism of causation transparent (Darden 2001). More

Moreover, as already suggested in the theoretical section, a theory of selective fiscal enforcement could be accused of failure to distinguish between state capacity and political willingness to pursue “disciplinary” audits on political dissenters. The Kuchma tapes clearly illustrate this theoretical distinction and point at tax policy implementation as a deliberate key tool of societal control. The Ukrainian president kept and consolidated his power by using three main state institutions as arms of control and punishment: the Tax Inspectorate, the Ministry of Interior and the SBU (State Security Service). Given that the biggest threat to his rule came from a circle of local and national elites that gradually developed in the post-communist Ukrainian context, Kuchma devised a complicated “anticipatory blackmail” system. Detailed information on tax evasion or other type of fraud was gathered on most potential contenders to power. Instead of further pursuing them in court, however, the dormant files were kept “just in case.” If these elites ever had political ambitions, their files would be immediately reactivated and criminal prosecution would ensue. Pavlo Lazarenko, former Prime Minister and head of the gas distribution company, and Yuliya Tymoshenko, subsequent Prime Minister, were both targets of state punishment when they openly attempted to gather political support against Kuchma.

The Melnychenko recordings, in addition to revealing the mechanism of causation, also have the advantage of probing the societal depth of administrative

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46 Evidence discussed here is based on the Melnychenko recordings. For more information, see Darden (2001).
47 Sluzhba Bezpeki Ukraini (SBU)
blackmail. The tax evasion threats systematically extended from the very top of the winning coalition to middle-level elites, including the heads of collective farms in Ukraine’s rural areas most likely to give political support to communist candidates. In a famous excerpt from a conversation between Kuchma and the head of the security service, the president gave explicit orders to tax inspectors to deliver votes by using “dormant tax files” against collective farm managers:

Kuchma (to Derkach)\(^48\):

The militia will have to work seriously . . . It's necessary for a tax worker to go to every collective-farm head in every village and say: Dear friend, you understand clearly how much material we have on you so that you could find yourself in jail tomorrow . . . And there is probably more than enough material on every collective-farm head. Yes or no? Probably yes. That's why the militia, . . . that is, the services . . . they all have to, that is, take to [the task] and have a serious talk with every collective farm head.\(^49\)

Kuchma also wanted a clean-cut electoral win with high margins of victory, and the strategy of gathering votes finally paid off. He won the 1999 election.

From the analyst’s point of view, this case has the unprecedented advantage of overwhelming evidence that separates the issue of state capacity from that of executive willingness to enforce the law. When reviewing the transcripts of the Melynchenko

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\(^48\) Leonid Derkach was the head of the SBU at the time.

recordings, it becomes clear that the Ukrainian state was quite strong on the extractive/despotic side. The tax controllers and police penetrated society and extracted systematic and detailed information on elites at many levels. Implementation, however, was selective, triggered by (anticipated) political disobedience vis-à-vis the Kuchma regime. In this informal and incomplete social contract between the president and the political economic elites, voice was exchanged for exit and neglect on the taxation dimension. This transaction occurred under the permanent shadow of punishment triggered by perceived political threats by the executive.

From individuals to groups: stories of fiscal engineering in fluid social contracts

In hybrid regimes, implementation of fiscal policies is both a powerful political weapon and an effective tool. As a weapon, as argued here, it is used to punish or deter political claims. As a political tool, it has been employed historically to reshape social contracts, forge national or ethnic identities, or simply build lasting social cleavages. The stories above feature mostly individuals. The following vignette narrates the puzzling case of two major episodes of modern fiscal history in Turkey. These cases also shift focus from individuals to social classes or ethnic groups targeted through fluid fiscal contracts.

In the longue durée, the “fiscal state”, as the Ottoman Empire was often called, built a relatively high, albeit decentralized, capacity to extract revenue. This state strength inherited from the imperial age has also generated possibilities for selective implementation under the various political regime types Republican Turkey experienced. Historically, Turkish fiscal policies have been a major tool of minority politics, social
engineering, and redistribution along ethnic lines. During the empire, Christian and Jewish communities, under the protection of European capitulations, were not conscripted. In exchange, they paid a head tax (djizie) to the imperial coffers (Barkey 2008). In the beginning of the Republic, the newly acquired independence coupled with a strong nationalistic ethos marked a paradigm transition in fiscal politics. Compared to the “tax in exchange of tolerance” as the pragmatic pre-republican principle, “tax as a tool for building Turkishness” became the status quo.

The Wealth Tax (Varlık Vergisi) instituted in 1942 as a consequence of the WWII crisis stands out as one of the most famous attempt of forging “Turkishness” at the expense of national minorities (Greeks, Armenians and Jews) (Ahtar 2000, Ökte 1951, Zürcher 2005, 208). Accusing non-Muslim war speculators of causing hyperinflation and rapid economic deterioration, the media first constructed the nationalistic discourse and created momentum for political action targeting minorities. Prime Minister Saracoğlu and President İnönü set the agenda of the debate, and the Turkish Parliament (TBMM) followed, passing the Wealth Tax Law on November 11, 1942 (Varlık Vergisi Kanunu, 4305/1942) in a record time. If the parliamentary debates and the media captured the

50 Until 1960, in Turkey, taxation was not employed as an economic instrument of allocation of resources (with the possible exception of few decisions taken at the Izmir Economic Congress in 1923, or the Promotion of Industry Act of 1929). Economically, the tax system was meant to primarily satisfy revenue needs through taxes that were easy to administer and use in funding public services (Görgün 1972).

51 The following excerpt from the Prime Minister’s speech to the Parliament illustrates the use of tax as a Turkishness building tool: "(...) in order for the Turkish money to re-appreciate, wiping out of the enemies of the people, willing or not in order to pay the taxes, this will bring a decrease in the prices of the goods that they sell together with the profit derived from non-payment " (Ahtar 2000, 148) [the author’s translation].

Two days before the vote on the bill, in a meeting with the press, Prime Minister Saracoğlu frames the law draft to the National Republican Party (CHP) group, as follows:

"In the same time, this law is revolutionary. We are in front of an opportunity that will bring us economic independence. The foreigners that are dominating our market getting out of here, we will give the Turkish market to the hands of the Turks (Barutcu, 1977: 263, Ahtar 2000, 148) [the author’s translation].

194
national zeitgeist, the implementation of the law was completely decentralized. It took three months for the local committees in charge of assessing property to issue detailed lists of taxpayers targeted by the law. Since the setting of tax rate was left at the discretion of local authorities, most of the targets were assessed taxes exceeding their total wealth. As a result, 87% non-Muslims (out the total target group) became debtors. Most of them lived in Istanbul at the time (54%). The imposed deadline was fifteen days and failure to pay the due taxes resulted in deportation to the labor camps of Erzurum, Askale and Sivrihisar (Ahtar 2000, Zurcher 2005).

Besides the de facto elimination of non-Muslims from key positions of the Turkish economy (Türkleştirme politikaları), the consequences of this short-lived law (abolished in 1944 under international pressure) were profound and long lasting. The event marked a major episode of economic redistribution from “foreign” to domestic capital, and the beginnings of a Turkish bourgeoisie. Archival evidence (Tapu Sicil Müdürlikleri) indicates that 67.1% of all purchases of property sold by the debtors went to Turkish Muslims, 15.3% to insurance companies and banks, and 14.7% to the municipality (Ahtar 2000).

From a theoretical point of view, this major episode converted fiscal (tax) policy implementation in an effective political tool for forging “Turkishness” and redistributing wealth to a burgeoning national bourgeoisie. In a sense, even if the law was promoted by media, passed by parliament, mandated by the executive, and reflected the national

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52 The major classes paying in Istanbul are: traders and guilds (39%), independent entrepreneurs (25%) and liberal experts (workers, civil servants - 18%). The tally of minorities affected by the Wealth Tax Law was: 39% Jews, 29% Armenians, 12% Greeks (Ahtar 2000, 221).
zeitgeist in 1942, it has never framed the action in the language of property rights (the legal text did not even set the tax rate).

On the contrary, historical witnesses argued that the political establishment at the time was particularly careful during the process of designing the law, so that the act would appear as a long due finance regulation, somewhat neutral to ethnic minorities. Here is an illustration of this behavior. Anticipating the unbalanced effects of the new regulatory measure on non-Muslims, a group of non-Muslim businessmen traveled to Ankara to meet the Prime Minister. The dialogue between Prime Minister Saracoğlu and this lobbying delegation proceeded as follows:

The minority (azınlık) organizations: "Sir, how much tax are you thinking of collecting? [...] do you want to collect 300 million, if not, do you want to collect 200 million? Leave this to us, we collect this [amount] and give it to our republic!"

Prime Minister Saracoğlu: "How are we to accept this proposal? We are a modern state!"53

In 1992, one of the politicians closed to the Prime Minister at the time, retired ambassador Fuat Bayramoğlu stated in an interview that if the Prime Minister had accepted this proposal, then he would have implicitly acknowledged the fact that the tax was specifically targeting ethnic minorities (Ahtar 2000: 146).

At the top echelon of the political establishment, the episode was not treated as an act of explicit expropriation, and the decentralized implementation committees at the level of the localities, composed of local government officials, local councils and chambers of commerce, were the actual deciders of both tax rates and individual targets. It is precisely the implementation stage that aligned seemingly macroeconomic goals

53 The excerpt comes from Faik Ökte 1951: 144-145, author’s translation.
spelled out in the legal text with nationalist political goals of disenfranchising ethnic minorities.

The subsequent major tax and land reform in Turkey occurred twenty years later, during the first republican military coup (1960-61). Perhaps this episode illustrates best the strategic combination of relatively open political contestation on taxation issues with selective policy implementation in hybrid political regimes. As the new executive and quasi-legislative authority established by the left leaning military junta, the National Union Committee (NUC) promised to initiate reforms that would have been impossible for vote-seeking politicians.

Taxation ranked high on the agenda of priorities, and the path of tax policy overhaul started in January 1961 with a controversial declaration of wealth to be obligatorily filled in by all citizens. The first list of wealth declarations was published in the newspaper Vatan (January 8, 1961). The collective memory of the previous episode of wealth taxation (the 1942 Wealth Tax) sent a panic wave among urban constituencies. Public statements of municipal officials could not do much to appease fears that this collection of detailed information on individual wealth will bring a global wealth levy. From taxpayers’ standpoint, the eyes of the state were gaining acuity to become a Panopticon.

Tax reform, in the NUC vision, entailed two fronts: the inclusion of agricultural income on the list of taxable revenues, and the shift of tax burden from the poor to the wealthy in the case of land and building taxation. The first measure tapped into a previously impossible terrain. After all, in a country with 75% rural population, Ataturk

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54 The Istanbul Municipal Treasurer Metin Kızılkaya stated that the declarations were not collected with the purpose of a wealth tax assessment. They were rather used, according to his statement, to allow an objective determination of income taxes (Cumhuriyet, January 17, 196, cited in Weiker 1963, 150).
himself abolished all the heavy levies and taxes on agricultural yield (asar) imposed by the Ottoman state (Görgün 1972, Weiker 1943). The second issue on the tax reform agenda was politically popular given that low-income groups thus far paid 66% of all taxes collected in Turkey, according to the Finance Minister Kurdas (Weiker 1963).

The NUC’s radical redistributive ambitions coupled with the novelty of the left-right issue at the forefront of Turkish politics rendered tax reform the central debate of the regime (Kili 1971, Özbudun and Ulusan 1980, Weiker 1963). Unlike the 1942 Wealth Tax, this time the legal details included precise guidelines for administrative implementation. Turkey was fiscally organized into three large zones containing smaller districts based on political subdivisions. The NUC tax bill draft proposed increasing land taxes six times in 145 districts, eight times in 81, and ten times in all others (Weiker 1963). The proposed rates of building tax increases were two, four, respectively five times (Cumhuriyet, April 2, 1961, January 10, 1961). NUC left enough policy maneuver space to the more conservative Constituent Assembly with which it shared legislative powers, and the tax policy details became the primary domain of contention between the two institutions.55 In the end of the debate, the equilibrium tax rates cut in half the initial NUC proposal.

The most dramatic measure of the 1960 military coup on the redistributive dimension went beyond tax reform and resided in the land expropriation and exile of fifty-five large Anatolian agricultural landowners (ağalar). Resorting to expropriation, NUC claimed to fulfill Atatürk’s never realized dream of breaking the Turkish “feudal

55 “Tax revision became probably the chief subject of bargaining between the NUC and the Constituent Assembly, with each side winning some points” (Weiker 1963, 152).
order.” The confiscated lands were to be distributed to individual peasants, and the landowners themselves had to negotiate the terms of their own exile in Western Anatolia.

The radical tone of this reform would suggest the junta’s credible commitment to redistribute wealth for the first time in Turkey. Nevertheless, again, because of incomplete social contracts, implementation rather than policy design turned out to be crucial. Despite the radical tone of the reform and the broad politicization of the issue, tax and land law implementation was highly selective. First, a relatively small part of the estates was actually redistributed. Second, the fifty-five landowners were mostly Kurdish notables with significant influence over an ethnic group identified by the 1960 military as a burgeoning dissenter against the Turkish state. Third, the democratic coalition government succeeding the junta reinstated the property rights of the landowners. Because of weak implementation, some analysts argue that most likely, the peasants did not even take the NUC land reforms seriously (Hale 1994, 130-131).

Most of the vignettes above focus on selectively implemented fiscal policies in hybrid regimes. In addition, it is also useful to consider the strategies of the executive with respect to the informal economy, as the domain of systematic lack of implementation of budgetary policies for a large social group. In certain contexts, Middle East and North Africa being a prominent example, the observer is struck by the large scope of the informal economy and of uncollected tax revenue. Can this phenomenon be fully explained by economic theories regarding the root causes of informality (such as high income and VAT taxes, large social security contributions or overburdening regulatory measures)?
Some students of non-democratic regimes see the “quiet encroachment of the poor” in the formal sectors as a new alternative form of popular mobilization and resistance to ineffective governments (Bayat 1997, 2000). Others interpret the political economic logic of *laisser faire* to be part of a broader deliberate strategy of allowing and tolerating *exit* whenever the state cannot commit to provide employment or public goods to a large segment of the population (Hibou 2006, Catusse 2008).

For example, when asked about their policy stances on the informal economy, all interviewed Moroccan political party representatives converged on the fact that it is a necessary presence given that the state lacks the capacity to provide jobs. Trying to reduce it by enforcing tax collection and business registration would pose high economic and political risks that the government simply cannot assume. The last chapter will discuss in greater detail this political economic dynamic.

In addition of playing the political economic role of a valve that arbitrates between strategies of exit and voice, clear executive signals about the size of the informal economy, tax evasion, fraud, etc. in hybrid regimes fulfill other goals as well. First, they help legitimize the discretionary political interference of the state and discredit the business community (some of the highest taxpayers); this assures that the fluid contract between business and political elites is safeguarded. Second, as previously alluded in this chapter, clear signals create and project the illusion that the state knows exactly who the targets are (since it makes the estimations public in the first place) and, contingent about their compliance with the political economic pact, it can discretionarily enforce the law. Similar dynamics have been identified in many hybrid regimes (Morocco, Tunisia), but

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56 Morocco, March 2009, Personal interviews.
57 Clear executive signals refer to public statements containing estimates of the size of the informal economy, tax evasion, economic fraud, etc.
also in some advanced democracies characterized by clientelistic linkages between politicians and voters (Greece and Portugal) (Hibou 1996, 2005, 2006, Heydemann 2004).

The episodes that successfully sparked the recent revolution in Tunisia demonstrate most persuasively the importance of fluid social contracts in non-democracies. In the small Tunisian rural town of Sidi Bouzid, on December 16, 2010, Mohamed Bouazizi, a street vendor making a living and supporting his family by selling produce, was yet again (after many other episodes) harassed by the local police and municipal employees, and his wares ended up being confiscated. When he attempted to approach the governor in order to make a formal complaint, he was not granted the appointment. In an economy that denied him any other alternative for survival, Bouazizi burnt himself in protest against the state. This episode catalyzed waves of protest that finally led to the toppling of Ben Ali’s regime. Interestingly enough, Bouazizi was not a singular case of a dissenter from the informal economy. After facing similar bureaucratic challenges, previously, several street vendors set themselves ablaze (Abdesslem Trimech in the city of Monastir, on March 3, 2010, among others).

Although not directly related to budgetary implementation signaling, these episodes illustrate the potential consequences for non-democratic leaders of trespassing fluid social contracts. Enforcing policies for which there were social expectations of lack of enforcement (the very essence of incomplete contracts) triggered the activation of political voice and finally led to regime change.
4.5 Cross-national empirical findings

How can one test systematically the effect of our variables of interest on the propensity of governments to disclose to the opposition and the general public how they implemented tax and spending policies? Existing databases rarely contain any convincing measures that capture implementation gaps, let alone strategic signals of implementation commitments that executives send out to their political constituencies. Fortuitously, the Open Budget Initiative survey (2008, 2010) introduced in Chapter 3, gives the analyst a set of comprehensive tools to study budget signals.

Unlike previous work on the slippage between policy and outcomes that attempted to gauge empirically the actual gap levels, the OBI survey dedicates an entire section of direct questions to issues related to governments’ competency to adequately execute yearly budgets. The 2008 survey wave records responses filled in by civil society organizations specialized in fiscal policies and budgets for every participating country. The responses were then vetted by two anonymous peer reviewers in charge of correcting the bias and anchor problems unavoidable in this type of research. The 2010 survey introduces a methodological innovation and asks governments (mostly Ministries of Finance or Central Budget Authorities) to agree, disagree, provide comments, etc., to the civil society responses. The last section of this chapter looks into interesting findings emerging from the “politics” of data construction.

The cross-national tests featured in this chapter selected four sets of composite indicators with a wide conceptual coverage, meant to capture strategic signaling on different aspects of budget implementation (responses usually vary from 0 to 100, higher values representing clearer signals):
Table 12: Sets of dependent variables capturing government signals of commitment to budget implementation

<table>
<thead>
<tr>
<th>Indicator</th>
<th>OBI 2008 survey questions and method of aggregation</th>
<th>Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit reports</td>
<td>(question120+question121+question122)/3</td>
<td>Official implementation reports presented to legislatures, executive’s commitments to address implementation gaps</td>
</tr>
<tr>
<td>Executive’s year-end reports</td>
<td>(question101+…+question110)/10</td>
<td>Scope of audits, gaps between actual outcomes and budget levels for revenues and expenditures, performance indicators</td>
</tr>
<tr>
<td>reports on budgetary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>implementation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extra-budgetary funds</td>
<td>(question110+question115)/2</td>
<td>Executive reports and official audit reports on extra-budgetary funds – scope, coverage, details</td>
</tr>
<tr>
<td>implementation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secret expenditure</td>
<td>(question47+question79+question118+question123)/4</td>
<td>Percentage of expenditure allocated to national security and military intelligence, public hearings over this section of the budget, procedures of audit of secret expenditure followed by Supreme Audit Institutions and presented to legislatures</td>
</tr>
</tbody>
</table>
The findings discussed here emerged from statistical tests of Hypotheses 1 to 4 derived in the previous section. For empirical analysis, because the dependent variables across all models vary between 0 and 100, I compare OLS and Tobit results, since the latter technique has been widely used to deal with censored normal regressions of constrained variables. There are no significant differences between the two families of models, giving us confidence in the robustness of findings.

4.7 Tables and Figures (Tables 13-16) summarize the statistical analyses on the implementation indicators.

All sets of findings confirm H1 and H1A. There appears to be a U-shape curve linking our indicator of democracy,\textsuperscript{58} with autocracies and consolidated democracies ranking high on implementation signals. In line with theoretical expectations, hybrid regimes overall score lowest. Moreover, when comparing the marginal effects of various subtypes of authoritarian regimes on our indicators of budget implementation (military, one party, limited multiparty competition and monarchies), limited multiparty competition regimes score consistently low on implementation, closely followed by military rule and monarchies only on the Year-end report dimension.\textsuperscript{59} This implies that it is precisely the presence of the opposition in hybrid legislatures, no matter how feeble or credible it is, that leads executives to preserve full power on discretionary implementation. By contrast, one party regimes do not seem to be interested in keeping tight control over discretionary coffers of tax and spending policy tools. Quite the


\textsuperscript{59} The indicator of limited multiparty competition constructed by Hadenius and Teorell refers to “regimes that hold parliamentary or presidential elections in which (at least some) candidates are able to participate who are independent of the ruling regime. This classification holds even when opposition parties refrain voluntarily from taking part in elections (…) (Authoritarian Regime Dataset, Codebook, Version 2.0, 2007, 6).”
contrary, in the case of audit availability and executive commitments to autocratic legislatures, one party regimes are likely to do better overall than the other categories in terms of budget auditing signals. The positive coefficient attains statistical significance in univariate regression and is closed to it in the multivariate analysis (25.14). On the remaining dependent variables (*Extrabudgetary Funds, Secret Expenditure* and *Year-end reports*), one party regimes are not less likely than democracies to send accurate implementation signals and reveal information.

As in the case of general fiscal transparency, disclosure of implementation records is significantly and strongly affected by the degree of political competition measured as the percentage of the largest party’s seats in the legislature, excluding one party regimes. Thus, a negative effect suggests that the higher and more robust the level of party competition in multiparty systems is, the more likely a Pareto-superior implementation outcome is (H3). The finding is compatible with previous literature on fiscal transparency (Alt, Lassen and Rose 2006, Hanssen 2004), and it has been echoed in related study that regard bureaucratic or judiciary independence as the product of uncertainty of rule and fear of retaliation in future election rounds (Geddes 1999, Grzymala-Busse 2008).

Beyond political regimes, state capacity (measured here as GDP per capita) also significantly increases budgetary implementation levels (H2), whereas a track record of high public debt over the previous five years seems to have conduced to political drives for stricter clean budget auditing but not on the other dimensions (*Extrabudgetary Funds* or *Year-end Reports*) (H4). Surprisingly, in the sample of countries for which data on debt was available, a high level of public debt over the last five years correlates negatively with openness on secret expenditure on national security and military
intelligence. Although the sample, in its current size, is too small to draw robust conclusions, it is interesting that the effect of debt crises on the propensity of governments to send strong budget implementation signals is mixed.

So far, the empirical test established some of the factors that are associated with the propensity of governments to signal the fulfillment of fiscal contracts. But the mystery still remains: are these signals corresponding to the “true” state of the world, or not? In other words, is there a similar U-shaped curve correlating “real” implementation variables with the political regime type? Given that reliable budgetary implementation data are impossible to find for cross-national analysis, this section uses the estimated size of the informal economy as the dependent variable. Unlike self-estimation, these data are the product of a creative method of computation of the “real” informal economy that assumes first that the elasticity of electricity consumption to GDP is one. Second, the database interprets gaps between these two measures as the size of the informal economy, after making appropriate adjustments and recalibration (Kauffman and Kaliberda 1996).

Given that these tests would make the object of another study, I simply replicate a famous paper on the determinants of informal economy across 69 countries (Friedman, Johnson, Kaufmann and Zoido-Lobaton 2000), and add Polity 4 democracy scores. If indeed, executives send “true” signals, we should be able to observe a higher size of real non-implementation (i.e. higher share of informal economy) in hybrid political regimes.

Table 21 shows the results of the replication. We obtain similar results as the authors of the initial study. The major determinants of the size of the informal economy are development, regulatory burden and corruption even when controlling for taxation rate across countries (Harris and Tadaro 1970, Friedman, Johnson, Kaufmann and Zoido-
Lobaton 2000). When we add our indicator of democracy (Polity 4), we obtain the inverted U-shaped curve as the squared coefficient has a negative sign: indeed, in these samples of countries (69) for this particular time period (1997), hybrid regimes seem to have a higher “objective” share of informal economy than other political regime types. Although not a direct test, these findings offer an additional clue that the implementation signals sent by executives reflect “true” states of the world on the implementation dimension.

4.5.1A note on the “politics” of data construction and respondents’ disagreement

The research note on OBI-OECD data compatibility presented in the previous chapter shows response divergence between civil society organizations and governments across two sets of surveys (Open Budget Initiative Survey 2008 and OECD Budget Practices and Procedures Survey). Despite response bias reconciliation, gaps between the two survey instruments persist, as they are formulated with different research goals in mind. Recognizing this design shortcoming, the most recent wave of the Open Budget Survey (2010) follows a slightly different methodology. First, the answers to the 123 questions are filled in by a civil society organization with expertise in budgetary transparency issues. Second, government representatives (usually from Ministries of Finance) had the option to agree, disagree, make comments, offer additional sources etc. to this initial response. In the end of this iterative process, two anonymous reviewers, arbitrating between opinions, took a decision that became the official judgment of the survey.
The availability of such data comparing independent assessments of both government and civil society on identical survey questions gives us a rare opportunity to explore some of the systematic factors that might lead to divergence in perceptions. To this purpose, I constructed a series of nine variables that code the total percentage of response disagreement between civil society respondents and government members for nine thematic sections of the questionnaire: 1) Executive budget proposal; 2) Legislative budget contestation; 3) Enacted budget; 4) Audit; 5) Expenditure transparency; 6) Revenue transparency; 7) Expenditure implementation; 8) Revenue implementation; and 9) General budget implementation.

Then, seeking to test the scope of strategically generated information asymmetries, in line with the general theoretical argument of this dissertation, I computed t test difference of means and Anova tests to examine empirically if political regime type and/or the general level of state capacity/development induce statistically significant biases in survey responses. For t tests of differences of means between group 0 and group 1 (say non-democracies –1 versus democracies -0), a positive sign of the coefficient means that the rate of disagreement is higher in group 0.

Tables 17, 18, 19 and 20 in 4.7 Tables and Figures present the findings for a sample of 43 countries for which government representatives expressed their opinions on the initial assessment of the civil society organization that served as the leading country respondent. Several interesting conclusions emerge. Across regime types, the only statistically significant differences of means occur on the implementation dimension and not on budget transparency or contestability. For all three variables that capture the enacted budget, audit assessment and general budget implementation, governments and
civil society respondents in non-democratic regimes have a much higher response
disagreement rate than in democracies. Additionally, between the two sides of the budget,
disagreements reached a significant magnitude only on the expenditure side but not on
the revenue side. The box plots below illustrate graphically the distribution and median
differences between the two groups (Democracies – group 1, and Autocracies – group 0).
As we would expect systematic response biases to occur across all nine variables, the fact that four implementation variables and none of the transparency measures come out significant is puzzling. If we interpret it according to the hypotheses and results presented in this chapter, significantly higher disagreement in responses is an additional indicator of
discretionary implementation in non-democracies. Although our argument exposed here maintained that hybrid regimes in particular are characterized by low budgetary implementation, some repressive autocracies (as the example of the Democratic Republic of Congo suggested) that are “good” strategic implementers in the sense that executives show the accurate “bill” of revenues and expenses to their winning coalition, still fail to efficiently signal adequately enacted budgets to the rest of society that does not belong to this coalition, therefore not posing direct political threats.

Notwithstanding these puzzling statistical differences of means across regime types, a comprehensive test would also account and control for the general level of development, assuming that more economically developed/higher state capacity states are more likely to have higher levels of budget transparency, as well as to be more efficient budgetary implementers. Tables 18 and 19 show the results. [See Table 19]

As expected, respondents in poorer states have a significantly higher level of response disagreement than in economically developed countries. These findings hold on almost all dimensions (8 out of 9, with Revenue transparency being the only variable without a significant difference of means between the two development groups). The Anova test whose results are displayed in Table 19 increases the power of controls, and it attempts to compute simultaneously the differences of means across political regime types and GDP per capita controls. [See Table 19]

The findings are somewhat consistent with the t tests discussed previously. GDP per capita in fact increases its explanatory power on the implementation dimension. The differences in disagreement means between countries that score below the GDP per capita mean or median and the polities that score higher are high and significant for
Enacted budget, Revenue implementation and General implementation. Regime type still holds explanatory power on Audit and Expenditure implementation when GDP controls are included. If we interpret high levels of economic development as markers of high state capacity, then the results suggest that higher levels of state capacity to construct, report and signal adequate information on budgets translate into lower disagreement (both civil society and the executive converge on the “objective” available budgetary information as the true state of the world).

Finally, given that the nine variables allow us to examine if policy contestation on budgets and implementation are subject to similar respondent biases across political regime types, I test this relationship empirically with a GLM fractional logit model. Avoiding the pitfalls of linear OLS models, this type of estimation is a quasi Maximum Likelihood method, with the following properties: conditional mean

\[ E(y|x) = \frac{\exp(x\beta)}{[1+\exp(x\beta)]} = \Lambda(x\beta) \quad (1) \]

log likelihood function:

\[ l_i(\beta) = y_i \log[\Lambda(x_i\beta)]+(1- y_i) \log[1-\Lambda(x_i\beta)] \], where \( y_i \in [0,1] \) \quad (2) \]

and variance:

\[ \text{Var}(y_i|x_i) = \sigma^2 p(x_i,\beta)[1-p(x_i,\beta)] \text{ where } p(x,\beta) = \Lambda(x\beta) \quad (3) \]

\[ ^{60} \text{Our dependent variable of interest is the response disagreement rate computed as a percentage of questions on which civil society and government respondents diverge across the nine thematic areas. OLS has been shown to underperform in such situations; the most appropriate test is GLM fractional logit model (Papke and Wooldridge 1996, 2008; Gramig, Wolf and Lupi 2011).} \]
Table 20 summarizes the results of this estimation. See Table 20.

As observable, for 43 countries (the entire sample available for this test), the higher the survey disagreement rate between civil society and executive respondents on the contestability/transparency dimension, the higher the rate of disagreement on budgetary implementation is, on average. Variables Legislative and Executive Disagreement have statistically significant and substantively meaningful positive marginal effects.

Models 3-6 divide the sample according to political regime type: democracies and non-democracies. Findings here reveal a more nuanced pattern: the contestation variables cease to be significant in the sample of democracies, but maintain the sign and significance in the sample of non-democratic polities. Moreover, the magnitude of their marginal effects becomes larger (0.74 for Legislative disagreement and 0.93 for Executive disagreement). Economic development is non-significant in these specifications of the model.

How can we interpret this divergence of results for the two samples, and does it speak to the meta-argument exposed here? If, for the purpose of interpretation, we combine the results of the t tests of differences of means and Anova, with these fractional logit findings, one notices the following: even if respondents are likely to disagree on both contestation and implementation of budgets at a roughly similar pace in non-democratic polities, it is only the implementation dimension that records systematic and statistically significant differences across regime types. Accordingly, we are quite confident that: a) in non-democratic regimes, civil society organizations and executives
overall have a wider magnitude of information asymmetries on budgets in general; and b) given this baseline demonstrated by the fractional logit model, the only systematic difference across democracies and autocracies is mostly confined to implementation, and not to the contestation/transparency dimension.

4.6 Conclusion

This chapter searched for the political institutional factors explaining variance in signals set out by governments on budget implementation in a comprehensive cross-national sample. First, the findings point at different clusters of countries on the dependent variables. Budgets characterized by low transparency of their implementation records are predominantly associated with hybrid political regimes in which opportunities of exit and neglect lay at the core of the political economic logic of fiscal contracts. Other regime types (repressive autocracies or democracies) are probabilistically more likely to send implementation signals and produce/disseminate information, as either the high cost of collective action or the lack of deviation from policy on the implementation side make signals possible. However, unlike in hybrid regimes, the signal is also less clear as discretionary implementers tend to mimic good implementers.

Overall, political competition, as well as a track record of debt, increases the level of implementation signals. These findings confirm existing literature. The paper attempted to pay considerable attention to hybrid political regimes for theoretical reasons that point at a very strategic environment of information manipulation. I argued that, paradoxically, hybrid regimes (particularly with limited multiparty competition) are most opaque on implementation.
### 4.7 Tables and Figures

**Table 13: Annual budgetary audits availability and regime type**

<table>
<thead>
<tr>
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<td>23.54***</td>
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<td>OLS</td>
<td>OLS</td>
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T statistics in parentheses
* p<0.10  **p<0.05  ***p<0.01

Figure 27: Annual budgetary audit availability and the democracy continuum
Table 14: Regime type and the implementation of extra-budgetary funds

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<th>(3) EB Funds implementation</th>
<th>(4) EB Funds implementation</th>
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<td></td>
<td>(2.74)</td>
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<tr>
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<td></td>
<td>2.643**</td>
<td>(2.45)</td>
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<td>(1.73)</td>
<td>(1.86)</td>
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<td>52.05***</td>
<td>(7.40)</td>
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<td>t statistics in parentheses</td>
<td>* p&lt;0.10</td>
<td>** p&lt;0.05</td>
<td>*** p&lt;0.01&quot;</td>
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217
Figure 28: Extra-budgetary funds implementation along the democracy continuum
Table 15: Regime type and the availability of year-end budget reports

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<td>Executive Yearend report</td>
<td>Executive Yearend report</td>
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<td>1.210**</td>
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<td></td>
<td>(4.00)</td>
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<td>Democracy squared</td>
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<td>1.210**</td>
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<td></td>
<td>(2.43)</td>
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<td>-74.07**</td>
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<td></td>
<td>(-3.53)</td>
<td>(-2.12)</td>
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<td>13.92***</td>
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<td></td>
<td>(4.23)</td>
<td>(4.29)</td>
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<td>(0.80)</td>
<td>(1.35)</td>
<td>(0.71)</td>
<td>(0.73)</td>
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<td>Debt (5 year average)</td>
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<td></td>
</tr>
<tr>
<td>Military regimes</td>
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<td></td>
<td>-21.70*</td>
<td>(-1.93)</td>
</tr>
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<td>27.41***</td>
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R-sq     0.564  0.234

t statistics in parentheses:
= "* p<0.10  ** p<0.05  *** p<0.01"

Figure 29: Year-end budget report availability along the democracy continuum
Table 16: Regime type and the transparency of security apparatus spending

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<th>Secret expenditure</th>
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<td>34.75***</td>
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T statistics in parentheses
* p<0.10 ** p<0.05 *** p<0.01
Table 17: Two-sample t test with equal variances by regime type

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| N                             | 45                  |
| Df                            | 43                  |

t statistics in parentheses
* p<0.10, ** p<0.05, *** p<0.01
Table 18: Two-sample t test with equal variances by state capacity

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<tr>
<td>Executive budget proposal</td>
<td>0.160* (1.81)</td>
</tr>
<tr>
<td>Legislative budget contestation</td>
<td>0.184* (1.85)</td>
</tr>
<tr>
<td>Enacted budget</td>
<td>0.248*** (2.83)</td>
</tr>
<tr>
<td>Audit</td>
<td>0.160* (1.93)</td>
</tr>
<tr>
<td>Expenditure transparency</td>
<td>0.157* (1.84)</td>
</tr>
<tr>
<td>Revenue transparency</td>
<td>0.115 (1.31)</td>
</tr>
<tr>
<td>Expenditure implementation</td>
<td>0.258*** (3.16)</td>
</tr>
<tr>
<td>Revenue implementation</td>
<td>0.272*** (3.03)</td>
</tr>
<tr>
<td>Budget implementation</td>
<td>0.221*** (2.78)</td>
</tr>
</tbody>
</table>

| N          | 45 |
| Df         | 43 |

t statistics in parentheses
* p<0.10, ** p<0.05, *** p<0.01
Table 19: Two-way ANOVA results for regime type and state capacity

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Executive</td>
<td>Legislative</td>
<td>Enacted</td>
<td>Audit</td>
<td>Exp impl</td>
<td>Exp impl*</td>
<td>Rev impl</td>
<td>Implem</td>
</tr>
<tr>
<td>GDP per capita (current 2000$)</td>
<td>0.136</td>
<td>0.149</td>
<td>0.220**</td>
<td>0.120</td>
<td>0.222**</td>
<td>0.0205</td>
<td>0.256***</td>
<td>0.189**</td>
</tr>
<tr>
<td></td>
<td>(1.47)</td>
<td>(1.45)</td>
<td>(2.42)</td>
<td>(1.42)</td>
<td>(2.66)</td>
<td>(0.26)</td>
<td>(2.72)</td>
<td>(2.31)</td>
</tr>
<tr>
<td>Regime type</td>
<td>0.0729</td>
<td>0.104</td>
<td>0.0850</td>
<td>0.121*</td>
<td>0.109</td>
<td>0.164*</td>
<td>0.0500</td>
<td>0.0960</td>
</tr>
<tr>
<td></td>
<td>(0.96)</td>
<td>(1.22)</td>
<td>(1.14)</td>
<td>(1.73)</td>
<td>(1.58)</td>
<td>(2.02)</td>
<td>(0.65)</td>
<td>(1.43)</td>
</tr>
<tr>
<td>N</td>
<td>45</td>
<td>45</td>
<td>45</td>
<td>45</td>
<td>45</td>
<td>43</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>R-sq</td>
<td>0.090</td>
<td>0.105</td>
<td>0.182</td>
<td>0.141</td>
<td>0.234</td>
<td>0.128</td>
<td>0.184</td>
<td>0.192</td>
</tr>
</tbody>
</table>

* t statistics in parentheses
* * p<0.10, ** p<0.05, *** p<0.01

* In this model, the dichotomous variable GDP per capita has been generated based on the median.
### Table 20: GLM Fractional Logit results

<table>
<thead>
<tr>
<th></th>
<th>All countries</th>
<th>All countries</th>
<th>Democracies</th>
<th>Democracies</th>
<th>Non-democracies</th>
<th>Non-democracies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>Implementation</td>
<td>Implementation disagreement</td>
<td>Implementation disagreement</td>
<td>Implementation disagreement</td>
<td>Implementation disagreement</td>
<td>Implementation disagreement</td>
<td>Implementation disagreement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislative</td>
<td>0.504**</td>
<td>0.232</td>
<td>0.744*</td>
<td>0.928*</td>
<td>0.00396</td>
<td>0.0286</td>
</tr>
<tr>
<td>disagreement</td>
<td>(2.10)</td>
<td>(0.65)</td>
<td>(1.89)</td>
<td>(1.90)</td>
<td>(0.03)</td>
<td>(0.21)</td>
</tr>
<tr>
<td>Executive</td>
<td>0.687**</td>
<td>0.472</td>
<td>0.928*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>disagreement</td>
<td>(2.38)</td>
<td>(1.21)</td>
<td>(1.90)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log GDP pc</td>
<td>-0.00745</td>
<td>-0.0156</td>
<td>-0.00784</td>
<td>-0.0231</td>
<td>0.00396</td>
<td>0.0286</td>
</tr>
<tr>
<td></td>
<td>(-0.13)</td>
<td>(-0.28)</td>
<td>(-0.12)</td>
<td>(-0.36)</td>
<td>(0.03)</td>
<td>(0.21)</td>
</tr>
<tr>
<td>N</td>
<td>43</td>
<td>43</td>
<td>27</td>
<td>27</td>
<td>16</td>
<td>16</td>
</tr>
</tbody>
</table>

Marginal effects; t statistics in parentheses
(d) for discrete change of dummy variable from 0 to 1
* p<0.10, ** p<0.05, *** p<0.01
Table 21: Size of the informal economy across regime type: a replication

<table>
<thead>
<tr>
<th></th>
<th>(1) Informal economy</th>
<th>(2) Informal economy</th>
<th>(3) Informal economy</th>
<th>(4) Informal economy</th>
<th>(5) Informal economy</th>
<th>(6) Informal economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP pc 98</td>
<td>-0.000851***</td>
<td>-0.000647***</td>
<td></td>
<td></td>
<td></td>
<td>-0.000392</td>
</tr>
<tr>
<td></td>
<td>(-4.14)</td>
<td>(-4.11)</td>
<td></td>
<td></td>
<td></td>
<td>(-1.38)</td>
</tr>
<tr>
<td>Polity</td>
<td>-0.0226</td>
<td>1.193</td>
<td>0.305</td>
<td>-0.450</td>
<td>3.952</td>
<td>-0.946*</td>
</tr>
<tr>
<td></td>
<td>(-0.05)</td>
<td>(1.01)</td>
<td>(0.44)</td>
<td>(-0.76)</td>
<td>(1.25)</td>
<td>(-1.82)</td>
</tr>
<tr>
<td>Polity^2</td>
<td>-0.139*</td>
<td>-0.236*</td>
<td>-0.310***</td>
<td>-0.179**</td>
<td>-0.596**</td>
<td>-0.00437</td>
</tr>
<tr>
<td></td>
<td>(-1.87)</td>
<td>(-1.78)</td>
<td>(-3.42)</td>
<td>(-2.20)</td>
<td>(-2.31)</td>
<td>(-0.05)</td>
</tr>
<tr>
<td>Income tax</td>
<td>-0.0531</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(-0.37)</td>
</tr>
<tr>
<td>VAT</td>
<td></td>
<td>-0.475</td>
<td></td>
<td></td>
<td></td>
<td>(-1.18)</td>
</tr>
<tr>
<td>Regulatory burden (97)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8.881***</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(3.69)</td>
</tr>
<tr>
<td>Employee Social Security Tax rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.396</td>
</tr>
<tr>
<td></td>
<td>45.53***</td>
<td>40.09***</td>
<td>53.43***</td>
<td>17.22*</td>
<td>39.35***</td>
<td>51.65***</td>
</tr>
<tr>
<td>----------------</td>
<td>----------</td>
<td>----------</td>
<td>----------</td>
<td>---------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>_cons</td>
<td>(12.68)</td>
<td>(8.61)</td>
<td>(6.16)</td>
<td>(1.93)</td>
<td>(4.30)</td>
<td>(10.45)</td>
</tr>
<tr>
<td>N</td>
<td>68</td>
<td>35</td>
<td>48</td>
<td>63</td>
<td>37</td>
<td>58</td>
</tr>
<tr>
<td>R-sq</td>
<td>0.456</td>
<td>0.686</td>
<td>0.316</td>
<td>0.450</td>
<td>0.474</td>
<td>0.553</td>
</tr>
</tbody>
</table>

t statistics in parentheses
* p<0.10    ** p<0.05    *** p<0.01
5. Ambidextrous Leaders: Political Survival and the Fiscal Contract in Hybrid Regimes

The previous two chapters analyzed empirically the evolution of fiscal transparency across political regime types. The major take away point is the social contract exceptionalism of hybrid regimes that skillfully combine democratic and autocratic features of rule. Unlike both democracies and repressive polities, hybrid regimes rely on continuous cooptation and repression of potential political opponents. In order to successfully pursue these strategies, they are likely to engage in higher levels of budget transparency and contestability that allows them the identification and cooptation of key contenders and their fiscal interests. Once this surveillance function has been achieved, they rely on *incomplete social contracts* in the sense of discretionary implementation of fiscal policies based on the levels of loyalty signaled by the co-opted contenders.

Whereas the previous chapters suggest that hybrid regime counter-intuitively display a negative correlation between the transparency of the social contract and the expansion of political rights, they only test the implications of the theory exposed in this dissertation. The remaining question that needs an answer in order to evaluate the major hypotheses is: do executives in hybrid regimes, given their agenda setting powers in fiscal matters, perceive higher fiscal transparency and incomplete implementation as being *central* to their political survival? Needless to say, a direct answer to this question is very difficult, if not impossible, to obtain, as it would hinge upon self-assessment of strategies of rule at the highest political levels. Fortunately, recent data collection efforts on political survival of leaders render an indirect answer somewhat feasible. Do leaders
who increase budget transparency in hybrid regimes while maintaining incomplete social contracts with their constituencies survive longer than leaders who employ alternative strategies of fiscal rules?

This chapter takes up this task. Since according to my theory, the manipulation of fiscal policy contestation is a core survival strategy for the executive, I test these theoretical implications with a Weibul survival model of leader’s tenure as a function of tax and expenditure transparency and structure for over 90 countries between 1972 and 2001. The statistical model partially confirms the theoretical intuitions.

Its findings suggest that indeed, on average, political executives in hybrid regimes stay longer in office if they open up budgets for contestation, but not committing on the implementation side. In order to show the exceptional patterns of fiscal politics in this regime type, I also present results on the transparency and implementation of fiscal contracts in autocracies and democracies. The chapter has five parts. The first section briefly reminds the reader of the major theoretical take. The second section succinctly reviews previous findings on the survival of executive leaders in non-democracies. The third subchapter discusses the data used for the empirical tests, as the theoretical constructs (fiscal transparency and implementation) are notoriously difficult to capture quantitatively across time and space. The concluding sections summarize the main empirical findings.
5.1 Ambidextrous leaders and fiscal politics in hybrid regimes

Building on the literature on the political survival of the executive (Ames 1987; Bueno de Mesquita et al. 2003, 2005), I assume that leaders want to stay in office as long as possible. To this purpose, they can manipulate policies to reward political coalitions of supporters and punish opponents. While the policies that can be used as weapons for survival are numerous, taxation and expenditure have long been identified as key. Politicians reward and punish supportive and opposing constituencies through the two sides of the budget. Therefore, fiscal politics inherently lies at the core of political survival. The paper seeks to analyze the mechanisms that convert budgetary politics into political capital for the executive.

Previous studies approaching similar questions have focused mainly on the coalitional and electoral logics across regime types. The earlier literature linking the calculus of executive survival with coalition formation considered two major strategies that leaders can employ in order to stay in power. First, they have to correctly identify the sites, currencies and sizes of the winning coalitions. Second, once the channel of influence and potential configurations are known, executives need to bid a certain price for securing allies (Ames 1987; Kenworthy 1970). More recent theories of political survival emphasize the size of the winning coalition at the expense of the other factors mentioned above, and show its strong correlation with political regime type (Bueno de Mesquita et al. 2003). My argument builds on the former view, and implies that both sides of the budget (tax and spending) interact with regime type to determine survival in office for the executive. Chapter 1 developed a theoretical model that made the case for an empirical analysis of fiscal transparency and implementation. Leaders in hybrid...
regimes, I argue, have incentives to open up contestation and increase the general level of transparency of the fiscal contract as a strategy of identification of key interests, political co-optation and surveillance. However, at the implementation stage, hybrid executives’ tenure will ultimately depend on incomplete social contracts. By not signaling commitment for the implementation of taxation and spending policies, executives lock in their prerogatives of paying the "loyalty price” to the coalition of support.

**Hypothesis:** Executive survival in hybrid political regimes will be a function of relatively high transparency of the fiscal contract, on one hand, and incomplete implementation, on the other hand.

Paradoxically, the chapter will also attempt to show empirically that the general fiscal transparency levels in some hybrid regimes are higher than in polities that recently became democratic.
5.2 Autocratic survival – the state of the debate

Among the empirical works that look specifically at non-democratic political tenure (albeit not specifically in hybrid regimes), the few international relations scholars testing theories of survival tend to be more concerned with the relationship between conflict and duration of the political mandate, or with the impact of economic sanctions on institutional persistence rather than with the political economic factors characterizing the mechanics of survival (Goemans 2000, Chiozza and Goemans 2004, Chiozza, Gleditsch and Goemans 2004, Marinov 2005).

In the comparative politics literature, Bienen and van de Walle (1991, 1992) Cheibub and Przeworski (1999), Bueno de Mesquita et al. (2001, 2003), and Svolik (2006) tested the duration of both non-democratic and democratic leaders, and found different results and mechanisms of causation. Bienen and van de Walle, for example, analyzed the impact of individual leader and country characteristics on survival. In their account, whereas the former group of variables is statistically significant, only few country characteristics (such as the level of GDP per capita and the intensity of the ethnic conflict) are predictors of duration. Literacy and economic growth do not seem to have a significant effect (result confirmed by Cheibub and Przeworski 1999, as well). In later replications of the analyses, as well as in more recent studies, the validity of these results has been, however, challenged (both Chiozza and Goemans (2004) and Svolik (2006) found that, on average, economic growth does extend the duration of leadership, for example).

Whereas Bienen, van de Walle, and Cheibub and Przeworski are mainly focusing on empirical tests of hazard, Svolik (2006) and Bueno de Mesquita et al. (2001, 2003)
develop formal models in order to explain the institutional dynamics of power in non-democracies. Milan Svolik elaborates a formal model of the government dynamic in authoritarian regimes (Svolik 2006), and argues that economic growth, past removals from office and GDP per capita are accurate predictors of the length of authoritarian tenure. His economic variables are, however, controls for his institutional theory of survival contending that duration in office is a result of the bargaining game between the leader (who has the power to alter the size of the elite) and the ruling elite (who can credibly threaten with coup if the leader behaves opportunistically).

One of the most recent influential theoretical attempts to reopen the Pandora’s box of authoritarian politics is Bueno de Mesquita et al.’s Logic of Political Survival (2003) (henceforth BBM et al.). Although the authors’ institutional theory of minimum winning coalition (and its size relative to the electorate) claims to deconstruct the conventional dichotomy democracy/ non-democracy and to replace it with a theoretically meaningful institutional dimension, its mechanics rely extensively and exclusively on the explanatory power of an institution that is as much a symptom of particular regime types as length of political tenure is.

In a rather similar institutional vein, Gandhi and Przeworski (2007) look at the political institutions of dictatorships and argue that they matter for non-democratic resilience, by providing a forum for cooptation or cooperation of the potential opposition, as well as a signaling device. Gandhi (2002, 2008) also estimates the impact of seemingly democratic institutions on autocratic tenure, and finds a strong and statistically significant effect.
Despite recent interest in questions of authoritarian leader survival, so far there have been surprisingly few attempts to test empirically the effect of fiscal policies with distributive consequences on the length of political tenure. This chapter operates with the assumption that time horizons are endogenous to strategic choices executives make and their implications for the constituencies of support. However, according to this theoretical framework, there are two domains of choice: the nature and scope of information available to society about the nature of the social contract, as well as the implemented size and distribution of public/private good allocation.

Because it is notoriously difficult to measure fiscal transparency and implementation, the following section discusses concept measurement and data used in some level of detail.

### 4.3 Data

#### 4.3.1 Dependent variable – political tenure

In order to assess survival of political leadership in non-democracies (with an emphasis on hybrid regimes), I use a set of variables compiled from various databases. Despite the fact that political economy operates with the central assumption of the (leader’s) goal to achieve and maintain political office, so far scarcity of data impeded a direct test of the policy tools that leaders effectively employ to forge coalitions of support. In recent years, two comprehensive cross-national databases that record duration of office tenure for leaders and a plethora of accompanying characteristics rendered the empirical task possible. Bueno de Mesquita et al. (2003) collected a leaders-year database of leadership survival, and analyzed it extensively in their book *The Logic of Political*
The complete data cover 2960 leaders with a mean office duration time of 4.63 years, and a median of 2.25 years, between 1800 and 2002. I reduce data to the period 1970-2002 to minimize missing values and be able to analyze it in relation to fiscal and development variables of interest extracted from Government Finance Statistics, Word Development Indicators, Database of Political Institutions and Penn World Tables. In addition to the BBM et al. database of leadership survival, Goemans, Gleditsch and Chiozza (2009) have recently introduced Archigos – an updated database of political leaders. The authors correct some of the shortcomings of previous databases and place a heavier focus on Prime Minister (rather than President or monarch) in parliamentary and semi-presidential political regimes, and on Presidents in presidential systems.

A close comparative inspection of the two databases reveals some discrepancies generated either by the systematic coding rule that differs in BBM and Archigos, or by coding error. I triangulate these data sources in order to minimize measurement error on the dependent variable.

4.3.2 Independent variables

As argued in the theoretical chapter, the independent variables of interest for this project fall in two major categories: fiscal transparency and implementation of the fiscal contract. The implementation group attempts to tap into the distributional consequences of fiscal policies for leadership survival, and operates with conventional categories of

---

public expenditure and taxes (income, property taxes, total revenue, taxes on goods and services, health, education, social security expenditure, etc). The data sources are conventionally used in cross-national political economic analyses: IMF *Government Finance Statistics*, World Bank’s *World Development Indicators 2004*, and BBM et al’s *Logic of Political Survival Database (2003)*.

The more difficult group of independent variables attempts to capture fiscal transparency across the two policy domains (tax and spending) under different regime types. Unlike the case of policy implementation, the operationalization of transparency/contestability is more challenging and requires certain speculative steps.

Given that there are no available systematic data on fiscal transparency with a wide spatial and temporal coverage, Bueno de Mesquita et al. (2003) operationalized fiscal/economic transparency quite creatively. The authors assumed that the decision of governments to report or not economic data on national income and general taxation to widely used cross-national databases is endogenous to state capacity and political institutions. In order to test these two core hypotheses, they coded the availability of economic data/information on tax revenues and national income reported by national governments to international organizations such as the World Bank and United Nations (1 for available/transparent, 0 for not available).

Why is this coding strategy an accurate proxy for transparency and issue contestation? First, because transparency of economic and political information entails extraction, production and disclosure of such data to citizens and international organizations in a form that allows its immediate evaluation (Root and Nellis 2000, Barro 2000, Bueno de Mesquita et al. 2003, OBI 2008 report, Herrera 2010). Second, “(...) it
involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities ... so that the electorate and financial markets can accurately assess the government’s financial position and the true costs and benefits of government activities, including their present and future economic and social implications.” (Kopits and Craig, 1998: 1).

In other words, based on this classic definition of fiscal transparency, if the Ministry of Finance or the Central Bank of country X fails to report such comparable data to citizens, markets and international organizations, and if weak state capacity (proxied by low GDP per capita) is not the main culprit, one can safely assume a strategic logic of information obfuscation.

After creating two transparency variables (for Taxation and Income), BBM et al. tested the hypotheses and found that indeed, overall, even when controlling for state capacity, non-democratic governments are less likely to be transparent about their taxation and economic data than their democratic counterparts. In sync with their initial intuitions, leaders in certain regimes find it politically easy not to report at all key fiscal information even if the information exists and is somewhat reliable for internal purposes (Bueno de Mequita et al. 2003: 182-184).

In a similar vein, Herrera (2009, 2010) analyzed cross-national variation in the adoption of the international System of National Accounts (SNA) (1994, 2004, 2008). As the most important global convention for comparable economic data across states and the conceptual-methodological basis for GDP computations, its adoption by national governments, Herrera argues, should have been prompt and relatively easy to achieve.²

² At the time of writing (2009), the author reported that approximately 191 states adhered to the convention and attempted to implement the accounting standards it in different degrees.
However, dramatic variation in national implementation outcomes asks for a political-economic explanation. After testing alternative independent variables, the author concluded that even when controlling for structural factors such as income and state capacity, the political bureaucratic willingness to comply with the new SNA standards was instrumental for increased data transparency in the post-Soviet states.

I work with a similar theoretical logic and expand the transparency variable set to cover all relevant dimensions of fiscal policy (taxation and spending categories). I use a similar method and construct two sets of dummy variables recording “missingness” in the GFS data, one for the expenditure group, and one for taxation.³

If some dimensions of budgetary transparency are indeed key to leaders’ political survival, as previously argued, we should observe that the probability of tenure is significantly and substantively affected by availability of reliable fiscal information when controlled for other contingencies. In order to create the fiscal transparency variables, I use the following coding scheme:

³ Justification: GFS are data compiled by the IMF based on country self-reporting. Therefore, the silences in the data have their own political history. The problems might stem from the two informational strategies states can employ: not reporting national statistics at all, or reporting them inaccurately, inflating developmental “achievements” or artificially reducing deviations from positive results. The first strategy is the easiest to capture. The second has a disciplinary history of its own, unlikely to be captured by IMF compiled statistics (see, for example, the pre 1994 efforts to measure and understand the economies of the Soviet Union and Eastern European states). Luckily for the current project, the polities whose indicators need reconstruction for comparative purposes are also autocracies. Therefore, the dichotomous variable of transparency I constructed will just record missing economic/fiscal data as 0, avoiding the complicated debate on data quality and correctives.
Table 22: Information availability on taxes and expenditure (as proxy for fiscal transparency)

<table>
<thead>
<tr>
<th>Fiscal indicators reported in the IMF Government Finance Statistics</th>
<th>Missing data (coded as 0) (% of total number of available observations (7,096) between 1972 and 2000)</th>
<th>Reported data (coded as 1)</th>
<th>Alternative fiscal indicators reported in the World Development Indicators 2001&lt;sup&gt;5&lt;/sup&gt; (coded as 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total government expenditure (% GDP)</td>
<td>62.91%</td>
<td>37.09%</td>
<td>46.14%</td>
</tr>
<tr>
<td>Education expenditure (%GDP)</td>
<td>68.74%</td>
<td>31.26%</td>
<td>56.88%</td>
</tr>
<tr>
<td>Health expenditure (% GDP)</td>
<td>68.83%</td>
<td>31.17%</td>
<td>22.76%</td>
</tr>
<tr>
<td>Social security and welfare expenditure (% GDP)</td>
<td>70.17%</td>
<td>29.83%</td>
<td></td>
</tr>
<tr>
<td>Public spending on housing and community amenities (%GDP)</td>
<td>70.01%</td>
<td>29.99%</td>
<td></td>
</tr>
<tr>
<td>Government expenditure on wages, salaries and employers’ contributions (%GDP)</td>
<td>68.36%</td>
<td>31.64%</td>
<td></td>
</tr>
<tr>
<td>Expenditure on employers’ contributions (%GDP)</td>
<td>68.74%</td>
<td>31.26%</td>
<td></td>
</tr>
</tbody>
</table>


<sup>5</sup> After 2001, World Development Indicators stopped recording GFS tax and spending data prior to 1990 because of the GFSM transition to the 2001 rules based on accrual accounting rather than cash.
<table>
<thead>
<tr>
<th>Revenue</th>
<th>1st Year</th>
<th>2nd Year</th>
<th>3rd Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total government revenue (% GDP)</td>
<td>62.74%</td>
<td>37.26%</td>
<td>38.52%</td>
</tr>
<tr>
<td>Taxes on income, profits, capital gains (%GDP)</td>
<td>63.78%</td>
<td>36.22%</td>
<td>46.04%</td>
</tr>
<tr>
<td>Social Security contributions (% GDP)</td>
<td>73.42%</td>
<td>26.58%</td>
<td></td>
</tr>
<tr>
<td>Taxes on payroll and workforce (% GDP)</td>
<td>86.29%</td>
<td>13.71%</td>
<td></td>
</tr>
<tr>
<td>Property taxes (%GDP)</td>
<td>67.02%</td>
<td>32.98%</td>
<td></td>
</tr>
<tr>
<td>Domestic taxes on goods and services (%GDP)</td>
<td>63.04%</td>
<td>36.96%</td>
<td></td>
</tr>
<tr>
<td>Taxes on international transactions (% GDP)</td>
<td>64.11%</td>
<td>35.89%</td>
<td></td>
</tr>
<tr>
<td>Capital revenue (% GDP)</td>
<td>72.96%</td>
<td>27.04%</td>
<td></td>
</tr>
<tr>
<td>Grants (% GDP)</td>
<td>72.25%</td>
<td>27.75%</td>
<td></td>
</tr>
</tbody>
</table>
Interestingly, as Table 1 above suggests, identifying consistent patterns of fiscal reporting to international databases is not a completely trivial exercise. There are significant discrepancies between various international databases collecting fiscal data (in this case IMF Government Finance Statistics and World Development Indicators). The
earlier set of fiscal data reported in World Development Indicators conform to definitions and guidelines in the IMF’s Government Finance Statistics (GFS) manual of 1986. The current set of data is based on the definitions and guidelines in GFSM 2001 manual methodology in order to conform to the 1993 System of National Accounts. The main difference between the two methods is that the earlier 1986 method is a cash-based method (transactions are recorded whenever they take place), whereas the 2001 method is based on accrual accounting (transactions are recorded when they are contracted, independently of attached payment). Despite the seemingly technical appearance, the change in the accounting guidelines for national accounts has a major impact on fiscal data. For example, because of the new methodology, tax and spending arrears are now recorded for the first time.

Although speculatively stated at this point, it is possible that some of the IMF GFS data in 2001 have already been reclassified according to the new format, whereas in some cases, data that could not be reconciled has been removed. Independently of the sources of discrepancies in fiscal data reporting, there are significant differences across the two databases (WDI and GFS), therefore robustness checks should take into consideration both measures of expenditure and taxation.

---

IMF changed the Guideline Manual of Rules in 2001, making comparison across time more challenging. Whereas IMF advises caution in terms of longitudinal and/or cross-national comparison across the 1989 threshold (the year when the accounting rules changed), several political economic analyses have used the entire 1972-1999/2001 period as the only time series data available on types of taxes and categories of public spending. Unfortunately for researchers interested in time series analyses, the WDI collection confines its reporting on types of taxes and spending from 1990 to date. Therefore, the expanded (albeit not fully comparable) 1972-1999 dataset has become a collector’s item. This study uses it from the Quality of Governance data source:

4.3.3 Controls

Since the project proposes a test of leadership strategies across political regime types, I use the Polity IV database to capture the continuum of political institutions. In spite of being widely used, Polity IV has been criticized on many grounds. Therefore, as well as for empirical consistency with the previous two chapters, I also use the Hadenius - Teorell quantitative measures of democracy that averages the Freedom House and Polity scores.

I also included a series of standard control variables (GDP per capita, population, foreign aid, oil dependence). The data on Expenditure and Taxation comes from IMF Government Finance Statistics dataset. Foreign aid (the total aid over GDP), fuel come from the same Quality of Government and Penn World Tables 6.1. databases. For Repression, I use the inverse of the Political Rights variable of Freedom House democracy ratings. In order to test patterns of fiscal transparency and implementation in specific regimes, I operate with two political regime classifications (Hadenius Teorell 2007 and Wright 2008). Wright updates the original authoritarian regime typology built and used by Geddes (1999).

My sample includes between 40 and 100 countries, years: 1970-2000. Given that I am interested in the survival of the political regime (operationalized here as the incumbent leader), I use a semi-parametric model of survival analysis, a standard technique in studies of cabinet duration (Bueno de Mesquita 2003, Bienen and van de Walle 1991; Browne, Frendreis, and Gleiber 1986; Diermeier and Stevenson 1999; Diermeier and Merlo 2000; King et al. 1990; Warwick 1992, 1995; Smith 2004).
The model specification is the following for the full Weibull parametric survival model (controls included):

\[ h(t | x_j) = \rho t^{\rho-1} \{ \exp (\beta_0 + \beta_1 \times GDPGROWTH_t + \beta_2 \times EXPENDITURE \text{ (Transparency)}_t + \beta_3 \times TAXATION \text{ (transparency)}_t + \beta_4 \times REPRESSIONS_t + \beta_5 \times_t + \beta_6 \\
\times AID_t + \beta_7 \times GDPpc + \beta_8 \times \log(POPULATION) + \Sigma(\beta_k \times REGION DUMMIES_{kt}) + \Sigma(\beta_l \times ASSET SPECIFICITY) + \epsilon \} \]

In Survival Plots 5.7, I plot the Kaplan-Meier survival estimates for binary variables computed for most of our indicators of interest (for continuous variables, the mean serves as the splitting point; for example, if Total taxation values are below the mean of the variable Taxation, the binary variable will take 0 values and 1 otherwise).

### 5.4 Empirical findings

Appendix I illustrates the fact that budgetary politics is a key factor for the survival of the executive. Changes in the transparency of fiscal data, as well as small increases in the total amount of expenditure and taxes have large and significant consequences for a leaders’ duration in office across all regime types. What makes governments in hybrid regimes behave uniquely is their dependence on some level of fiscal transparency in order to be able to continuously co-opt and punish, as well as on incomplete social contracts that avoid their commitment to any strict delivery of public or private goods.
Transparency results

Table 1 presents the main finding on the broad category of hybrid regimes, defined as polities whose democracy indicator falls somewhere in the inter-quartile range. For the Polity IV measure, this criterion translates into values between –5 and 6, and for the Hadenius –Teorell democracy variable (computed as an average of Freedom House and Polity IV scores with imputed values) between 2.5 and 7.5.\(^7\)

Tables 2 and 3 go deeper and explore specific types of hybrid political regimes by examining three categories that amount to around 74% of this population: military regimes, military multiparty and polities with limited multiparty competition. All these findings control for levels of wealth (GDP per capita), economic growth, repression, aid and natural resource flows, as well as with regional dummies. Even if selective controls have been omitted for clarity purposes, the results are quite robust to alternative specification. Also, I tested for robustness of results across two different datasets of leader survival: Archigos and Bueno de Mesquita et al. With few exceptions pointed out in this section, we obtained the same findings.

These tables show coefficients. As in a survival model the dependent variable is the hazard of failure (more specifically in this case, of leaving political office for causes other than natural death), a negative sign of the coefficient should be interpreted as reducing the leader’s probability of leaving office, a positive sign as increasing the political hazard rate. Table one shows that availability and contestability of revenue data in hybrid regimes decreases the probability of losing office with about 25%. To realize the large magnitude of these coefficients, just imagine a Prime Minister or President who

\(^7\) For some results presented in Appendix I, the Hadenius- Teorell variable has been carved slightly different, with values lower than 4 for highly repressive autocracies, and higher than 4 but lower than 7.5 for hybrid regimes.
has been in office for 8 years. Opening up transparency and contestation on some parts of the fiscal contract would extend, according to our results and ecological fallacies aside, her tenure with about 2 years. The findings are significant and of similar magnitude for total revenue, taxes on income, profits and capital gains and property taxes. Interestingly, whereas three different tax categories are statistically significant, expenditure strategies seem to be slightly more conservative, as the only key significant category is the availability and transparency of data expenditure on wages, salaries and employers’ contributions. Opening this category up for debate reduces, on average, political hazard by about 27%. The figure below illustrates the gap between lack of transparency on public sector wages (value 0, blue line) and transparency and data availability (value 1, red line):

![Kaplan-Meier survival estimates, by gewcorrectedYN](image)

**Figure 33** Transparency of data on public sector salaries, wages and employers’ contributions in hybrid regimes

The interpretation of this category of spending is relatively straightforward. In hybrid political regimes, there is perhaps no better spending field for identification and co-optation of potential political contenders, as well as for rewarding supporters, than public sector jobs and the rents attached to them. Availability of data and claims making with regard to this spending category allow identifying key financial interests (i.e. salaries of
MPs, of military and security personnel, SOEs, etc.), and signaling potential rents that the executive is willing to share with co-opted opposition politicians. Chapter V of this dissertation will document in greater detail the importance of contestation and transparency on the public wage spending category in Morocco.

Interestingly enough, and in line with our theoretical expectations in hybrid regimes, the actual implementation of spending on public sector wages does not matter as much as transparency by itself does. Table 23 examines if actual increases in the amount of spending dedicated to public wages has any effect on leader’s survival and finds no evidence. Simply put, it does not even matter if the executive increases or decreases the amount as long as there is transparency and claims making on this spending chapter. For comparison purposes, repressive autocracies such as one-party and personalist regimes, have exactly the opposite incentive. Table 26 shows that opening up information on public sector wages increases the hazard rate of political deposal with a puzzling 41.6%. Similarly, a 1% increase in the total amount of expenditure on salaries and wages triggers a reduction of about 9% in the leader’s risk to face deposal, given a baseline hazard.

![Kaplan-Meier survival estimates, by geswcorrectedYN](image)

**Figure 34:** Transparency of data on public sector salaries, wages and employers’ contributions in one-party and personalist regimes
Among specific types of hybrid types, executives in military, military multiparty and limited multiparty competition regimes seem to be even more sensitive to fiscal transparency issues (Tables 24 and 25). In military regimes (Table 24), leaders face a decrease of about 72.9% if they are transparent on income taxation; a similar result applied to property taxes, health expenditure, as well as to expenditure on public wages.

However, as Chapter 1 argued and Chapters 2 and 3 tested on several different databases, the theory of increased transparency in hybrid regimes hinges upon some level of political competition, as the uncertainty and flux of the winning coalition require adaptable mechanisms of co-optation and technology of surveillance. That is exactly what we see in the case of limited multiparty competition and military multiparty regimes (Table 25). The survival impact of increased transparency and information availability on total revenue, expenditure, public wages, property taxes, increases dramatically. Moreover, repression becomes significant, but its effect is exceeded by the fiscal contract. Here is a graphic illustration of the huge magnitude of this fiscal effect (red means information availability, value 1, blue means lack thereof):

![Graph](image-url)

**Figure 35: Transparency of data on property taxes in limited multiparty competition regimes**
Finally, this chapter focuses on the core logic of fiscal strategies in hybrid political regimes and their subcategories, but the empirical picture would not be complete without some sense of comparison with availability of information on the fiscal contract in autocracies and democracies.

As already suggested, leaders in one party and personalist political regimes depend on exactly the opposite fiscal politics of transparency, as opening information would reveal a skewed social contract and provoke unwanted contestation. Table 4 shows that executives in these highly repressive autocracies are particularly vulnerable to information availability and transparency on social security contributions, as well as on health and social security and welfare expenditure—key public goods whose contestability would trigger politically problematic distributive effects.

Democracies are quite surprising on the issue of fiscal information availability and transparency, as the category is much more heterogeneous than both hybrid and repressive autocracies. Table 29 splits the sample in two categories, given a theoretical intuition that executives in recent/fragile democratic polities have incentives to somewhat obfuscate social contracts. Complete and perfect information would trigger broad societal demands for redistribution (according to the Meltzer Richards based models), and possible withdrawal of support for democracy from elites with prospects of losing assets and benefits.

We coded as new democracies all the observations for which the Hadenius Teorell indicator exceeds the minimum democratic threshold (value 7.5). The category of established democracies refers only to observations (country year) for which the democracy score is equal to 10 (the maximum possible). Also, the survival analysis for
these tests was performed on the Archigos database as it records more accurately Prime
Minister turnover in semi-presidential and parliamentary regimes. Analyzing
transparency in these two sub-samples reveals that indeed, the fiscal survival strategies
go in quite opposite directions (Table 29). For new democracies, transparent total
expenditure *increases* the hazard rate with about 20%, whereas in established democracy,
it *decreases* the political risk of replacement with about 40%.

Going back to hybrid political regimes, our main theoretical and empirical
interest, it is worth noting the paradoxical finding that executives rely on the transparency
of the fiscal contract as much as their counterparts in established democracies and to a
much greater extent than in new democracies.

*Findings on the implementation of the fiscal contract and political survival*

To recap, our indicators of fiscal transparency capture the availability (or lack
thereof) of data on taxes and expenditure in the IMF’s *Government Finance Statistics*
database. The theoretical logic behind this method of measurement stems from the
assumption that failure of Ministries of Finance or Central Banks to report key fiscal data
to the IMF according to international standards reflects either weak state capacity or
lacking political will to provide adequate information on the precise nature of the social
contract domestically or internationally.

Beyond transparency, Chapter 3 argued that uniquely, executives in hybrid
regimes signal *incomplete social contracts* through which they do not commit to strict
fiscal implementation. Unlike in other regime types in which accurate signals on
implementation is politically essential, hybrid leaders’ survival depends on the
continuous accommodation and co-optation (as well as exclusion) of potential contenders. Does this finding hold in our models of leader survival?

In order to test it, I use data on spending and taxation as a percentage of the GDP, and anticipate that, if commitment to implement the fiscal contract is essential to political tenure, we should be able to observe that an increase (or decrease) in spending and taxes has a statistically significant effect on the hazard rate. In other words, complete social contracts imply clear expectations of fiscal enforcement.

Tables 27, 28 and 29 display the empirical results for budgetary implementation. Matching the empirical findings in Chapter 3, leaders in hybrid regimes do not depend politically on the fulfillment of any particular configuration of the fiscal contract. Table 27 shows that the only statistically significant category whose increase leads to a higher hazard rate for the executive (around 6% for each 1% increase) is expenditure on social security and welfare.

By comparison, in autocracies (Table 27), increases in the total amount of extracted revenue and expenditure lead to longer tenure for the executive. More interestingly, autocratic leaders in highly repressive regimes were likely to extend their political tenure if they provided some modicum of public goods. Increases in both education expenditure and in the progressive income taxes affecting elites result in significant effects on duration in office. These findings are compatible with the results presented in Chapter 3 suggesting that autocratic executives are more likely to signal fiscal implementation competency by publishing extensive audits and final fiscal reports.

Even more specifically, Table 28 looks at implementation in one-party and personalist regimes, and finds equally mixed evidence. On one hand, increases in social
security contributions and spending predictably threaten politically the executive. On the other hand, more education spending and less regressive taxation (on goods and services), as public goods, lead to longer tenure. In democracies, the more the leaders manage to extract revenue and spend, the longer they are likely to stay in office (Table 29).

It follows that, indeed, executives in repressive autocracies and democracies are more likely to enter complete social contracts with their societies through which they commit to clear and predictable enforcement of tax and spending policies. In contrast, hybrid executives cannot signal commitment as they rely on identification of potential political contenders, and arbitrary co-optation and punishment through the fiscal contract. Survival Tables 5.6 at the end of the chapter present in greater detail the Kaplan-Meier plots for differences in the survival curves by the key dummy variables of interest on both fiscal transparency and implementation.

5.5 Conclusion

This chapter took a step away from the institutional arguments tested in Chapters 2 and 3, and analyzed the strategic choices executive leaders have in terms of the transparency and implementation of fiscal contracts. I found that executives in hybrid political regimes rely on a strategy mix of budgetary transparency and repression. Overall, in the analyzed sample, leaders were likely to reduce the danger of political deposal if they were more transparent and detailed about revenue and expenditure data (specifically on public wages and salaries). The results hold particularly well in the hybrid subtypes (military, military multiparty and limited multiparty competition regimes). In the entire sample, fiscal data availability (as our proxy for transparency) and
the democracy indicator follow an S-shaped curve, with lower levels for repressive autocracies and new democracies, and higher openness levels in hybrid regimes and well established democratic polities.

On the implementation dimension, this chapter confirmed the results presented in Chapter 3: whereas autocratic and democratic leaders rely on complete social contracts, in the sense of clear expectations of enforcement rights and obligations towards their political constituencies, executives in hybrid regimes do not depend politically on making any implementation commitments. This gives them the necessary space for co-optation, fiscal discretion, and navigation of a winning coalition in continuous flux.

The last chapter of this dissertation will follow the fiscal trajectories of Morocco and Turkey and explore their connection to executive survival.
5.6 Survival Tables

Table 23: Leadership survival and fiscal transparency in hybrid regimes

<table>
<thead>
<tr>
<th>Hybrid regimes (2.5&lt;ifhpol&lt;7.5)</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
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<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
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</thead>
<tbody>
<tr>
<td>Transparency</td>
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<td>Hazard rate</td>
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<td>GDP per capita</td>
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<td>-0.0000140</td>
<td>-0.0000130</td>
<td>-0.0000141</td>
<td>-0.0000171</td>
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<td></td>
<td>(-0.41)</td>
<td>(-0.38)</td>
<td>(-0.42)</td>
<td>(-0.39)</td>
<td>(-0.42)</td>
<td>(-0.51)</td>
<td>(-0.45)</td>
<td>(-0.35)</td>
<td>(-0.58)</td>
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<td>Growth</td>
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<td>-0.00720</td>
<td>-0.00715</td>
<td>-0.00717</td>
<td>-0.00734</td>
<td>-0.00712</td>
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<td>and capital gains</td>
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<td>Transparency</td>
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<tr>
<td>Taxes on goods and services</td>
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<td>Total expenditure</td>
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<td>Expenditure on wages, salaries</td>
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<td>-0.0902</td>
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<td>_cons</td>
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<td>-0.875***</td>
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<td>(-7.34)</td>
<td>(-7.32)</td>
<td>(-7.58)</td>
<td>(-7.29)</td>
<td>(-7.65)</td>
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<td>ln p</td>
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<td>-0.323***</td>
<td>-0.325***</td>
<td>-0.322***</td>
<td>-0.326***</td>
<td>-0.328***</td>
<td>-0.326***</td>
<td>-0.326***</td>
<td>-0.330***</td>
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t statistics in parentheses
*p<0.10, **p<0.05, ***p<0.01
Table 24: Leadership survival and fiscal transparency in military regimes

<table>
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<th>Military regime</th>
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<tbody>
<tr>
<td>(1) Executive survival hazard rate</td>
<td>(2) Executive survival hazard rate</td>
<td>(3) Executive survival hazard rate</td>
<td>(4) Executive survival hazard rate</td>
<td>(5) Executive survival hazard rate</td>
<td>(6) Executive survival hazard rate</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.0000497</td>
<td>0.0000819</td>
<td>0.0000707</td>
<td>0.0000721</td>
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<tr>
<td>(0.48)</td>
<td>(1.09)</td>
<td>(0.37)</td>
<td>(0.26)</td>
<td>(0.48)</td>
<td>(0.38)</td>
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<td>Growth</td>
<td>-0.0436**</td>
<td>-0.0393**</td>
<td>-0.0350**</td>
<td>-0.0393**</td>
<td>-0.0364**</td>
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<td>(-2.07)</td>
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<tr>
<td>_PI _cons</td>
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<td>-0.296***</td>
<td>-0.377***</td>
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<td>-0.265***</td>
<td>-0.459***</td>
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* p<0.10, ** p<0.05, *** p<0.01
Table 27: Leadership Survival in Autocracies

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<tr>
<th>Autocracies</th>
<th>(1) Executive survival Hazard rate</th>
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<th>(4) Executive survival Hazard rate</th>
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<tbody>
<tr>
<td><strong>Total revenue</strong></td>
<td>-0.0455***</td>
<td>-0.122**</td>
<td>-0.215</td>
<td>-0.00607</td>
</tr>
<tr>
<td>(%GDP)</td>
<td>(-2.62)</td>
<td>(-2.01)</td>
<td>(-0.50)</td>
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</tr>
<tr>
<td><strong>Taxes on income, profits, capital gains</strong></td>
<td>0.00607</td>
<td></td>
<td></td>
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<tr>
<td>(%GDP)</td>
<td>(0.14)</td>
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<td></td>
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<tr>
<td><strong>Taxes on property</strong></td>
<td>-0.0364**</td>
<td>-0.162*</td>
<td>-0.0188</td>
<td></td>
</tr>
<tr>
<td>(%GDP)</td>
<td>(-2.42)</td>
<td>(-1.73)</td>
<td></td>
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</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td>-0.0408*</td>
<td>-0.0283</td>
<td>-0.0209</td>
<td>-0.0409*</td>
</tr>
<tr>
<td>(%GDP)</td>
<td>(-1.75)</td>
<td>(-1.14)</td>
<td>(-0.08)</td>
<td>(-1.70)</td>
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<tr>
<td><strong>Education expenditure</strong></td>
<td>0.0000742</td>
<td>-0.000531</td>
<td>-0.000471</td>
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</tr>
<tr>
<td>(%GDP)</td>
<td>(1.21)</td>
<td>(-0.85)</td>
<td>(-0.74)</td>
<td>(-0.08)</td>
</tr>
<tr>
<td><strong>GDP per capita</strong></td>
<td>-0.0408*</td>
<td>-0.0283</td>
<td>-0.0209</td>
<td>-0.0409*</td>
</tr>
<tr>
<td>(log)</td>
<td>(-1.75)</td>
<td>(-1.14)</td>
<td>(-0.08)</td>
<td>(-1.70)</td>
</tr>
<tr>
<td><strong>Repression proxy</strong></td>
<td>0.0574</td>
<td>0.0934</td>
<td>0.00105</td>
<td>0.076</td>
</tr>
<tr>
<td>(log)</td>
<td>(0.52)</td>
<td>(0.77)</td>
<td>(0.01)</td>
<td>(0.62)</td>
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<tr>
<td><strong>Population (log)</strong></td>
<td>-0.0314</td>
<td>-0.0862</td>
<td>-0.0279</td>
<td>-0.0466</td>
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<tr>
<td>(log)</td>
<td>(-0.17)</td>
<td>(-0.49)</td>
<td>(-0.17)</td>
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<tr>
<td><strong>_cons</strong></td>
<td>-1.621</td>
<td>-2.643</td>
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<tr>
<td><strong>ln_p</strong></td>
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<td>-0.347***</td>
<td>-0.430***</td>
<td>-0.436***</td>
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<tr>
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<td>(-3.02)</td>
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<td><strong>_cons</strong></td>
<td>-0.394***</td>
<td>-0.429***</td>
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N: 552 545 529 549 552 501

_t statistics in parentheses
*p<0.10, **p<0.05, ***p<0.01
Table 28: Leadership Survival in One Party and Personalistic Regimes

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<th>One party and personalist regime</th>
<th>(1) Executive survival Hazard rate</th>
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<th>(3) Executive survival Hazard rate</th>
<th>(4) Executive survival Hazard rate</th>
<th>(5) Executive survival Hazard rate</th>
<th>(6) Executive survival Hazard rate</th>
<th>(7) Executive survival Hazard rate</th>
<th>(8) Executive survival Hazard rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>0.000030315 (0.06)</td>
<td>0.0000136 (0.26)</td>
<td>0.0000126 (0.24)</td>
<td>0.0000289 (0.38)</td>
<td>-0.0000760 (0.66)</td>
<td>-0.00000769 (0.14)</td>
<td>-0.00000281 (0.47)</td>
<td>-0.00000556 (0.82)</td>
</tr>
<tr>
<td>Population (log)</td>
<td>0.1106 (0.91)</td>
<td>0.0944 (0.04)</td>
<td>0.226* (1.69)</td>
<td>0.243* (1.70)</td>
<td>0.0619 (0.54)</td>
<td>0.179 (1.54)</td>
<td>0.0683 (0.58)</td>
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</tr>
<tr>
<td>Repression proxy</td>
<td>0.0191 (0.17)</td>
<td>0.107 (0.91)</td>
<td>0.00441 (0.04)</td>
<td>0.226* (1.69)</td>
<td>0.243* (1.70)</td>
<td>0.0619 (0.54)</td>
<td>0.179 (1.54)</td>
<td>0.0683 (0.58)</td>
</tr>
<tr>
<td>Total revenue</td>
<td>0.00291 (0.20)</td>
<td>0.0203 (0.59)</td>
<td>0.0609** (1.97)</td>
<td>0.0920** (2.13)</td>
<td></td>
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<td></td>
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<tr>
<td>Taxes on income, profits, capitala gain (%)GDP</td>
<td>0.00291 (0.20)</td>
<td>0.0203 (0.59)</td>
<td>0.0609** (1.97)</td>
<td>0.0920** (2.13)</td>
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<tr>
<td>Taxes on goods and services (%)GDP</td>
<td>0.00291 (0.20)</td>
<td>0.0203 (0.59)</td>
<td>0.0609** (1.97)</td>
<td>0.0920** (2.13)</td>
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<tr>
<td>Taxes on property (%)GDP</td>
<td>0.00291 (0.20)</td>
<td>0.0203 (0.59)</td>
<td>0.0609** (1.97)</td>
<td>0.0920** (2.13)</td>
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<tr>
<td>Social security contributions (%)GDP</td>
<td>0.00291 (0.20)</td>
<td>0.0203 (0.59)</td>
<td>0.0609** (1.97)</td>
<td>0.0920** (2.13)</td>
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</tr>
<tr>
<td>Total expenditure (%)GDP</td>
<td>0.00291 (0.20)</td>
<td>0.0203 (0.59)</td>
<td>0.0609** (1.97)</td>
<td>0.0920** (2.13)</td>
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<tr>
<td>Education expenditure (%)GDP</td>
<td>0.00291 (0.20)</td>
<td>0.0203 (0.59)</td>
<td>0.0609** (1.97)</td>
<td>0.0920** (2.13)</td>
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<tr>
<td>Expenditure on social security and welfare (%)GDP</td>
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<td>0.0203 (0.59)</td>
<td>0.0609** (1.97)</td>
<td>0.0920** (2.13)</td>
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<tr>
<td>Expenditure on wages, salaries and employer's contribution (%)GDP</td>
<td>0.00291 (0.20)</td>
<td>0.0203 (0.59)</td>
<td>0.0609** (1.97)</td>
<td>0.0920** (2.13)</td>
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<td>_cons</td>
<td>-1.518*** (-2.96)</td>
<td>-2.233*** (-4.10)</td>
<td>-1.829*** (-3.82)</td>
<td>-2.406*** (-4.16)</td>
<td>-2.504*** (-4.18)</td>
<td>-2.560 (1.22)</td>
<td>-1.914 (0.87)</td>
<td>-1.570 (0.71)</td>
</tr>
<tr>
<td>ln_p</td>
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<td>-0.202 (-1.62)</td>
<td>-0.300*** (-2.69)</td>
<td>-0.172 (-1.28)</td>
<td>-0.120 (-0.93)</td>
<td>-0.328*** (-2.72)</td>
<td>-0.124 (-0.96)</td>
<td>-0.243*** (-2.08)</td>
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t statistics in parentheses
## Table 29: Leadership Survival in Democracies

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<tr>
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<td><strong>New democracy</strong></td>
<td><strong>Established democracy</strong></td>
<td><strong>New democracy</strong></td>
<td><strong>Established democracy</strong></td>
<td><strong>Established democracy</strong></td>
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<td>Total government expenditure (%GDP)</td>
<td>-0.0225** (-2.29)</td>
<td>Total government revenue (%GDP)</td>
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<td>Expenditure transparency</td>
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<td>-0.409* (-1.76)</td>
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<td>Revenue transparency</td>
<td>0.140 (1.33)</td>
<td>-0.409* (-1.76)</td>
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<td>_cons</td>
<td>-0.840** (-2.41)</td>
<td>-0.778** (-2.32)</td>
<td>-2.978*** (-27.34)</td>
<td>-2.936*** (-27.00)</td>
<td>-2.533*** (-10.41)</td>
<td>-2.533*** (-10.41)</td>
</tr>
<tr>
<td>ln_p _cons</td>
<td>0.118 (1.54)</td>
<td>0.124 (1.61)</td>
<td>-0.364*** (-8.26)</td>
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<td>-0.216*** (-2.60)</td>
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_t statistics in parentheses

* p<0.10, ** p<0.05, *** p<0.01
5.7 Survival Plots for Fiscal Transparency

Figure 38: Hybrid: total revenue transparency

Figure 37: Hybrids: wages and salaries transparency

Figure 36: Military: wages and salaries transparency
Figure 39: Military multiparty: wages and salaries transparency Military (tipc)

Figure 40: Military: income taxation transparency

Figure 41: Limited multiparty competition: Property taxation transparency

Figure 42: Limited multiparty competition: Property taxation transparency

Figure 43: New democracy: total spending transparency

Figure 44: Autocracies: social security welfare spending

Figure 45: Autocracies: social security transparency
Figure 46: New democracy* – total revenue transparency

Figure 47: Established democracy* – total spending transparency

Figure 48: New democracy* – total spending transparency

Figure 49: Established democracy* – total revenue transparency (* graphs are drawn based on Archigos leadership survival data)
5.8 Survival Plots for Fiscal Implementation

Figure 52: Established democracy – total expenditure
Kaplan-Meier survival estimates, by tgedummydem

Figure 51: Autocracy – total revenue implementation
Kaplan-Meier survival estimates, by tgradedummydem

Figure 50: Hybrid – total expenditure implementation
Kaplan-Meier survival estimates, by tgradedummyhyb

Figure 53: Hybrid – total revenue implementation
Kaplan-Meier survival estimates, by tgradedummyhyb

Figure 54: Autocracies – total expenditure implementation
Kaplan-Meier survival estimates, by tgedummyaut

Figure 55: Autocracies – total revenue implementation
Kaplan-Meier survival estimates, by tgedummyaut
6. Achilles’ Heels and Information Asymmetries in Morocco, Romania and Turkey (the officer, the farmer, the manager – ever-shifting alliances)

Taxation is the skeleton of the state stripped of all its misleading ideologies\(^1\)

A monarchy falls because it deserves it (...) If one day all my ministers resigned, I would say to my chauffeur, be minister.\(^2\)  
King Hassan II

6.1 Introduction

This chapter tells the stories of political survival and fiscal relations in three contexts: Morocco, Romania and Turkey. At a first glance, the assortment seems strange. Why these countries in particular? After all, they are far apart and belong to different political economic worlds. Resisting this first instinct, I argue that if we follow the main narrative of this dissertation, leadership survival and the strategic logic of alliances accompanying it, they have much more in common than one would think a priori.

Regionally, between 1950 and 2001, Middle East and North Africa (MENA) and Eastern Europe lead in terms of executive tenure in office.\(^3\) Most heads of the state from these two areas - presidents, kings, or generals - ruled longer on average than their colleagues in any other part of the world.

Second, when transition occurred in the early 1990s in the communist bloc, many MENA countries experimented with their own economic liberalization – a process that by comparison rarely made the news. Some of them (Tunisia, Egypt, Syria) had a long tradition of socialism (or étatism), in some aspects similar to Eastern European countries.

\(^1\) Rudolph Goldscheid, the founder of modern fiscal sociology, cited in Schumpeter [1918] 1954.  
\(^2\) Waterbury 1973: 552.  
\(^3\) In statistical survival models, the regional dummies reduce the hazard of tenure termination from 1 to 0.83 and 0.76 respectively.
Therefore, the diplomatic relations between MENA leaders and communist states were quite vibrant throughout the 1970s and 1980s. In the 1990s, most of the non-oil or mineral rich polities were pressured by the IMF and the World Bank to reform their economies. The structural adjustment programs of MENA and post-communist countries shared similar neo-liberal objectives: privatization, price and trade liberalization, and fiscal capacity enhancing reforms.

Third, and perhaps the most vivid common experience of the two areas, regime change and inspiring popular mobilization occurred despite all odds. The Eastern European transitions and the Arab Spring had a lot in common in terms of low ex-ante chances of occurrence, initiation patterns, unfolding of events and dramatic variation in outcomes. It is therefore not surprising that the events that toppled communism twenty years ago fueled hope among the Middle Eastern protesters. The conceptual and factual connection between the two was commonly made both by media and on the ground.

On the list of differences between the two areas of study, the most important dimension for my research design is the dramatic variation in regime type. Whereas the post-communist region experienced democratization processes, hybrid regime equilibria, as well as a series of relapses towards more authoritarian regimes (such as Russia, Uzbekistan, Belarus, Turkmenistan), MENA offers its mirror image. Most states are still consolidated non-democracies, very few democracies ‘with adjectives,” and some countries in the fuzzy middle. The outcomes of the Arab Spring are too recent to analytically digest.

Given these rationales, combined with considerations regarding the feasibility of fieldwork in all these areas, I selected three countries - Romania, Turkey and Morocco –
in an attempt to cover the regime types that are crucial to my study. Romania experienced a transition process from a totalitarian one party regime to a fragile post-communist equilibrium characterized by a relatively slow speed of economic and state reform. Morocco represents well the monarchy that traditionally allowed some level of political competition on a restricted domain of issues. Turkey had a history of multiple alternations between democracy and military rule, as well as an interesting recent fiscal history derived from these frequent political switches.

These cases also illustrate well the chronological progression from high repression towards hybrid equilibrium (Morocco), from an uncertain transition to democracy to more robust political competition (Romania), as well as the temporal evolution of military legacies embedded in civilian rule in Turkey. These case studies combine qualitative and quantitative evidence gathered from archival sources, and personal interviews with representatives of political parties, academics, and bureaucrats, collected between January 2009 and 2011 in Rabat, Istanbul, Ankara, Bucharest and Washington, DC.

The major theoretical argument of this dissertation connects survival and information asymmetries, and seems to be relevant in these three contexts in which political taboos thrived at various points in history. In terms of the fiscal contract, I argue, leaders have to arbitrate among important groups in society to stay in power under all regime types.

Particularly pertinent for all three countries are the repressive apparatus (army and security forces), agricultural groups, managerial elites and occasionally the population at large. As the following stories will try to demonstrate, rulers (presidents, monarchs or
junta members) faced different distributive dilemmas over time. Keeping the soldiers happy through generous salaries and pensions entailed cutting spending for health and education.\textsuperscript{4} Heavily taxing farmers and peasants paid off politically for leaders whose base of support was in the industrial urban centers.

Some of these games were zero-sum. Certain groups were empowered at the expense of other constituencies that were disenfranchised. Others were simply risk hedging strategies. Awarding social benefits to broader segments of the population, in combination with heavy investments in repressive technologies turned out to be ‘good’ politics of carrot and stick in times of uncertainty and changing loyalties. In any case, no matter what the specific configuration of alliances, rulers often faced shifting landscapes.

In Morocco, the rise of businessmen and managers, as we will see, altered the core political logic of the regime. The emergence of an industrial elite class of technocrats triggered an ambiguous reaction from the communist party in totalitarian Romania. Because of the incorporation of new members in the winning coalitions, collecting information about their preferences and policy ideal points became imperative. I argue that an open forum of policy contestation and some level of fiscal contract transparency provided precisely this opportunity. In contrast, the state resources needed for the co-optation of the new entrants were usually extracted unconditionally from other groups (agriculture in communist Romania, or large urban firms in Morocco). By a

\textsuperscript{4}Fiscal systems, budgets, and public financial management may seem dull and bureaucratic. They are usually portrayed as technocratic territories where bureaucrats either compete for career stakes or international financial institutions shape best practices drawn from experience. Yet, this bureaucratic domain is also the fierce territory of distributional fights in society. In some contexts, dismantling benefits can cause real armed conflict. During Salam Fayyad’s tenure as Minister of Finance in the West Bank & Gaza, rival Palestinian security forces clashed during attempts to reform the allocations to the General Personnel Council (World Bank 2010). Even something that seems as technical and insignificant as paying the salaries as direct deposits to bank accounts can generate severe political contention in some contexts. This issue divided senior versus rank and file officers within security services – a key policy domain for a fragile context.
similar token, some political allies had to become the consistent recipients of benefits in exchange for their allegiance (the army and the security forces in all three countries). These last two constituencies are the fabric of fiscal taboos in the sense that contestation and transparency are not strategic options for their regimes.

The following sections probe deeper into the fiscal dynamics of the three countries throughout episodes of shifting political alliances between 1950 and 2007. Morocco tells a story of a solid pact between the monarchs and agricultural notables at the expense of the urban businesses, only recently showing signs of change. The enforcement arm of this pact is, to this day, the Ministry of the Interior – a taboo par excellence. Romania followed many turns on the alliance path, but overall, it displayed exactly the opposite trend. Political leaders relied heavily on industrial technocratic elites to the detriment of agriculture. In Turkey, following the military regime of the 1980s, the army managed to lock in the fiscal process untouchable pockets of state resources that survived many years of civilian rule and impacted the budgetary allocations to health and education. Extending the theoretical logic of this dissertation to these narratives, I argue that the evolution of fiscally induced information asymmetries follows the meanders of these ever-shifting alliances.

These case studies will attempt to weave in both interest group and electoral politics whenever possible. Focusing on just one dimension, I argue, has obvious pitfalls since the former suffers from scattered evidence of collective action, whereas elections and parties are not necessarily at the heart of regime survival in some of the contexts discussed here (Morocco to some extent, or communist Romania).
6.2 Morocco: from the years of lead to years of accommodation under competitive authoritarianism

For very few countries in Middle East and North Africa, the political fiber of the state is as intrinsically related to the fiscal relations between the central power and the rest of the society as it is in Morocco. Moreover, there is no doubt that the political survival of the Sherifian monarchy has depended to this day on the clever navigation of a social contract that skillfully combined the carrot and the stick. As we will see, transparency plays a major role in the story.

6.2.1 The Makhzen– a brief historical preface to the fiscal tools of political survival

All classic political, economic or sociological analyses of modern Morocco tend to start with the organization of the makhzen, a broad and somewhat esoteric concept that refers to the state and the entire web of complex patronage relations surrounding it. Etymologically, the word makhzen comes from the verb "khazana" which means to conserve, to inform, or to preserve in a thesaurus. Initially, the makhzen just designated the coffer of the Muslim clerics (Beit Al Mal) where all the religious taxes were kept. Subsequently, the term expanded to mean the personnel paid with the funds from this treasure. Later on, during dynastic expansion and political development, the word started to refer to the assembly of government - particularly the administration and the army. In a literal sense, the Makhzen means "a place where the power is concentrated and in which the resources necessary for the exercise of power are reunited." (Bellaire 1909). Also framed in terms of political alliances, the makhzen conventionally suggested a somewhat
symbiotic relationship between the state administration, the military, and the local *caïds* or rural notables who had historically a position of relative independence from the King.

Thus, on the one hand, the makhzen is the modern state administration, but on the other hand an invisible entity that extracts taxes, legislates, manipulates, and maintains at all times a certain level of regulatory uncertainty. It is a parallel state and web of complex alliances designed to insure the political survival of the monarchs. Still applicable or not, this often invoked metaphor of the deep state serves well the general theoretical argument linking fiscal politics and leadership. Extracting taxes and distributing rents and favors to loyalists, in a makhzen universe, are the core policies of survival. According to more recent interpretations of the concept, the deep web of patronage relations and loyalties is mostly confined to the countryside.

Interestingly, many analyses of contemporary Moroccan politics still draw on metaphors related either to makhzen or to the historical *harka* (the occasional military campaigns led by the Sultans in order to collect revenues from the tribes). This section will narrate a particular episode of open confrontation taking place in 1996-1997 between the palace and the business circles revolving around issues of taxation and revenue collection. Analysts compared this episode with the traditional *harka* practice of the monarchy (Hibou 2004).

Even going beyond the invisible web of tax concession and material inducements of the ‘invisible’ state, the fiscal contract was formally placed at the forefront of an independent monarchy and connected with the political regime type. Here is an excerpt of a 1965 discourse of the King Hassan II:

> During the previous parliamentary session, we have examined and approved two projects: the first on the general budget, and the second concerning the tripartite
plan. The first project determined the resources and expenditures, and indicated the activities of the various governmental agencies, whereas the second highlighted the choices of the population, and prioritized the areas of action based on the pressing need of the population. One important characteristic of the tripartite plan is its economic character, which corresponds to political freedoms, social rights embodied in its political character, and the democratic tenets which constitute the motto of our rule, and the basis of our political system.”  

In order to understand the logic of political alliances, we have to briefly review a classic thesis about the pact between the Sherifian monarchy and rural notables developed in the aftermath of independence and locking in a rent economy that is still persisting to this day (Leveau 1985). The story began during the struggle for independence from the French protectorate, fought by the urban bourgeoisie and the proletariat. In contrast, the countryside was more reticent and participated late in the game. Accordingly, the two major political parties that emerged from this national struggle (Istiqlal and subsequently UNFP – Union National des Forces Populaires created in 1959) exclusively represented the urban bourgeoisie. During the same transition period, witnessing the popular legitimacy of the parties, the King feared being politically relegated to the position of national symbol rather than maintaining the executive power. Therefore, in order to maintain power, he sought to renew and foster traditional alliances with local notables.

This strategic logic guided all his major policies. During the 1955-1957 debates on the electoral law following independence, Istiqlal and UNFP preferred Proportional Representation, whereas the monarch opted for a uninominal vote that would empower localities rather than the pre-existent administrative communes. The positioning of all these actors on the electoral issue had a lot to do with the calculation of power and

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political survival. The King wanted a uninominal rule that could reinforce in electoral circumscriptions a vote along ethnic, as opposed to ideological lines (the circumscription often corresponded to the traditional institution of jemaa at village level). In the battle between the King and the political parties, the former prevailed. This was a defining political moment that sealed a contract to last for a long period of time: the monarch de facto opposed the urban bourgeoisie represented by Istiqlal (and later on UNFP, the left-wing party), and forged strong alliances with the local notables that won the uninominal vote.

During the post-independence years, in terms of economic policies, the monarch played the role of an exclusive mediator between the countryside and the city bourgeoisie, leaning towards the former. The first five-year industrialization plan was halted or postponed because the rural interests opposed it. This transaction fully secured unconditional political support for the monarchy in the ‘battle’ with the mainstream political parties. In 1958, for example, there were minor attempts to redistribute land and agricultural wealth from the feudal country notables to individual farmers, by linking redistribution explicitly to the independence movement ideology. By allying themselves with the King, the rural powers (former caïds) managed to effectively block any attempts to land redistribution reforms.

The story carries on throughout the 1960s and 1970s when rural landowners and notables stopped any significant modernization attempts and drove all tax policies to their advantage: the abolition of the tertib (a historical agricultural tax), the rural promotion plan of 1961, or the dam construction of 1965. During the 1960s, only the army and the police (the most vocal critics of the distortionary fiscal policy that was benefiting only the
rural landowners) became co-opted into the system through a combination of Berber ethnic loyalty and material inducements.

The earlier literature on Moroccan political development argued that during this period, the local fights for the control of resources were transferred to the national level. The labor unions and political parties were allowed and even encouraged to compete under the arbitrage of the King since factionalism could effectively prevent any attempt to party/urban solidarity against the monarch and the countryside. However, the monarch, as the main arbitrator of multiparty competition, forged a sophisticated system of alliances based on a continuous stream of information collection over the policy and material preferences of the actors, followed by adequate transfers (Waterbury 1973, Leveau 1985). The key strategy of survival from independence until the highly repressive ‘years of lead’ under the reign of Hassan II could be summarized as follows: the political divisions must exist so that any broad coalition against the palace is prevented, but not to the extent that they threaten the overall survival of the political system (Waterbury 1973). This optimization calculation explains well the attitude of the monarch towards the main actors of our story: the farmer, the army officer, and the business class.

In line with the theoretical argument of this dissertation, as well as with the insights derived from the earlier literature on Morocco, under conditions of controlled party competition, information collection about preferences and the ‘price of loyalty’ of the members of the ‘winning coalition’ became a central concern of the monarchy. After two failed coup attempts (the events of Shkirat and general Oufkir’s plot in 1971 and 1972), the army became untrustworthy in the eyes of the King. Therefore, the Ministry of the Interior rose to power to replace it as the only Moroccan institution that could
successfully combine information collection, the stick of repression and the carrot of material inducements. We will see later on in this chapter how all data collection that matters politically – from spending to municipalities to electoral victors – continues to be monopolized by the Ministry of the Interior. The making and unmaking of survival alliances with segments of the repressive apparatus resembles the process that was taking place in communist Romania roughly around the same period of time (see next section of this chapter).

In order to understand the allowed ‘contestability’ of fiscal policy issues in the Moroccan parliament, I collected data on all the votes on annual budgets, fiscal regulations and tax reform laws published in the official parliamentary répertoire guide to legislation between 1957 and 2002. The figure below summarizes visually discrepancies in reporting and contestability.

As we can notice, not only that fiscal policy contestation was intense during the 1960s (with a temporary break in 1965 when the Parliament was completely shut down) and early 1970s, but was also arguably more vibrant than during the late 1990s when the monarchy shifted to a more liberal version of electoral authoritarianism.

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It is certainly interesting to observe the publication pattern of data on policy contestability in the Moroccan Parliament. Votes were recorded and summarized in the general repertoire precisely in the years when the monarchy was attempting to assess its potential contenders (the historical post-independence parties and the urban bourgeoisie in the 1960s and 1970s, or the USFP – *Union Socialiste des Forces Populaires* and the newly emerging managerial elites in the later 1990s).

“(…) Up to 1965, when King Hassan suspended Morocco’s first elected parliament, there was at least an outside chance that a competitive multi-party system might actually emerge. But during the 1960’s the Palace made a concerted and successful effort to drain all important sources of patronage and spoils away from the parties. By early 1970s, with a quasi-monopoly on patronage sources, the Palace had achieved its objective of keeping up a "liberal" multi-party regime in which the parties could not really compete but only participate.” (Waterbury 1973)

The records are, in contrast, virtually silent with respect to the parliamentary activity in-between these episodes of regime liberalization, corresponding to precisely the period John Waterbury refers to in the quote above. This empirical finding is in sync with the meta-theory of this dissertation: in electoral authoritarian (or hybrid) regimes, the leaders...
are likely to open up some level of dissent in order to collect information on the preferences of the new entrants in the political game as long as these lack the collective action potential to threaten the distributive logic on which the regime rests. From a period of assessment and accommodation of urban parties during the 1960s and 1970s, Hassan II shifted towards what is commonly called “the years of lead:” left-wing opposition was severely repressed, and economically onerous structural adjustment programs during the late 1980s were managed with virtually no meaningful parliamentary contestation, via a combination of repressive technologies and food subsidies targeting an increasingly discontented population.

We see this trend reflected in data reporting as well, as legislative votes on budgets or tax reforms are no longer publicized. A similar pattern takes place decades later, in 1997-1998, when the monarch decided to liberalize politically and invited the USFP party (a traditional contender) to head the first opposition government. Fiscal contestation matched closely this process and was highly visible in the recorded votes. This was no longer the case of subsequent years when Islamic extra-parliamentary movements (such as Sheikh Yassine’s Al Wadl Al-Ihssane) or co-opted parties (PJD – Parti du Justice et Development) rose to popular prominence and somewhat made the monarch politically anxious.

In terms of fiscal contestation, it is fascinating to discover that in the 1960s period of open parliamentary activity, even ‘protected domains’ such as the budgetary allocations of the Ministry of Defense or Interior, or to the sensitive Saharan provinces were vibrantly debated. Progressively however, the palace and the defense expenditure
chapters in the annual budgets became taboos and were completely taken out of the general debate.

There are several specific references to issue ‘tabooization’ among the recorded legislative acts. On December 8, 1970, for example, despite the fact the some degree of parliamentary transparency and contestation is recorded (for the Ministry of Youth and Sport, for example), the allocation for Defense spending receives the mention “unanimous agreement on the budget for the Ministry of Defense, without debate.” This chapter will return to a statistical analysis of the transparency and contestability of the fiscal contract using this database.

### 6.2.2 Fiscal alliances in the “years of lead”

This section will take a step back from parliamentary transparency and will briefly review the political stakes of the monarchy with respect to farmers, soldiers/security personnel, and urban businesses – the three major interest groups consequential for policy-making. In line with the general dissertation narrative, I argue that we cannot understand the role played by informational strategies over the actual fiscal game without a clear picture of major alliances created to insure the survival of the regime. Who had to receive what material benefits in order to pledge allegiance? Which actors were too important politically to be submitted even to a faint attempt to political contestation from rival stakeholders? Moreover, because alliances often consolidated and shifted over relatively long periods of time, only a *longue durée* narrative can capture changes in informational strategies.

During the late 1970s and 1980s, the years of ‘lead’ (or of severe repression) constructed the royal authority as “sacred and inviolable” and inscribed its untouchability
in the Constitution. Economically, this was the period of debt accumulation, and about 50% of the national revenue concentrated in the hands of “the feudal notables and the state apparatus” (Daoud 2007: 148). The regime started increasing taxes and provoking the discontent of business communities, as well as enforcing obligatory loans. Despite the looming economic crisis, the sovereign planned or launched large-scale industrial projects. In the words of a prominent opposition leader at the time, “(…) he is the master of time, he understood that he is dominant, he controls everything; (…) launching projects does not mean, for him, realizing them, and if he declares himself open to reforms (…) this does not bind him to anything.” (Daoud 2007: 148-9)

In terms of fiscal or distributive alliances, the monarchy of the period adopted the developmental formula “enrichir les riches sans appauvrir les pauvres” (or making the rich richer without making the poor poorer). Reminiscent of the relationship between Vladimir Putin and business oligarchs in post-communist Russia, Hassan II sent a warning to the business communities exactly around the time of state retrenchment when they were emerging as a distinct class: “(…) do business, not politics. The moment is fortuitous, and it will not last forever. By getting rich, you are doing a service to yourself as much as to your country and to myself (…) because a king in need is condemned to term. Money is a symbol of power.”

This logic occasionally brought criticism and pushed the monarch into sporadic populist gestures of largesse. For example, he asked all his state ministers to donate a month of their salaries in order to provide relief for the victims of the frequent floods of the Gharb. In general, the relationship of King Hassan II with the broad population was generally characterized by a mixture of carrot and stick strategies meant to appease
dissent. On May 28, 1981, the riots of Casablanca induced by the announcement of increases in the prices of the major food products (between 14 and 77%) were severely repressed. On June 6, however, the prices were reduced in half.

During the austere years of structural adjustment, the relationship with businesses became more nuanced and relied mostly on the selectivity of austerity and access to credit (Benamour 2007). The finance laws became increasingly complicated and opaque in order to allow discretionary implementation and punishment.

Meanwhile, the issues considered too heated to be debated in the Parliament were either just announced by the monarch directly and passed by decree, or submitted to semi-public colloquia. The colloquia system – literally referring to stakeholder debates outside of Parliament- was effectively used during the reign of Hassan II to solicit information on political preferences, yet to by-pass any form of parliamentary contention altogether. Not surprisingly, this was fertile ground for the quasi-taboos issues of the time (agriculture, decentralization, education, or housing subsidies for the poor during the austerity years). Concrete examples of induced regulatory opaqueness abound: before the land reform, the King convoked an agricultural colloquium at Camp de Chenes in 1964; similarly, when in the Minister of Education announced new austerity measures affecting students and parents, the monarch anticipated a high level of contention (and potentially deadlock) in the Parliament and decided to bypass the legislature completely. However, in order to collect information on the preferences of major stakeholders, he organized a parallel colloquium on the issue at Ifrane. This is certainly an empirical point of relevance for my theoretical argument.
Agriculture consolidated the political alliances of the *makhzen* between the monarch and the rural notables. Beyond traditional rural elites, land also became a currency of loyalty for co-opting political opponents and keeping the winning coalition united. The majority of farms left behind by foreign colonists from the era of the French protectorate were given to high civilian and military officials, as well as to representatives of the political parties on verbal order of Hassan II, without any written document proving the transaction (Brousky and Monjib 2009). All these measures led to the creation of a handful of highly influential landowners, with power to influence the fiscal contract to their advantage. As a result of this tight alliance, agricultural taxation was completely abolished until 2020.

During the 1970s, the palace attempted to redistribute some land in order to create a middle agricultural class that would be a buffer zone between the rural poor and the big landowners (in 1972, 40% of peasants were landless, and 60% of lands were in the hands of 10% of the farmer population). The conditions of the redistribution, however, were so severe that they ended up *de facto* tying small peasants to land and preempting them from migrating to the cities. Just to understand the skewed fiscal burden institutionalized during the years of Hassan II’s rule and its legacy in contemporary Moroccan politics, to this day, only about 100 large companies in the urban center account for approximately 86% of the corporate profit taxes (Ksikes 2008). In a fiscal environment in which agriculture is a dominant sector but large landowners and rural notables pay zero taxes, the nature of the political economic alliance becomes clear.

Only recently, Mohamed VI suggested in his 2008 official discourses that the rent economy associated with agriculture might come to an end. As the last section of this
chapter will suggest, this signal of open or allowed contestation reflects perhaps the changing nature of alliances between the monarchy and large urban businesses as well as segments of the urban poor. It is not entirely coincidental that the 2011 electoral victory of PJD, a party with Islamic roots, urban supporters and recent connections with large urban businesses as well as with the 'pious bourgeoisie', pushed high on the political agenda the issue of reinstating agricultural taxation.

Finally, with regards to the army and the Ministry of Interior, just like in totalitarian Romania, the attitude of the monarch changed over time as a function of perceived political threat. Despite a significant level of expenditure allocated to the salaries and benefits of the military, Hassan II faced two coup attempts in 1971 and 1972. Ironically, and perhaps symbolically capturing the core logic of the fiscal contract, the King published the rebel officers’ personal fortunes built on problematic gains within forty-eight hours of the coup attempt in order to discredit them as well as the army— an institution he felt anxious about (Waterbury 1973: 551).

Soon thereafter, the Ministry of the Interior replaced the military as a pillar of regime security and expanded its mandate considerably to this day. In the words of a Moroccan journalist, the budget of the Ministry of Interior is the taboo par excellence. Even if the allocation is an integral part of the annual Finance Laws, the budget of the interior has never been discussed in parliamentary commissions, the MPs voting it unanimously despite major debates in the legislature, like “a 'letter to the post office.'"

The story of the ministerial appointments to the most important bureaucratic unit in the kingdom and one of the strongest pillars of political survival of the monarch is also
fascinating, as it reveals shifting political alliances with the major groups, from old makhzen networks to modern urban managers.

In 1972, it became clear to Hassan II that he could no longer rely on the army. After all, his right hand, General Oufkir, was the main author of a military plot to overthrow the monarch. Instead, he sought to cultivate the loyalty of an institution that had the unique capacity to combine the carrot and the stick and use them both based on reliable information collected on the ground. The first influential head of the powerful Ministry of the Interior – the institution to effectively fulfill this function to this day – was Driss Basri, and he kept the position throughout the years of lead (1979 to 1999). Basri was associated with severe repression and societal terror, and even nowadays, supporters of Hassan II claim that the head of the Interior committed a significant share of abuses on his own initiative, without the explicit approval or endorsement of the monarch. Basri’s replacement became indirectly (and somewhat delayed) one of the components of the political liberalization package initiated by the King in 1997.

The sociological profiles of his political successors give a good snapshot of the new generations of elites that needed to be incorporated in the structure of the refashioned makhzen following liberalization. The new heads of the Interior were no longer trained and bred in the ranks of the ministry and intimate with the technicalities of repression, but rather ‘modern’ managers, many in close contact with urban business circles, who were able to run a reborn organization efficiently. The permeability of the border between economic and Interior appointments is telling in this sense. The immediate successor of Basri for two years became Ahmed Midaoui, the current head of the Court of Public Accounts. Following Midaoui, Driss Jettou, former Minister of
Industry, recognized technocrat and defender of urban businesses during an episode that will be narrated in greater length in the following section, organized the sensitive elections of 2002, when the Islamic PJD party obtained an uncomfortable level of electoral support from the point of view of the monarch. In 2002, Mohammed Sahel, who focused mostly on communication and public relations succeeded Jettou. Chakib Benmoussa took over in February 2006 and started to manage a reconfigured Ministry of Interior that in addition to repressive and political roles (such as organizing elections or decentralizing) became the main pillar of the massive royal socio-economic development plans.

We will see later on in the story that at the end of the years of lead and of the Hassan II era, the Ministry of the Interior became instrumental for the new fiscal contract established between Mohammed VI and urban constituencies. Adjusting fiscal transparency and constructing information asymmetries were cornerstone strategies to achieve that.

Just to get a sense of the paradox of a powerful Ministry of the Interior that is attracting more and more resources for sticks and carrots even in the current era of political liberalization, in 2009, its budgetary allocations increased to 16.1 billion Dirham compared to 13 billion in 2008 or 10 billion Dirhams in 2007. The current expenditure by itself marked a 22.8% hike during one fiscal year. Nonetheless, its allocations so far have remained outside of the domains of open political contestation and transparency.
6.2.3 Signaling discretion and accommodation on the fiscal contract in an era of political liberalization

The years of lead ended in the 1990s with a general ‘transition’ entailing a simultaneous renegotiation of two pacts: 1) a political recognition of the opposition and 2) a fiscal recognition of the new urban business elites created by the privatization programs in the wake of structural adjustment. The former symbolically expanded political rights. The latter pact induced business lobbies to reveal their fiscal vulnerabilities and warned them not to trespass upon the political contract. Despite the fact that agriculture kept carrying the fiscal taboo legacies from years of lead and remained fiscally untouched, the new pact opened up and allowed a certain level of contestation and confrontation between urban businesses and the powerful Ministry of Interior. The following two sections will tell the stories of the two processes.

6.2.3.1 The new political pact

In 1997, Hassan II decided to liberalize, or in his own words, transition to ‘alternation’ in power. The communal and legislative elections that took place the same year opened a new electoral era, as for the first time, the traditionally repressed left-wing parties, were invited to partake in the formation of the government. Largely hailed as a “democratization” movement, the election and formation of a left-wing coalition government were presented as a changing moment in the history of Morocco and of the Arab world in general (Khatibi 2000).

On February 28, 1997, la Déclaration commune entre le gouvernement et les parties, a common declaration of electoral principles and a political innovation in the Moroccan context, set the parameters of political engagement for the new series of
‘democratic’ elections. The monarchy committed to insure the transparency and fairness of elections whereas the opposition parties from the Koutla bloc promised to accept the final result and not to boycott the process. Interestingly enough, the pact signed with urban businesses (represented by the largest business association CGEM) described in the following subsection had a lot in common with the new electoral “ethical code” (or code de déontologie, “pacte d’honneur et de bon conduite”). They were written, highly formal and highly visible public signals of negotiated concessions.

The main ethical principle inscribed in the political pact was: “one voter=one district=one ballot=one vote.” In parallel, to indicate credible commitment to change, a new electoral code got adopted with unanimity in March 1997 and the electoral lists were “purified.” As an additional device of credible commitment, a Commission to Supervise Elections was formed and composed of the leaders of political parties participating in the elections and presided over by D. Dahak, an important figure in Moroccan politics, former president of the Supreme Court and of the respected Human Rights Committee.

The two major electoral camps were Koutla - initially a coalition of five left wing political parties with a long tradition of opposition movements, on one side, and the Wifaq, formed in 1993 and composed of three parties. Despite the fact that in retrospect the victory of Koutla and the integration of former opposition members did not make any policy difference whatsoever (with the Youssoufi socialist government ending up being

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7 Commission de Suivi des Élections

8 Just to give an example of the symbolic act of allowing USFP (Union Socialiste des Forces Populaires) to form a coalition government, it is worth mentioning Abderrahmane Youssoufi’s trajectory - the newly minted Prime Minister. To briefly recount his political positioning vis-à-vis the monarchy, he participated in the establishment of UNFP, the main socialist party, in 1959, and was close to the charismatic left-wing leader Mehdi Ben Barka. During the years of lead, he was arrested several times, condemned to death, and sent on a 15-year exile after the Ben Barka assassination. After this tumultuous personal relationship with the monarchy, Youssoufi protested against the electoral fraud committed in 1993 and left for a two-year self-imposed exile in Cannes. In 1996, he came back to Morocco, pleading for USFP to join the alternation government (Vermeren 2001).
even more unpopular than the establishment parties), the episode was profoundly symbolic: the “alternance” – as it is often called, allowed, according to analysts, to re-circulate the elites of the winning coalition and integrate the former opposition banned from the inner circle of power.

The era of change also had a major Constitutional reform in store. One of its major components was the establishment of a bicameral legislature, by adding a second indirectly elected Chamber (*La Chambre des Conseillers* or *Majlis El-Mustaharîn*) to the pre-existent one (*The Chamber of Representatives* or *Majlis El-Nuwâb*). Unlike the second pre-existent Chamber selected based on proportional representation lists, the Chamber of Councilors was created in order to secure regional, communal and professional representation. This institutional innovation was designed to maintain the political balance of regional rural interests loyal to the monarchy in a changing period in which the urban interests were giving their political allegiances to the former left-wing opposition members. Just to give a sense of the different patterns of representation between the two chambers, whereas in 1998, the USFP (the main left-wing party and the heart of the Koutla coalition) was leading in the Chamber of Representatives with 55 seats, in the Chamber of Councilors it was scoring a modest total of 15 seats, being surpassed by far by the traditional pro-monarchic parties such as the RNI, UC, MP or Istiqlal.

The reform introducing a new chamber of the parliament secured an additional safety valve for the monarchy: even if the opposition parties won and aggressively attempted to pass legislation benefiting urban interests, they would be either blocked or kept in check by a second chamber in which agricultural interests and the countryside
were better represented. Even in an era of controlled change, the rural pact of the traditional makhzen remained untouched.

Later on, Spring 2002 brought another major electoral reform by switching from first past the post to proportional representation.\(^9\) This change in the electoral law, as a political response to the rise of the Islamic party PJD, was designed to reduce opposition majorities in Parliament, as tamed and co-opted as they might have been.

The new ‘allowed’ contestability of selected fiscal issues was, however, well signaled. What were the immediate implications of this transition in terms of the transparency of the fiscal contract? First, a new organic law of finance was adopted on November 26, 1998 to replace a previous text that had not been modified since 1972. On some level, this institutional shift on budgets and public finance was designed to match closely the political opening. It thus changed the budget calendar to accommodate a new parliamentary chamber and it introduced an obligatory sixty–day deadline for the submission of the annual budget draft to the legislature before the end of the fiscal year. Even according to the evaluations of the World Bank team invited to assist with the preparation of the legal text, the 1998 finance law reform was meaningful and substantive, and overall increased budgetary transparency. Simultaneously, both the organic law and the 1998-1999 budget were more heavily debated than in any of the previous years. Here are two graphs of voting records and debate duration in the parliament that show the relative fiscal opening, transparency and contestability of this major episode of incorporation of new elites:

\(^9\) The electoral reform in 2002 entailed several other components beyond the transition from first past the post to proportional representation. At the same time, the districts were reduced in number and increased in size (from 325 in 1997 to 91 in 2002). The major cities (Casablanca, Marrakesh, Fez) – the fiefdoms of PJD support - lost several representative seats in the process.
It is fascinating to observe in the second graph the evolution of debate intensity of fiscal laws (annual budgets, organic laws, tax reforms) in the Moroccan Parliament, measured as the number of days between the debate initiation and adoption. Whereas 1997 and 1998 are years of vibrant contestation, in sync with the political changes at the time, the vibrancy goes down towards 2002 when the uncertainty of electoral victory of
the Islamic party PJD looms on the horizon. This visual hint confirms the theory of fiscal transparency in hybrid political regimes presented in this dissertation. Whenever new elites are incorporated in the winning coalition, the fiscal contract opens up on both dimensions of transparency and contestation. In contrast, when the collective action potential of the opposition (PJD’s popular appeal) made the monarch politically anxious, it reduced its overall transparency level. The subsequent sections will show how the monarchy started in the 2000s to rely increasingly on extra-budgetary funds in order to pursue its development problems and compete in the districts with popular Islamic movements.

Despite the fact that the 1998 Law of Finance marks a fiscal opening for the opposition, some of the clauses embedded in it make it somewhat less progressive than its precursor – the 1972 law. For example, if until 1998, the executive was obliged to submit any revisions to the voted budget to the Parliament for approval, from 1998 on this requirement is eliminated (article 43) and the executive can open credits and spending chapters, on grounds of the national interest, completely by-passing the legislature altogether. Moreover, article 18 of the new finance law again gives the executive the prerogative to open new extra-budgetary or special treasury funds, not fully integrated with the budget, by decree, during the budget year (Berrada 2008: 27). As we will see, the rule of Mohammed VI witnessed a proliferation of such special accounts that took away a large part of the budget from the domain of full fiscal contestation in an era of Islamic party ascension.

10 There are many examples of revision/rectification laws passed in Parliament between 1968 and 1973. In 1974 alone, three revisions of the annual budget were submitted for legislative approval.
In addition to fiscal opening in the Moroccan Parliament, the “alternation” also marked, albeit only symbolically, the subordination of the regional structure of the Makhzen to the Prime Minister. On December 24, 1998, the 72 governors (wallis) – key stakeholders of the traditional network of disbursement of material benefits to local notables - were invited to the Ministry of Interior. Nothing was new about the location of the meeting. The innovation, however, resided in the fact that the meeting, traditionally escaping the direct authority of the government, was now led by the ex-opposition figure, recently minted socialist Prime Minister Youssoufi. Despite the fact that the powerful Minister of the Interior continued to be the de facto locus of power with respect to the territorial Makhzen, making sure that the rural interests are kept satisfied and the urban constituencies are under control, this meeting, symbolically transferred de jure formal power to the Prime Minister for the first time ever.11

6.2.3.2 The new fiscal part with the urban business elites – aspirants for membership in the winning coalition

“(…) there is some tendency in Morocco's political system for the Palace to view any successful entrepreneur as politically dangerous (he could buy clientele, influence, and a political power base). There is also a tendency to break or domesticate such men, to reassert the links of dependency essential to the regime's survival. Most actors are aware of the possibility of discriminatory sanctions, and this awareness or general expectation is more important than the actual frequency with which sanctions are applied.” (Waterbury 1973: 545-546).

At roughly the same time when the political pact between the monarch and the opposition political parties was unfolding, another process of fiscal negotiation, by now notorious, brought the monarchy and large urban businesses to a frontal confrontation ending with a new fiscal contract. Some call the episode “la campagne

d’assainissement”\textsuperscript{12} (the purification campaign); others, shaken by the political violence of the episode, refer to it as “la grande peur” (the great terror) – two sides of the same mirror. The episode is particularly meaningful for the theoretical argument of this dissertation because it combines some level of information seeking on the stakes of the business community through induced contestation, with a political warning that discretionary fiscal implementation will work against any potential dissenters. To this day, for the business community, this campaign is deeply ingrained in the collective memory as a reminder of the centrality of the monarchy on the implementation dimension of the fiscal contract. This is a good illustration of what Chapter IV argued in greater depth.

The “purification campaign” took place at the end of 1995 and the beginning of 1996 and started as an attack on tax evasion, trafficking and corruption. The episode originated from King Hassan II himself. The oft-invoked ‘official’ policy sources of inspiration for the overhaul of the fiscal contract with the business community (and not with the traditional rural makhzen) was a World Bank report from 1995 that demonstrated to the monarch that Morocco is on the verge of a “heart attack.” Allegedly, the campaign was also precipitated by the publication in Le Monde of paragraphs from the geo-political observatory of drug trafficking suggesting that Morocco was the number one world exporter of hashish, and alluding that the circles close to King Hassan II might have some level of involvement (Catusse 2008: 176).\textsuperscript{13}

\textsuperscript{12} This episode has been analyzed many times in the political economic context of Morocco (Bouderbala 2001, Catusse 1999, 2008, Hibou 2004). This chapter draws on previous interpretations of this episode but attempts to de-marrocanize it by placing it within a broader theoretical context of implementation signals in hybrid political regimes with limited multiparty competition. Chapter 3 set the theoretical framework and this story contextualizes it.

\textsuperscript{13} The overhaul of the legislative framework in the Parliament followed the royal discourse from May 16, 1995 and included four laws: a new Code of Investment and Code of Commerce, a law on companies and a law on
The rationale for launching the campaign announced by the palace was that one third of the country's GNP and the equivalent of the total amount of industrial production was lost in smuggling activities while 50% of the total amount of taxes remained uncollected (Hibou 2004). The moment when the campaign was launched also coincided with the signature of the free trade agreement between Morocco and the European Union.

The opposition media had a different version of the ‘creation myth.’ This narrative argued that the King was personally disappointed by the fact that a special budgetary account for rural development that he created to reward the members of the makhzen (Fund 111) did not solicit significant donations from the urban representatives of the Fassi bourgeoisie and large industrial companies from Casablanca.¹⁴ Resenting a class of urban elites that attempted to disobey the traditional fiscal contract of redistribution from the cities to the countryside, the central state attempted to flex its muscles. True or not, this particular version is fully compatible with similar stories of coerced fiscal voluntarism. Chapter 4 briefly told the story of Fund 26.26 in Ben Ali’s Tunisia.

Not surprisingly, the campaign was initiated and conducted by Driss Basri, the feared Minister of Interior of the years of lead, and right hand of the monarch. Institutionally, a new commission was created ad-hoc (the Economic and Financial

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Brigade) under the authority of the Ministry of the Interior with a wide mandate to arrest all non-compliant businessmen by night or day (Catusse 2008:179).

The campaign of purification started first with large companies and specific names of prominent representatives of urban businesses, accused of having “abused” the tax exonerations between 1989 and 1996 (particularly in the textile industry) or having failed to pay import taxes altogether. Three main areas of business misconduct were primarily singled out during the year-long campaign: temporary exemptions for import taxes (mainly pertinent to the textile industry), fiscal evasion, and missing invoices for a large number of commercial transactions (Catusse 2008: 178).

Since the episode was on the surface directly targeting the shadow economy (the informal sector and drug trafficking), it is important to briefly digress and understand the locus of the informal in the political economy landscape of Morocco. The very term “informal economy” is not at all a residual category but rather a significant (if not predominant) presence across entire sectors of the economy. Even attempting to forcefully apply a numerical yardstick to gauge its scope, the number of employees registered with Moroccan Social Security (CNSS or Caisse Nationale de Securite Sociale) is almost insignificantly low. In terms of fiscal registration, the general practices are lax at best. Most Moroccan companies (small or large) are in de facto illegality since the fiscal laws are often opaque and discretionary.¹⁵

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¹⁵ Even before the campaign of purification, both small and large companies interviewed by various analysts complained about sheer lack of data regarding their rights and obligations. The implementation of the legal framework was discretionary: the jurisprudence and previous decisions were never published, there were legal incoherencies even within the same jurisdiction, and the Bulletin Officiel was often printed and distributed with great delay. According to interview respondents, “the absence of any access to credible information” impeded compliance with the law. This state of affairs penetrated all levels of administrative or judiciary procedures (Catusse 2008: 164).
Even going beyond the urban informal economy, the very fiber of regional economic specialization traditionally built in vast pockets of illegality in the makhzen structure. Historically, three regions of Morocco had an economic and political specialization within the post-colonial state. Traditionally, the Fassi bourgeoisie from the major urban centers represented the Moroccan capitalism. In parallel with the development of this class, the Soussis from the coastal regions developed their own “ethnic” form of smaller scale capitalism based on solidarity family relations. The Rif region, in its majority ethnically Berber, stands out in comparison with both groups because of its delicate position vis-à-vis the central state. Being severely repressed in the 1960s by Hassan II who at the time was the crown prince, the region was characterized by a form of “economic dissidence” primarily expressed in kif trafficking and illicit trade with Algeria and Spain. Despite the official line that attempted to ban and repress this commerce, the connections with the Makhzen and the quasi-tolerated status of the kif trade made illegality a state of affairs, many analysts have argued (Vermeeren 2001).

Accordingly, whereas the official narrative argued the informal economy posed fiscal threats as it limited the redistributive capacity of the state and the rent system of the traditional Makhzen, scholars have continuously emphasized the fact that the political benefits of not enforcing informality, collecting taxing and regulating the economic activities of the shadow sectors by far exceeded the costs of collecting revenue. Tolerating illegal or semi-legal economic transactions was the ‘safety valve’ of the monarchic regime for dealing with urban classes for which it could no longer provide employment in the public sector. Therefore, given the generalized placement of the
informal at the very heart of the Moroccan political economic environment, this episode of ‘purification’ is particularly meaningful for my theoretical argument.

Going back to the purification campaign, according to numerous interviews, the actual fiscal charges against urban businesses were perceived as irrelevant since the rules guiding the campaign were arbitrary. As a consequence, the reaction of the economic actors was proportional to the perceived trespassing of the central state on their territory. Many small and medium businesses that depended on imports closed their doors immediately, whereas major political actors took their sides. Mohammed Ziane, Minister for Human Rights, and later on founder of the Liberal Moroccan Party, resigned at the time from his ministerial position in protest against the sovereign’s acts.

Members of the government aligned overnight with the two poles of the debate: on one hand, the Minister of Justice followed Driss Basri and the hard line of Minister of the Interior; on the other hand, the Minister of Finance and Driss Jetou, Minister of the Industry at the time, took the side of the CGEM (Confederation Generale des Entreprises Marocaines) – the major business association defending the interests of the private sector. This episode of open confrontations between different factions within the government gave rise to many anecdotes and legends that revealed a political regime in transition from a repressive authoritarian phase to a more liberal phase of competitive authoritarianism. During several dramatic public conflicts between A. Lahjouji, the head of CGEM, and Driss Basri, one of the most sinister characters in the history of the years of lead, the former challenged the Minister of Interior to conduct a fiscal control at his home (Catusse 2008: 182).
Beneath the veneer of cleaning and sanitizing fiscal accounts, personal revenge also crept in. To paraphrase Stathis Khalivas’ metaphor that civil wars personalize threats, this episode of open conflict between the monarchy and the business community, definitely personalized the fiscal contract. Old business rivalries and ‘divide and conquer’ strategies came to the forefront of the trench warfare between the urban bourgeoisie and the executive.

The negotiations meant to clarify the terms of the renewed fiscal contract between the monarchy and large businesses took a long time to complete, close to one year, because of the highly polarized political environment. Despite the fact that the Ministry of Interior conducted the negotiations, the episode concluded symbolically with a pact between the Ministry of Finance and the CGEM (*Confederation Generale des Entrepreneurs Marocains*) led by its president and the hero of the moment, A. Lahjouji. The pact was called as the “*mise a niveau aministante*” and granted a general fiscal amnesty. The concrete terms of the agreement stipulated that corporate accounts will be exempt from all fiscal controls for a period of four years (1994-1997) in exchange for paying a turnover tax ranging between 0.16 and 0.65. All the economic sectors and companies, and not just those accused by fraud, were covered by this armistice.

Moreover, to underline the political character of the fiscal amnesty, the King obliged the large Moroccan businesses to provide employment for 1200 of *jeunes diplômés* (young college graduates), an increasingly politically rebellious constituency. By the end of the open confrontation between the monarchy and the urban bourgeoisie, a large amount of revenues was raised (estimated around 3.7 billion Dirham).

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16 “In contrast to indiscriminate violence, selective violence personalizes threats; if people are targeted on the basis of their actions, then refraining from such actions guarantees safety.” (Khalivas 2006: 144).
Overall, the campaign of purification concluded with a “gentlemen’s agreement” through which Hassan II sets new terms of the fiscal contract. The resulting reforms included general issues related to accounting practices, corporate governance and social responsibility issues, conditions under which public good services could be privatized, as well as a clarification of customs procedures and taxes. Symbolically, after the signature of the “gentlemen’s agreement,” Hassan II invited the leading team of the CGEM for an audience and reception in the throne room of the royal palace. The strong political flavor of the pact was also well symbolized by the participants in its signature: all the members of the business federation CGEM, the Minister of Interior, as well as all the governors and wallis in the country.

6.2.3.3 General significance of a new fiscal contract at the dawn of a new political contract

The conclusion of the episode with a highly formal agreement signed by all parties had two dimensions: one was economic, the other political. By now, there is wide consensus that the latter held primacy.

Economically, the general slowdown and the near paralysis of the country’s principal ports during the first half of 1996 were a prompt indicator of widespread fear and changing norms of interaction between the palace and urban businesses (Heydemann 2004, Hibou 2004: 203). Just to have a sense of the futility of the campaign for the actual corruption related outcomes, a Transparency International report written in 2004, almost ten years after the launch of the “purification” campaign, assessed that corruption in Morocco had become a global and generalized phenomenon. One of the key words used by this document was the selectivity and discretion with which the cases were picked, evidence used, and economic actors convicted. According to many observers, the random
fiscal control still remained the favorite tool for putting pressure and retaliating against economic agents with political aspirations.

Politically, during the negotiations, “(...) the sole ambition of the central power was to show itself as the only master – the only party capable of changing the rules of the game – to make it clear that at any moment it could break other powerful actors and that at the heart of its method of exercising power was the preservation of confusion (...) The only principle to have functioned effectively in the production of the new norm was that of loyalty.” (Hibou 2004: 205) Symbolically, the central customs building was moved to Rabat, while a recently constructed site for this purpose in Casablanca was immediately abandoned.

From the point of view of my central theoretical argument, the most interesting part about the campaign stemmed from the fact that for the first time, the price of loyalty for the co-optation of business interests from the urban centers was no longer decided in the royal palace. Instead, the currency of cooptation was the direct result of negotiations between the monarch and CGEM representing urban businesses. This is a perfect example of induced contestability of the fiscal contract in electoral authoritarian regimes that have to negotiate the price of co-optation before accommodating new members of the winning coalition.

Here is an example of ‘the price of loyalty’: in addition to the fiscal amnesty declared by the King that automatically pardoned all those condemned for trafficking and illicit trade, the monarch immediately amended the draft of the annual Finance Law with pro-business concessions, even prior to submitting it to the Parliament. Moreover, despite slow implementation, six trade tribunals and three appellate courts were created in April.
1998 as an “official framework for the encounters between the business association and the government” (Catusse 2008: 185). Also, paradoxically and perhaps ironically, the income and corporate profit tax regulations accompanying the Finance Law were so skewed in the favor of urban businesses that the socialist Prime Minister Youssoufi lost credibility with his left-wing constituencies.

The relationship of the monarchy with the business association changed after this episode from open confrontation to co-optation in the political establishment. The campaign also revealed the transition towards a higher fiscal transparency and contestability regime. Since the 1941creation of the CGEM as the major business association of Morocco, this was the first time when it took a leading role and really positioned itself vis-à-vis an abusive central state. Interestingly, to understand the long term and bi-directional consequences of ‘purification’, Driss Jetou, former Minister of Industry who sided with the business association CGEM during the campaign, became the first Minister of Interior who did not build his career in the state security services (Catusse 2008: 274). In parallel, several years later, Lahjouji, the head of CGEM, entered politics.

Simply put, the costs of contention and transparency were internalized by both contenders (urban businesses and the Ministry of the Interior). The consequences of the story were so far reaching that they opened an unprecedented era of contestability and reshuffling of the winning coalition. Perhaps even more importantly, the campaign of purification recognized politically for the first time the existence of divergent – yet equally legitimate- interests of the business community and the palace.
6.2.3.4 Rabat – Washington echoes: the reception of the campagne d'assainissement by the international financial institutions

Here is an example of how these consequences were immediately reflected in the documents of the period. The confrontation between businesses and the palace was presented to the IMF Board of Directors as a campaign meant to deal with drug trafficking and smuggling that significantly increased tax collection. “(...) Many taxpayers, apparently considering the government’s initiative to be more broadly targeted, had declared previously unreported incomes. To assuage any fears in the business sector about the motives of its campaign, the government had agreed to consult the business community on major economic policy issues, in return for the business sector agreeing to greater transparency and adherence to fiscal laws.”

The minutes of the IMF meetings held to review the staff report on Morocco that year, are also quite rich in information about the aftermath of purification. Interestingly, and perhaps not coincidentally, some of the IMF directors complemented the Moroccan authorities for fiscal data transparency. The government was commended for significant improvements in monitoring unemployment and institutionalizing a quarterly system of data collection.

In the end of the meeting, the directors congratulated the country for the recent political reforms designed to solicit broad social consensus, as well as for the efforts to increase data collection and transparency on the consolidated budget and financial operations. Such progress, in discussants’ assessments, would facilitate effective

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17 Excerpt from M Dairi’s presentation in a meeting of the IMF Board of Directors, EBM/96/109-12/6/96: 40.
surveillance and the future incorporation of Morocco into the framework of the Special Data Dissemination Standard.\textsuperscript{18}

The praises for increased budget and fiscal transparency were soon offset by an evaluation of the remaining pockets of darkness embedded in both the tax system and expenditure. This tension, I argue, is precisely the equilibrium state of informational strategies: enough openness to collect information on the fiscal preferences of potential contenders and survey them, combined with some level of opaqueness to facilitate control.

Illustratively, selected interventions from members of the IMF Board expressed doubts with respect to the effectiveness of expenditure cuts that avoided freezing public sector wages completely. The tax system was still very complex, with many exemptions and loopholes, and the current expenditures were found to be severely skewed towards unproductive expenditure (wages and Interior/Defense spending). Even more relevantly for tabooization, the IMF expressed explicit concern about the allocations to Defense and the Interior. The outlays for the Ministry of the Interior at the time accounted for about 25\% of the total current expenditures, whereas the health budget did not exceed 5\%.\textsuperscript{19} In the words of one of the IMF directors, the fact that in the 1996-1997 budget, Defense and Interior alone absorbed around one third of all current expenditures is 'more than a little disturbing, and (...) a more sustainable distribution should be made a priority.'\textsuperscript{20}

To paint a complete picture of this equilibrium specific to hybrid political regimes that combine some level of transparency and contestation with arbitrary implementation,

\textsuperscript{18} Idem; An interesting linguistic note: coincidentally or not, the label used during a session of the IMF Executive Board of Directors is ‘campagne de normalization,’ instead of ‘purification or assainissment’!.
\textsuperscript{19} Idem : 18.
\textsuperscript{20} Idem: 35 (M. Brettsneider’s statement).
the figure below also explores the timeline of budgetary audits and account closures for the budget activity from previous years.

As we can notice, the annual budgets from the years of lead took more than fifteen years to audit and close. The standards improved dramatically during the political transition to a more liberal phase (1997-1998). Despite the obvious progress observable in the sharp decline of the number of years required to have access to information and data on the implementation side of tax and spending, the timeline in the beginning of the 2000s was still unusually high by world standards (by comparison, both Turkey and Romania took two years to fulfill the audit and make data public). This observation relates to the Chapter 4 of the dissertation. In hybrid political regimes, leaders allow a certain degree of transparency and contestability, but are better off politically obfuscating the implementation of fiscal contracts.
6.2.4 Neo-makhzen and fiscal ambiguity in the age of the political ascension of an Islamic party

In 1999, following Hassan II’s death, Mohammed VI became the new leader of the Sherifian dynasty. In many aspects, the new monarch came to power committed to a package of liberal reforms. For the first time, he traveled to the rural Berber areas of the country where his father previously feared vocal opposition. Symbolizing a break with the alliances of the past, he married Salma Bennani, representative of the Fez commercial classes and not a descendant of the rural Berber tribes. During the first two-three years of rule, the newly minted king also sought to bring transitional justice to the forefront of public debate, and initiated a broad process of reconciliation with the victims and political dissidents of the years of lead. After 2000, many commissions dealing with liberal causes proliferated exponentially: the creation of Hassan II Development Fund, the Royal Institute of Amazigh Culture for the promotion of Berber identity, the Commission on Equity and Reconciliation, etc. For royal supporters, these efforts were brave signs of a broader political liberalization than his father ever intended. For detractors, the creation of many committees and special budgetary accounts were widely viewed as palace controlled pockets of resources for cooptation of potential contendersto power.

One of the top priorities of Mohammed VI’s agenda was socio-economic development. The signals of commitment ranged from symbolic handouts to the poor (which gained the monarch the title le roi des mendients, or the king of beggars) all the way to the creation of ambitious development initiatives targeting the urban poor (for example, INDH – Initiative Nationale pour le Developpement Humain).
Just like in the years of his father’s rule, two distinct pacts started to loom on the horizon: a sustained continuation of electoral liberalization and transparency on one hand, matched by a parallel process of increased fiscal control over state resources, on the other hand. In a way, these are the two inversely correlated trends that Chapter 3 suggested: in hybrid political regimes, the expansion of political rights and civil liberties comes at the expense of tightened control of the fiscal contract. These two shifts occurred in the background of the rise to political prominence of a co-opted Islamic party: PJD (*Parti de Justice et Development*) popular in both poor urban constituencies as well as in the business circles.

6.2.4.1 The political pact of the neo-makhzen

Reminiscent of 1997, the 2002 elections marked the renewal of a social pact of Moroccan political parties with the new monarch. If despite the official rhetoric of the administration, the 1997 elections still witnessed heavy interference from the palace, in 2002, the new king Mohammed VI himself intended to signal a personal commitment to transparency. Driss Jetou, the newly appointed Minister of Interior, familiar to the reader by now from the times of the campaign of purification, announced hours before the beginning of the vote that there will be no interference or “programmed falsification.” In addition, all the newspapers hailed the 2002 elections as the first real election in Morocco since 1956 (Catusse 2007, Zhegal 2005).

Metaphorically, to symbolize the transparency of the new ‘democratic’ electoral process, the voting stations used glass ballot boxes (Catusse 2002, 2008). Additionally, the ballots changed graphically, and the parties inserted symbols rather than text on them, as a response to a long-standing complaint from the left wing USFP party that the
illiterate population (representing 17.61% of the electorate in 2008 according to official
statistics) was excluded by default from the electoral process. Many associations were
allowed to enter the elections monitoring process, ranging from international
organizations such as Transparency International or Afak, all the way to neighborhood
associations (i.e. Derb El-Miter Bouchountouf neighborhood where the Islamic party PJD
managed to mobilize effectively). It is estimated that around 20 organizations and 3000
election monitors trained and supported by international donors participated in election
monitoring (Catusse 2007). Syntactically significant and perhaps symbolically deliberate,
the process of cleaning and streamlining the electoral lists was called “assainissement,”
just like the previous episode of confrontation between the monarchy and the business
community.

However, despite all reassurances coming from the palace and the Ministry of the
Interior, the monarchy miscalculated and underestimated the real support that the
domesticated PJD garnered in the outskirts of the large cities. The 2002 elections changed
the calculus of co-optation and uncertainty for the monarch. If the ‘alternation’ in power
in 1997 marked a pact between the monarchy and an opposition party that in a post
ideological world was no longer threatening for the leader, 2002 for the first time opened
the possibility of an actual policy reversal in the parliament. PJD, a moderate Islamic
party already co-opted into the political establishment and at least rhetorically loyal to the
monarchy, entered the elections and took the Interior and the palace by surprise.
Information collection on its real appeal was partially the culprit.
According to my interviews with PJD leaders, the state did not allow opinion polls that would gauge the pre-electoral voting trends.\textsuperscript{21} Even beyond polls, election results were quite inaccessible before 2002. In 2002, for example, despite the legal framework and media communiqués, there was no detailed tally of votes by electoral circumscription or voting center. The most common excuse used by the Minister of the Interior referred to computer problems that made impossible the publication of the actual number of votes or percentages obtained by defeated candidates locally (Catusse 2008).

These elections also embedded a paradox that the monarchy understood for the years to come and that is very relevant for the transparency/contestability of the fiscal contract as well. Despite the fact that the Ministry of the Interior took all the necessary precautions to prevent PJD from winning (gerrymandering of electoral districts, malapportionment, persuading the Islamic party not to nominate candidates for all districts, etc.), the popular support still prevailed. The many security check points failed to guarantee real security for the regime.

Because of the general confusion with respect to the reception of the suspected victors, the official announcement of the results was delayed with 24 hours on grounds of

\textsuperscript{21} Interviews, Rabat, April 2009. The first large-scale electoral opinion poll in Morocco was the CSA/TMO Maroc for the Maroc2020 association in September 2002. The second electoral opinion poll was conducted in July 2007, two months before the legislative elections held that year, by CESG (Centre International des Etudes Stratégiques et de Gouvernance Globale) in collaboration with LaberCom- the political communication department of Hassan II-Mohammedia University. When published, the survey had many disclaimers with respect to the interpretation of the data in the Moroccan context, given ‘the lack of tradition in public opinion forecasts,’ as well as their polemical nature. These results are interesting, as they capture for the first time systematically the voters’ ambiguity and ambivalence regarding the overall electoral process (i.e. no distinction between opposition and incumbents in terms of policies, lack of trust in political parties, parliament and the judiciary). Perhaps the most sensitive component of the poll referred to the anticipated popular vote for the Islamic party PJD. According to the poll results, discounting for a 50% abstention rate, PJD was indeed leading with about 21%, followed by USFP with a distant 13% of favorable opinion. As the section on the electoral game in Morocco will show, PJD became the second party with 46 seats, after Istiqlal (that came in the third position during the poll).
“technical” problems. In the end, when the electoral data became available, three major parties seemed to have taken the lead: USFP, the incumbent with 50 seats, Istiqlal with 48 seats and PJD with 42 seats. Astonishing for all parties participating in the election, despite all potential coalitions following the election, Driss Jetou – the Minister of Interior and election organizer - was appointed Prime Minister.

If 2002 marked the surprising revelation of a powerful Islamic party posing credible electoral threats to the establishment, and perhaps also raising a question mark for the monarchy despite political co-optation and moderation, the 2007 legislative elections only reinforced the trend. PJD won the total number of votes (10.9%) translated in 47 seats in the Chamber of Representatives, but occupied only the second place in terms of number of MPs after Istiqlal. The 2007 elections also scored the lowest electoral turnout (only 37% and around 19% blank ballots). Paradoxically, in urban areas where PJD won previously, large percentages of absentees demonstrated a great dissatisfaction with the entire political process. International and Moroccan election monitors reported however that the 2007 elections were conducted under conditions of transparency, with only isolated incidents of misbehavior.

In 2009, a newly created party, PAM (Parti de l’Authenticité et Modernité) under the leadership of a close friend of the king and former Minister of the Interior, Fouad Ali El Himma, benefiting from many funds and exemptions from campaign rules, defeated PJD.

The most recent electoral episode, in November 2011, ended a tumultuous period for the monarchy marked by the uncertainty of the Arab Spring and its domestic offspring – the February 20 Movement. Following a Constitutional referendum in July 2011 that
reduced *de jure* the powers of the executive, the legislative elections recorded the victory of the Islamic party PJD, and the monarch himself appointed its leader, Abdelilah Benkirane, as the Prime Minister.\(^{22}\) This was also the election that restored, albeit partially, the turnout to a reasonable threshold (45.4% of the electorate), demonstrating some level of restored legitimacy of the electoral game.\(^{23}\)

### 6.2.4.2 The fiscal pact of the neo-makhzen: special accounts for urban constituencies, lifting rural taboos

We saw that so far, during the previous episodes of fiscal contract renegotiation, agricultural interests still remained the fiscal taboo. Not only is agriculture not taxed to this day, but many exemptions and loopholes of the Moroccan taxation system also apply to the benefit of large landowners. For example, currently, there are no less than 44 exemptions to the VAT tax regime. Among them, the usual suspects figure prominently. All the royal special funds and foundations (such as Mohammed VI Foundation, Hassan II Foundation, Cheikh Zaïd Ibn Soltan Foundation, Al Akhawayn University, etc.) do not make the object of VAT deductions. Perhaps even more consequentially for the fiscal contract, around 59 agricultural materials are included in the list. Nine tenths of them benefit exclusively large landowners (Akesbi 2008).

The ‘taboo,’ to be fair, is the result of both supply and demand factors. Agricultural lobbies are powerful and have been effectively influencing legislation in the Moroccan Parliament because of their high collective action capacity. On the other hand, as we have already argued, large rural notables and landowners have traditionally constituted the ‘defenders of the throne.’ The monarch (Hassan II to a larger extent than

\(^{22}\) *TelQuel*, December 3-9, 2011.

\(^{23}\) *Idem*
his son, Mohammed VI) systematically blocked attempts at land or fiscal reform and redistribution that could have threatened this political alliance.

Nevertheless, times have changed. After the 2003 bombings in Casablanca committed by radical Islamic groups, the king had to reevaluate the real threat to his survival. The poor living in the slums of the large urban centers of Morocco were ready to mobilize in the absence of basic development opportunities. Similarly, *les jeunes diplomés*, the young college graduates who were no longer guaranteed employment in the public sector at the end of their studies, have increasingly started to protest and challenge the status quo all over the major cities. Moreover, the popularity of *Al-Wadl Al-Ihsane* religious movement, seconded by the electoral rise of the Islamic party PJD, precisely in these areas of public discontent, were additional signs that these are the new constituencies to which spending and transfers should be allocated independently of the whims of the parliamentary process.

All of a sudden, the palace realized that the new political threat stemming from the urban disenfranchised groups was more salient and urgent than the rural structure of the old (and perhaps obsolete) makhzen. The latter was anyway fully controlled by a powerful Ministry of the Interior.

Even outside of the poor urban neighborhoods, among industrial workers, the fiscal system of the previous twenty years generated a skewed distribution of resources and a steeply regressive taxation. A study comparing the dynamics of the VAT taxes applicable to various products between 1986 and 2008 found that VAT became increasingly regressive over the twenty-year period. Luxury products were taxed less and less whereas basic products steadily more (Akesbi 2008). The informal sector, also a
predominantly urban phenomenon, as already mentioned, is not an exception, but rather an essential feature of economic activity in Morocco.

Therefore, steadily, the attention of the monarch started to target precisely these constituencies. The multiplication and the large amounts of money allocated to the ‘special accounts’ (comptes d’affectation speciale, CAS) of the general budget for socio-economic development are a cornerstone of this strategy and have profound implications for the general level of transparency of the fiscal contract.

Already in 2001, an IMF staff report noted the two-year delays in the Moroccan reporting of data compatible with GFSY standards. At that time, the delay improved significantly compared to the years of lead when GFS reporting was around seven years later. Another major critique made by the IMF mission referred to the limited scope of fiscal data coverage. Local government spending data was not available, and extra-budgetary or special accounts were only partially included in reporting of general government.

Let us take a brief look at the evolution of such special funds over time. Journalists have pointed out that “(…) the recourse to special (or extra-budgetary funds) became, during the reign of Mohammed VI, the cornerstone of socioeconomic development.” These extra-budgetary funds cover an extremely wide portfolio of activities ranging from large infrastructure projects all the way to audio-visual and food subsidies.

Between 1997 and 2011, the funds increased in importance and became a parallel budget compared to the actual allocations included in the annual Finance Laws. Most of

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24 SM/94/139, June 2, 1994
26 TelQuel no. 348, February 2, 2012.
them (the Hassan II Fund being the most prominent one) are largely considered efficient because, at the implementation stage, they avoid the regular political channels (including Parliament’s approval) and have highly visible results (highways, bridges, airport construction, etc.). Each individual fund targets a specific sector or project and is funded through earmarked revenues. Second, special accounts bypass rigid accounting and Minister-level ceilings for investment projects. Despite the fact that the special accounts are included in the annual consolidated budget, and the legislature has to approve their total inflows of earmarked revenues and spending ceiling, their implementation and audit has a different status. In the two most conspicuous cases of special accounts/funds – the Hassan II Fund for social and economic development and the Mohammed V Foundation for solidarity-the actual implementation of the programs depends on a hybrid structure reuniting the public sector and private management. Their semi-autonomous status also creates a certain level of ambiguity and dilutes direct accountability relations.

Moreover, in case of national interest or economic necessity, the executive has the power to create new funds by decree, without Parliament’s approval. This was certainly the case of the Hassan II Fund for Development created by decree in January 2002 and centralizing a large proportion of privatization revenues. The special status of these accounts in Morocco and their role in reducing the overall fiscal transparency is quite comparable with the Romanian extra-budgetary accounts from the first post-communist years, but overall more transparent than the Turkish budgetary funds created for Defense spending. The next section will present more details in that respect.

To give an example of the evolution of these special extra-budgetary funds, in 2002, there were 132 in number, while in 2008 – 75 (a 43% decline). Despite the
reduction in numbers, however, the total amount allocated to them has increased (with 20% only between 2006 and 2007, for example).

Just to put the size of these special funds in perspective, around 54 billion of Dirhams, and the largest share of the state budget, goes to the wage bill for public sector employees. By comparison, the total amount targeted for the special accounts reached 66 billion Dirhams in 2007. The funding originates in several sources: special taxes earmarked for the corresponding fund (for example, tobacco taxes, radio and TV taxes, etc.), allocations from the general budget and international donor funds (for example, one billion dollar fund for energy and natural catastrophes donated by Saudi Arabia). Here is the evolution of CST (Special Treasury Accounts) and CAS (Special Accounts) over time:

![Figure 60](image-url)

*Figure 60 Evolution of the number of special accounts in Morocco budgeting between 1998 and 2008*

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27 *Idem.*

As we can see, despite a steady reduction of the special treasury accounts, the most important and politically consequential extra-budgetary funds (the special accounts) have mildly increased between 1998 and 2004.

In 2005, the King announced the creation of INDH (*Initiative Nationale pour le Developpement Humain* – the Special Initiative for Human Development), the most important financing structure for socio-economic development that runs in parallel with the annual budget. Just like 26.26 Fund in Tunisia, INDH has a highly demonstrative power, projecting the image of a social monarchy that is committed to deliver social programs to the poor. Interestingly, however, unlike the Tunisian counterpart, neither the Hassan II Fund nor INDH rely on obfuscated tax revenue. They are however endowed with large resources derived from privatization or foreign aid and assistance (significant World Bank allocations for the INDH, for example) (Catusse 2008: 158-160).

If for the monarchy, these special accounts and initiatives that run parallel to the central budget are the poster children of ‘efficient’ management of state resources, for critics, they represent alternative paths through which the palace shortcuts any form of parliamentary or public accountability with respect to public money. For example, implementation decisions on the private procurement contracts for services delivered with INDH funds (water, electricity, etc.) are in law designed to take place in a participatory framework and engage the local public entities. De facto, however, analysts have argued that the contracts with private entities have already been approved in the Ministry of the Interior and DGCL (*Direction Generale des Collectivites Locales*) by the time local institutions are involved at all (Catusse 2008). Because of the private-public
partnerships developed around special funds (CAS), they also become instruments of co-optation for the business communities.

According to some journalists, despite being presented and promoted as the major social project of the new regime, INDH is one of the major battle horses of the Ministry of the Interior, to the same extent as the classic missions of organizing elections or of security related operations. After all, the palace appointed Chakib Benmoussa, the Minister of the Interior and his team to assign a high priority to the INDH task. Therefore, the Ministry (with some assistance from international donors) controls and updates the lists of target areas and their budgets. According to critics, the geographical targeting is used precisely for forging ‘alliances’ between the palace and urban constituencies that have demonstrated collective action capacity in the recent past. The central manager of the project is institutionally located within the Ministry. Additionally, the first institutions created to manage the fund were chosen from above and involved the full discretion of the Ministry of the Interior (Luciani 2007, Catusse 2008). "Every time INDH is concerned, the Interior is there. The committee of strategic guidance is headed by the Prime Minister, but it only confirms the decisions taken by Benmoussa's teams (44).”

The graph below shows the number and share of allocation for special accounts by ministry and activity, as of 2004. A cursory look gives a good sense of the transparency of the process. Whereas the Ministry of Finance, for example, controlled and managed no less than 93 special accounts, accounting for 72% of all extra-budgetary accounts, their total allocations do not exceed 17%. In comparison, the powerful Ministry

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of Interior controls less than 10 accounts but concentrates close to 40% of the total special spending.\textsuperscript{30}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{image.png}
\caption{Total number and financial weight of special accounts by category, 2004\textsuperscript{31}}
\end{figure}

If we detach, however, the de facto \textit{modus operandi} of the special accounts from their \textit{de jure} status, Morocco performs well by regional standards in terms of transparency. The Ministry of Finance implemented meaningful public financial management reforms and released key fiscal information. The parliamentary scrutiny of the budget has become increasingly vibrant over the last years. Not surprisingly, according to PEFA estimations, Morocco and Jordan ranked the highest in the MENA region on the indicator capturing transparency and comprehensiveness of budgets.\textsuperscript{32} This finding confirms the theoretical intuition of this dissertation. Hybrid regimes rank high on transparency in general since leaders want to collect information on the policy preferences of potential contenders, but close it whenever the collective action capacity


\textsuperscript{31} \textit{Idem}.

of certain opposition constituency is high and might threaten survival. This strategy, I argue, is at the heart of the neo-makhzen fiscal contract between poor urban constituencies and the palace; the special budgetary accounts are the technical tool to achieve less transparency and more control over allocations of resources.

Nevertheless, the ‘tragic brilliance’ of electoral authoritarian regimes resides precisely in the ambidextrous nature of decision-making. If one domain (say, spending for the urban poor) is obfuscated from full political contestations, others witness their veil lifting. In Morocco, agriculture is a case in point. Because of the shifting political alliances and the increasing incorporation of urban interest groups in the neo-makhzen, the palace started to show signs of withdrawing from an old alliance with the countryside that lasted for most of the history of post-independence Morocco. Two recent signals indicate the fact that the special status of agricultural taxation will be submitted to political contestation and likely to disappear in the short run. Here are the tectonic plates of a shifting social contract. First, as already mentioned a new royal discourse set the agenda in 2008:

It is up to everyone to be vigilant and firm, to take advantage of the power of law and an independent judiciary... for ending impunity and fight against cheating and fraud. This becomes more imperative if it affects the means of subsistence for the people, price speculations, or profiteering from the rent (n.a. agricultural) economy and of the privileges resulted from clientelistic practices. This becomes even more important in the face of corruption, abuse of power and fiscal fraud. (King Mohammed VI, Discourse of October 10, 2008, Brouksy 2009).

It is interesting to note that the potential dismantling of the fiscal contract with the old makhzen is couched in the language of protection of the subsistence of people or of the poor.

Second, since PJD came to power in 2011, it placed a high priority on its political agenda to the cancelation or reduction of agricultural exemptions from the tax system. The future events will confirm or disconfirm the hypothesis of a disappearing taboo.
What is the relationship between the monarchy and urban businesses in the neo-makhzen of Mohammed VI era? PJD, the victorious Islamic party provides an interesting clue, reminiscent of the Turkish incumbent party, AKP (Adalet ve Kalkınma Partisi). If close to its beginnings, the party was perceived as appealing to the popular segments of the urban centers or to the more ‘pious’ and religious small bourgeoisie, PJD steadily became the party of the urban bourgeoisie, with support and networks in large business circles as well. Compared to previous years in which Abdelilah Benkirane, the current Prime Minister, was considered to be a populist and nothing else, before the last elections of 2011, he has been well received by the CGEM, the umbrella business associations, as well as by the Casablanca Stock Exchange. According to a prominent analyst of Moroccan politics, an increasing number of larger businessmen and influence networks started to be comfortable with the idea of an electoral victory by the PJD (Tozy 2011).33

Also, to understand the current prominence of business and managerial groups in the fiscal survival strategies of the monarchy, let us imaginarily skip a decade from the campaign of purification of 1996 all the way to the 2007 legislative elections. During this electoral campaign, political parties, from Istiqlal, PPS all the way to the moderate Islamic party PJD could no longer afford not to directly appeal to the business community. The targets might have differed, as some parties appealed more to small businesses compared to large companies. For example, PJD launched a “moubadara” or initiative to mobilize and reform the informal sector by using development funds constituted from zakat (or religious) taxes. The fact remains however, that the urban managerial class rose to the forefront of the fiscal contract.

Last but not least, one should also notice the position of the palace towards the business community during policy clashes with labor unions or other interest groups. In recent years, whenever large businesses claimed benefits at the detriment of workers and thus went against the palace’s strategy to keep poor urban constituencies happy, the state authorities arbitrated the confrontation and often sided with the unions and not with businesses.

The finance law of 2009, for example, instituted from direct royal initiative a reduction of the income tax for employees and workers in order to increase the purchasing power of the population. Immediately, the measure became polemic: the companies (employers) claimed the right to benefit from this reduction of the income tax since they were the ones paying taxes. On the opposite bench, the major unions (FDT - *Fédération Démocratique du Travail*) and UNMT (*l’Union Nationale Marocaine du Travail*) protested against the company claims arguing that the policy was intended to alleviate the living conditions of the employees and not the profit margin of the companies. Ultimately, Nourredine Bensouda, the head of DGI (*Direction Generale des Impots*, the tax agency) sided with the unions.\(^{34}\)

This is undoubtedly only one episode in the complex fiscal relationship between the urban businesses, workers and the palace. It does a good job however at illustrating the fact that large businesses are major actors and are allowed full fiscal contestation as long as they do not trespass on the other contract that has to be enforced for monarchy’s survival in an age of increased vulnerability: the urban poor.

Now, that the reader walked through the complex meanders of shifting alliances and strategies of political survival at different points in the modern history of Morocco,

let us wrap up by taking a last look at the general trends of transparency and contestation. The empirical analysis below draws on an original database I collected and coded based on the general parliamentary repertoire of legal acts, an official collection of documents published in Rabat.

6.2.5 Overall trends of fiscal contestability and transparency in the Moroccan Parliament, 1957-2002

To briefly recap the major theoretical hypotheses of this dissertation, I posited that hybrid political regimes have a counterintuitive relationship between repression (or broadly speaking, the democracy indicator) and fiscal transparency and contestability. I also suspected that there is a difference in transparency between taxation and spending policies. Fortunately, the Moroccan parliamentary records show vote patterns by recipient line ministries that confirm my intuition.

As already alluded, one can easily see increased contestability and voting data transparency precisely in the years in which the monarch was attempting to accommodate new entrants in the political game (the traditional political parties Istiqlal and USFP backed by the urban bourgeoisie in the 1960s and 1970s, and the new managerial class and the first opposition party to form a government in 1996-1998).

Unfortunately, the votes are not recorded at all in the repertoire for most of the annual budgets or fiscal laws. Therefore, I had to compute additional indicators that could grasp my concept of transparency and accountability (duration of legislative debate, number of pages of the final legislative act, etc.). The population of the database consists of laws strictly related to fiscal policies (finance laws, budgets, annual plans and tax reform episodes). The table below summarizes the main results.
Table 30: Fiscal transparency and contestability in the Moroccan Parliament, 1957-2002

<table>
<thead>
<tr>
<th>(1) Total opposition</th>
<th>(2) No vote</th>
<th>(3) No vote</th>
<th>(4) No vote</th>
<th>(5) Pages</th>
<th>(6) Pages</th>
<th>(7) Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polity</td>
<td>41.29***</td>
<td>29.20***</td>
<td>30.06***</td>
<td>30.31***</td>
<td>12.68***</td>
<td>12.79***</td>
</tr>
<tr>
<td></td>
<td>(5.09)</td>
<td>(4.95)</td>
<td>(5.57)</td>
<td>(5.95)</td>
<td>(3.17)</td>
<td>(3.19)</td>
</tr>
<tr>
<td>Interior</td>
<td>4.571</td>
<td>10.08</td>
<td>70.34</td>
<td></td>
<td></td>
<td>-5.579***</td>
</tr>
<tr>
<td></td>
<td>(0.28)</td>
<td>(0.52)</td>
<td>(1.05)</td>
<td></td>
<td></td>
<td>(-5.58)</td>
</tr>
<tr>
<td></td>
<td>(-1.01)</td>
<td>(-0.82)</td>
<td>(-0.91)</td>
<td></td>
<td></td>
<td>(-0.03)</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-2.429</td>
<td>-4.370</td>
<td></td>
<td></td>
<td></td>
<td>40.99</td>
</tr>
<tr>
<td></td>
<td>(-0.15)</td>
<td>(-0.70)</td>
<td></td>
<td></td>
<td></td>
<td>(0.05)</td>
</tr>
<tr>
<td>Education &amp; health</td>
<td>0.238</td>
<td>0.409</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.03)</td>
<td>(0.05)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spending</td>
<td></td>
<td></td>
<td></td>
<td>26.78</td>
<td>10.56</td>
<td>-18.36</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1.48)</td>
<td>(0.64)</td>
<td>(-0.03)</td>
</tr>
<tr>
<td>Tax</td>
<td></td>
<td></td>
<td>41.30**</td>
<td>4.100</td>
<td></td>
<td>-0.671***</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(2.42)</td>
<td>(0.30)</td>
<td></td>
<td>(-18.78)</td>
</tr>
<tr>
<td>_cons</td>
<td>393***</td>
<td>278.8***</td>
<td>284.7***</td>
<td>286.5***</td>
<td>256.3***</td>
<td>256.5***</td>
</tr>
<tr>
<td></td>
<td>(5.46)</td>
<td>(5.41)</td>
<td>(5.98)</td>
<td>(6.38)</td>
<td>(8.77)</td>
<td>(8.75)</td>
</tr>
</tbody>
</table>

N 24 31 31 31 342 341 124  
R-sq 0.610 0.528 0.536 0.586 0.035 0.033

t statistics in parentheses  
* p<0.10; ** p<0.05; *** p<0.01

These results reveal some interesting trends. First, across the board, relaxation of repression (captured here by an increase in our Polity IV indicator of democracy) leads to more contestation expressed both as a number of negative votes and as a total of negative votes and absentees. For the more liberal years of the Moroccan monarchy, the total number of pages of fiscal laws that closed the budget accounts for those years are
significantly higher than in more repressive times. During the liberal waves of the regime, the executive provided more precise and detailed information on how the revenue was raised and spending committed than in less liberal periods.

We can also see that none of the policy domains we talked about in this section (agriculture, army, the Ministry of Interior, or health and education) were more likely to be taboos in the years of relative liberalism. Particularly during the 1960s and 1970s, their budget allocations were equally contested. This is the openness and transparency that this dissertation argued is a distinct feature of electoral authoritarian regimes.

Although not statistically significant, it is also interesting to observe the signs of the regression coefficients. If the Interior or Education and Health have a positive sign, meaning that they solicited some level of dissent and disagreement, agriculture and the army have a negative direction of the coefficient. One has to be cautious about a conclusion here because of the lack of statistical significance. However, these two domains are exactly the taboos from our story: agriculture sealed a deal between the monarch and rural notables/landowners of the makhzen, whereas army up until the coup attempt of 1972 served as the pillar of Hassan II’s rule. They were indeed (in a non-statistical world) less likely to solicit dissent in the legislature.

My meta-theoretical argument also proposed a distinction between taxation and spending policies in terms of transparency and contestation. We can see here that this is indeed the case. Tax laws and the revenue side of annual budgets were more likely to solicit negative votes, whereas spending is statistically insignificant.
Duration of legislative debates, or the time passed between the law draft submitted to the Parliament and the actual approval, has an interesting and somewhat counterintuitive relation with both repression and policy issues. First, whenever the budget of the Ministry of the Interior was discussed, it was more likely to last much less than other ministerial budgets (this confirms the previous media assertion quoted here that the Interior budget is the taboo par excellence and passes in the legislature like a ‘letter at the post office’).

Second, it seems that both relaxation of repression and taxation laws are negatively correlated with duration. This is a surprising result. My intuition would have been the opposite – it should have taken longer in liberal phases of the regime to debate fiscal laws than during the years of lead, for example. Last but not least, taxation law debates took much less time than other types of fiscal laws. We also know from the previous findings that they were more contested too. Reconciling these empirical findings will require more research.
This section summarized the history of shifting fiscal alliances between the Moroccan monarchy and three major groups in society: agricultural notables/large landowners, the Ministry of the Interior as the security institution on which the regime
relied, and the emergent urban businesses/popular political constituencies. I argued that traditionally, agriculture and the Interior were the true taboos taken completely out of the domain of political contestation because the monarchy relied politically on their support for survival. I also followed the two trajectories of Moroccan politics at different points in time: the political contract with the opposition and the parallel fiscal contract with new entrants or aspirants to the winning coalition.

Paradoxically, as the regime became increasingly liberal in the electoral arena, it also started to concentrate a larger amount of state resources in special extra-budgetary accounts whose implementation bypassed meaningful contestation. I also suggested that urban groups with capacity of collective action (large businesses or the urban poor mobilized by radical Islam) were allowed to participate in the establishment and might even lead to the dismantling of the rural fiscal taboos over time.

The next section shifts from electoral authoritarianism to a one party regime in communist Romania. We will see that there the political survival of the leader entailed exactly the opposite configuration of alliances and fiscal taboos: severely repressing agriculture and collecting information and occasionally disbursing benefits to the emerging class of industrial technocrats and population.
6.4 Romania: From one-party regime to fragile post-communist competition

Moving to another continent and context, under different geopolitical stars, but following a similar timeline, fiscal politics in communist Romania illustrates well the relationship between transparency and repressive one party rule. The story starts in 1948 when the Communist regime uprooted or profoundly transformed pre-existent institutions, and the unique party was preparing to become hegemonic. Romania provides a fiscal trajectory that, I argue, closely follows the meanders of political alliances between leaders and their coalition of support.

Following the general template of this chapter, the section will trace the evolution of both repression and the shifting alliances with various groups in society that gave incentives to the top echelon of the communist party to strategically approach issues of information and fiscal transparency. The interesting thing about Romania is that the analyst can observe the chronological unfolding of totalitarianism (or sultanism, an extreme form of highly personalistic rule), the fiscal policy shifts it triggered, as well as a transition towards a new and fragile democracy. Thus, it allows us to test our hypothesis over time, spanning two chapters of contemporary politics in Romania: severely repressive autocracy and new democracy.

I also argue that including a communist/post-communist country in the comparison sample is important for fiscal contracts, broad issues of transparency and political contestation for an additional reason. What is special about it? A priori, conventional wisdom tells us that fiscal politics – and especially issues of transparency - should not matter at all in a context ruled by unchecked repression, where even if factions exist, they are likely to be purged or short-lived. Yet, contestation exists and takes many
subtle forms and shapes. As this section will show, leaders were more likely to allow certain policies for open contestation but not others. We will see how spending cuts for population and the industrial sector generate (and are allowed to generate) some level of contention in the Grand National Assembly, whereas the taxation policies targeting agriculture and the rents to army/security apparatus are taboos and pass either by decree or by suspicious unanimity. This dynamic is not surprising in a time and context in which agriculture is fiscally squeezed to benefit the industry and the urban workers. What is even more surprising is the fact that this level of ‘contestation’ and transparency of debate occurs in a legislature that is conventionally assumed to be completely subservient to the Politburo of the Communist Party.

In order to test my hypotheses, I collected original data from the archives of the Romanian Official Gazette that, during the Communist period, recorded not only the actual text of laws and decrees but also the vote tally in the Assembly. My dataset starts in 1952 and ends in 1989 and accounts for all decrees and laws passed and published under Communist rule. In addition to recording the voting tallies, I also coded the type of legislation following three basic criteria: first, the fiscal nature of the act (tax, spending, budget or account closure); second, the policy direction (i.e. increase or decrease in the amount of spending or taxation), and third, the policy targets (industry, agriculture, army or security services, children, retirees, or population at large).

Scholars of authoritarianism might wonder if the Grand National Assembly was relevant at all compared to the core nucleus of the Communist ‘winning coalition:’ the Central Committee and political bureau. This intuition is undoubtedly true. Most

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35 The Official Gazette (Monitorul Oficial) discontinued the publication of the voting records in the beginning of 1973 when the Communist regime turned highly personalistic under President Nicolae Ceausescu.
legislation was first debated in the Central Committee and only subsequently arrived to the Assembly floor for a rubber stamp. I would however argue that what happens there, despite the rubber stamp expectations, is not completely insignificant. As opposed to the debates behind closed doors in the committee, the assembly served as a semi-public forum for ‘signals’ of contestation and implementation sent by leaders to the selectorate at large.

As the story has it, cleavages among top elites within the Politburo have always existed despite the monolithic façade of the regime. Most of the time, factions arose around two core issues: Romania’s foreign policy – especially its relationship with Soviet Union, and economic policies revolving around the pace of agricultural collectivization and of industrialization. Just like any other non-democratic regime, Communist rulers forged alliances with various social groups and constituencies to the detriment of other sectors of society. Agriculture was severely repressed and fiscally drained, while the newly created technical class of engineers and state company managers, instrumental to the process of industrialization, became the favorite. Following 1968, the leader also adopted a nationalist rhetoric and attempted to forge an alliance – albeit short-lived - with broader segments of the population. Finally, after 1978, generalized suspicion reigned, and the regime became increasingly reliant on sheer repression, although always used in combination with modest material inducements to specific groups.

The story of divisions and struggles among the communist elites during the one-party rule structured the debate on the fiscal contract, and also surfaced in the non-democratic legislature, as the empirical results will show. First, I briefly review the widely accepted narrative regarding political and ideological cleavages at the top echelon
of the Communist Party, as well as the stages of state repression. Second, I attempt to link these stages to the transparency and distributive implications of fiscal policies.

6.4.1 Elite cleavages, repression and fiscal policies between 1948 and 1965

The early communist party in Romania never had the popular roots and legitimacy that it acquired in neighboring countries such as Yugoslavia and the Czech Republic. Therefore, in the beginning, the party was built entirely as a vassal to the Communist Party of the Soviet Union, being weak and often at the political mercy of the latter. Between 1945 and 1948, its configuration resembled a puzzle with various factions being backed up and supported by corresponding elite cleavages in Moscow. Between 1948 and 1953, ‘the great terror’ phase entailed concerted attempts at the elimination of any political challenger within the party ranks by the top leaders. The consolidation of the domestic communist elite occurred throughout 1955. However, until three years later, in 1958, the shifts in influence at the center among different political groups (Trotki, Kamenev, Zinoviev, Buharin) dictated internal fragmentation and affiliation.

How large was the winning coalition during this period? Between 1948 and 1965, the nucleus where the entire political power concentrated was no larger than 20 people. In 1950, for example, the Political Bureau had 13 members, the Organizational Bureau- 15 members, and the Secretariat of the Communist Party was composed of only 5 individuals. Around this small nucleus of power, the inner circle included at most 66 members of the Central Committee of the Communist Party (CC-PMR) (41 full and 15 alternates). In 1955, this number increased to 96. Besides the Central Committee, the
winning coalition also included the cabinet members and leaders of selected national level institutions.\textsuperscript{36} Even if we count the broadest circle of power, only 5243 core party members in total, took decisions for the entire society. To see why this is the perfect example of the extreme repressive state, during the same historical period, the size of the winning coalition in Hungary was much larger: around 71,000 members for a population of 11 million inhabitants at the time.\textsuperscript{37}

Closely matching this narrow concentration of power, the repressive apparatus developed dramatically during the first fifteen years of communist rule. Its core institution (DGSS – \textit{Directia Generala a Securitatii Statului}) was domestically autonomous, but directly subordinated to Moscow. In 1956, the security forces expanded exponentially to over 18,804 employees (Tanase 1998). The capital punishment applied not only to espionage and high treason, but in the early 1950s, in order to preempt or repress any potential source of dissent during the consolidation of the one party regime, it automatically extended to economic issues (negligence causing damages to the national industry, economic sabotage, etc.).

In the wake of the Hungarian events of 1956, the list of economic offenses punishable with death multiplied: industrial sabotage now belonged to the same category as theft, graft, bribing and “hooliganism” committed by teenagers. The first executions on the bases of such allegations took place before fall 1958 (Deletant 1998: 68, Ghita Ionescu: 290). Interestingly from the point of view of ‘signals’ transmitted by leaders to the selectorate, these severely repressive measures were not at all widely publicized

\textsuperscript{36} Tanase 1998: 118.
\textsuperscript{37} In the USSR, according to rough estimations, during the same period, the first group, or the core nucleus is composed of around 100,000 individuals, to which around 150,000 ‘second circle’ of nomenklatura members add up to make 250,000, or about 1.5% of the total population. In 1960, the Central Committee has 79 full members (30 more than in 1955).
through radio, TV or newspapers. They only appeared in the official gazette. Because of their relatively low visibility, the population at large perceived them as indiscriminate.

Unlike the period of the ‘great terror’, the years between 1953 and 1957 led to a wave of relaxation/accommodation towards what scholars of the period have called ‘latent learning and docility’ of three groups of actors (Moscow communist elites, domestic elites and the rest of society) (Jowitt 1971, Tanase 1998). The number of arrests decreased abruptly from 24,824 in 1952 to 2,357 in 1956. After 1953, following Stalin’s death, state repression became more selective. The repressive apparatus (the structures of the Ministry of Internal Affairs) was subordinated to the political control, reducing significantly its autonomy.

In the new post-Stalin era, the Romanian elites resisted any attempt to respond to Hrusciov’s report out of fears of severe party fractionalization. Only a diluted version of the notorious report was discussed in very narrow circles of the Central Committee and only one year and five months after the XXth Congress of the USSR communist party.\(^{38}\) Paradoxically, loyalty to Stalinism in a time of ideological shifts was the initial source of domestic political opposition to the profound institutional changes in Moscow. Also, counter-intuitively, several repressive measures were relaxed in an attempt to solicit more popular support domestically as Romanian communists were preparing to take some distance from Moscow’s grip. Censorship decreased in intensity, and the Ministry of Internal Affairs could be openly criticized for the first time (including in the Grand National Assembly).

However, relaxation did not last very long. The popular revolution in Budapest of 1956, as well as the workers’ protests in Poland taking place in the same year, made the

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\(^{38}\) Comisia Prezidentiala pentru Analiza Dictaturii Comuniste din Romania. 2006. *Raport Final*. 

331
Romanian leadership draw the conclusion that the divisions at the top of the echelon of Communist elites were causing confusion among the population. To preempt and deal with the sporadic revolts paralleling the ones in Hungary and Poland, the Central Committee passed decisions to increase salaries (especially of the workers from urban centers) and “buy off” the loyalty of the working class. In 1957, the average income of the workers increases with about 15% and the year marked a clear upgrading of living conditions. According to official statistics, the income of peasantry also increased with about 39% during this period.

In 1958, a second wave of repression started as a tool of fearful elites that in the wake of the Red Army withdrawal feared the fact that the society might rebel against the party. The period between 1958 and 1961 reverted the size and budget allocations to the repression apparatus to the pre 1953 situation in order to compensate for the missing military support of the Soviet army (Deletant 1998). The regime thus combined increased repression with economic concessions to pacify an increasingly discontented population.

Between 1958 and 1961, during this new wave of repression, President Gheorghe Gheorghiu-Dej also reshuffled the elites and eliminated most of his former entourage. New comers suddenly emerged at the top of the party structure. Virtually any critical position was eliminated, and even debates or any other form of political contestation that traditionally took place in the Central Committee were no longer tolerated. Between 1962 and 1965, the Romanian elite (unlike the Soviet elite) was very cohesive, with no major factionalism or dissent attempts. Here are the voting data in the National Assembly that show a large gap of recorded policy contestation between 1957 and 1968.
The redistributive policies closely followed the internal elite conflicts and realignments. The Council of Ministers formally recognized that the large infrastructure investments (such as the Danube – Black Sea navigation channel) came at the huge expense of other domestic policies that would have accommodated significant sectors of society, such as agriculture, food industry, health and education. As a consequence, in November 1953, the average income of the workers increased and in December 1954, the food rationing system for the population was canceled.

In the winning coalition circles, even if elite factions revolved primarily around cleavages in Moscow, they were also partially framed in terms of redistribution and the fiscal contract. For example, in 1952, during the elimination of an important faction (the so-called ‘antiparty’ group Pauker-Luca-Georgescu), one of the major accusations referred to undermining the redistributive program from rural areas to the cities, from agriculture to industry, and reducing the taxes of fees of certain categories of peasants. For agricultural workers and peasants in particular, the relationship with the party never changed: coercion alternated between the most extreme forms of repression all the way to
administrative implementation of policies that either confiscated or imposed high taxes and fees on everything that exceeded basic household survival needs. This dynamic formed the core logic of redistribution from the rural areas to the cities, where workers were considered potential dissenters as well as the political basis of support for a regime that was steadily but surely breaking away from Moscow.

After 1962, the regime reached its goal of high elite cohesion. There were no more factions to fight. State repression decreased, censorship relaxed, and several decrees gave amnesty to political prisoners arrested during the last wave of terror.\textsuperscript{39} Over this period, the regime shifted from totalitarianism to paternalistic authoritarianism to last until 1972.\textsuperscript{40}

\textbf{6.4.2 From “terror” to “fear”: 1965-1978}\textsuperscript{41}

On March 22, 1965, after Dej’s death, Nicolae Ceausescu became the first secretary of the Communist Party. There was virtually no succession struggle since he previously controlled the party organization and developed a core group of loyal supporters. As a consequence, only two hours after the proclamation of death, he was declared successor. Additionally, one of his previous positions, besides being in charge with the careers of party cadres, was that of deputy minister of the Armed Forces. Later on, this role formed the basis of a solid alliance and control between Ceausescu and the army (Deletant 1998).

\textsuperscript{39} To see the evolution of state repression during this period, here is the number of people condemned for acting against the security of the state: 1955-1957: 6211, 1958-10125, 1960 – 17613, 1964-8875.
\textsuperscript{40} Idem: 204.
\textsuperscript{41} This is the label used by Dennis Deletant (1995, 1998)
The first years of his rule brought a wave of relaxation, moderate liberalism and permissible policy contestation, as Ceausescu, the newcomer, was trying to shape and consolidate a new web of political alliances. Between 1965 and 1969, the regime formally rehabilitated former dissenters and openly criticized the security apparatus for the abuses committed over the previous years.

Perhaps more than all other turning points, the year 1968 marked an important milestone in the history of the regime. Following in the ‘quasi-rebellious’ footsteps of his political predecessor, Ceausescu refused to send army troops to the Soviet invasion of Czechoslovakia. This dissent moment transformed him overnight into a ‘hero’ and potential hope of the Western world in the Communist bloc. The President met with most important Western leaders of the time, and made the cover of *Time Magazine* as the celebrity embodiment of the new ‘relaxed’ communism of Eastern Europe. Romania had all of a sudden access to borrowing from Western banks and capital markets, and the fiscal contract shifted from an obsession with industrialization to increased spending and social programs for the population at large.

Here is a visual glimpse into what happened to revenue and spending. The figure below captures the magnitude of total revenue and expenditure implementation (surplus or deficit) as a percentage of the fiscal commitments at the beginning of the budget year. Whenever the plots go above the 0 line, it means that the government overspent, but also raised more revenue than initially planned. One notices that the spike of overspending caused by massive revenue inflows goes up to about 1972. Needless to say, in the subsequent periods, it virtually collapses, as the state reverts to totalitarianism, and cuts
expenditure severely in an attempt to pay off the foreign debt accumulated during the previous years.

Figure 66: Expenditure versus revenue implementation in communist Romania

Simultaneously, however, this political relaxation and the dissent from the Soviets also opened the Pandora box of fears of a Soviet Army attack and started to fuel the desire to control and centralize decisions. In October 1969, for example, Ceausescu wanted to insure the loyalty of the Secret Police in case of a foreign attack, and gave all its employees 15% salary increase. Three years later, the Ministry of the Interior and DGSS (the secret service) became fully subordinated to the party structures. In 1974, he created for the first time the position of President of Romania and became the hegemonic leader whose personalistic tendencies of rule started to show.

6.4.3 1978-1989 – Back to terror

In 1978, totalitarianism fully replaced authoritarianism. This transition was partially triggered by the defection of General Pacepa, the head of the secret police, to the
West, and his publication of a book of dark revelations of the inner workings of the regime. The turning point suddenly plunged the regime into political isolation, and fueled a general political paranoia for the leader. Ceausescu increased immediately the institutional power of the Secret Police greatly diminished during the previous period. On April 8, 1978, DSS became a unit of the Ministry of the Interior, and its leadership was conferred to a close friend of Nicu Ceausescu, the President’s son. The president’s brother was also appointed as the head of the central officer school for the Secret Police troops, thus consolidating the sultanistic control over the repressive apparatus back to what it used to be in the early 1950s. The year 1978 also marked the end of the period of relaxation and “socialist legalism” initiated in the post-1968 era. Repression went back from fear to terror. Ceausescu resurrected decrees from the previous age of the great terror. In 1983 and 1985, the registration of typewriters and the reporting of personal encounters with foreigners to the police became obligatory. Both the Minister of the Interior and the head of the DSS had to report, in practice, directly to Ceausescu. To understand the fiscal mechanisms of loyalty, towards 1989, the salaries of the secret police officers and employees were approximately double the average salary per economy and significantly higher than an equivalent position in the army.

This digression into the political history of communist rule in Romania was intended to set the stage for an analysis of the fiscal logic of alliances and to give the reader a very condensed glimpse into the evolution of regime repression and elite divisions over time.
6.4.4 Fiscal transparency, contestability and implementation signals: the farmer, the industrial technocrat, the soldier, and the many

The economy was managed from the very beginning through a planning system. Two annual plans (in 1948 and 1949), preceding the five-year cycles initiated in 1950, embarked the country on an ambitious industrialization program. Between 1951 and 1955, industry was the recipient of about 57.7% of the annual budget. Agriculture, in contrast, received only 11.3% allocations, and health and education around 11%. To understand the severely skewed allocation of resources, agriculture encompassed three-fourths of the total labor force at the time. Tax and surplus extraction from peasants followed a windy path, but overall it decreased towards the 1980s as the regime was plunging into autarky. Throughout the period, however, with very few exceptions, agriculture postured as the economic victim of the regime.

The relationship with the industrial sectors was more nuanced and changed over time, as political alliances became increasingly sophisticated. In the beginning, until 1965, the communist regime had to create a category of technical personnel that had a working class background, yet possessed all the necessary skills for aggressive industrialization. Because of the ideological and class proximity, the relationship between the party and this new group was symbiotic. Following 1968 and the dissent from the Soviet Union, the political leaders had to face a burgeoning technocratic industrial elite of its own creation. The alliance became much trickier than before. This group of managers and technical personnel of large state owned enterprises belonged to a different demographic category in comparison to party cadres, including top members of the winning coalition. They often had university degree and a relatively high level of

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technical competency to run industrial complexes. Needless to say, this caused quiet frictions between the two groups, and pushed the leader in the 1980s to assert increased control over the technocrats.

One version of the narrative is that industrial elites were always completely subordinated to the party. Another, slightly more counter-intuitive side of the story, argues that the core economic logic of the communist system depended on the industrial complexes, therefore the actual relationship of subordination was far from clear (Pasti 2006).

As we will soon see, this ambiguity of political alliance with the managerial class and the population at large is clearly reflected in the parliamentary voting records of the period. Unlike the agriculture and the army whose fiscal policies were not open for debate even in periods of general relaxation of repression, industry and the general population had some vocal defenders in the Assembly, among the top echelon of the Politburo. The regime, I argue, allowed some degree of contestation in order to probe the domains of discontent and potential material inducements that would lead to co-optation. To give a brief example, on June 21, 1968, when a law reached the assembly floor and proposed a reduction of privileges for superior management cadres who cumulated multiple positions and benefits, ‘contradicting thus the principle of "social justice", seven deputies openly dissented and thirty five did not vote. The total dissent reached about 10% of the Assembly. Despite the fact that by the standards of a hybrid or democratic legislature, this might seem insignificant, in a totalitarian context, even the fact that it existed at all is puzzling.
Industrial elites were not monolithic either, and the hierarchy of their political economic influence was clearly understood by the regime: producers were more powerful than consumers. At their turn, among the former, producers for the external market were more powerful than the producers for the internal market since exports were privileged. The story of the court of public accounts during the communist period is telling in this respect.

The industrial-technocratic elites of the communist period are also allegedly the most relevant interest group of the first years following the post-communist transition. After 1989, the directocracy (as it is sometimes called), the industrial technocracy and workers sought to protect their material benefits and shaped politically the speed of privatization, the persistence of subsidies and other quasi-fiscal endowments, as well as the overall transparency of the newly emerging post-communist fiscal contract (Pasti 2006).

The remaining two relevant policy recipients during the communist period were the security apparatus (army and secret service), as well as the population at large. As the story of the evolution of repression in communist Romania showed, political leaders relied heavily on both the military and the secret police. However, just like the autocratic period of Morocco, but unlike Turkey, the balance alternated at different points in time. The first years of Ceausescu’s rule were characterized by an alliance of the leader with the army. Later on, in the 1970s, following the discovery of a plot of several generals, the military took a backseat, and the President consolidated power mainly with the help of the security services. From the point of view of the observable fiscal contract of the period, this distinction is not very useful since the available budget data for defense does
not allow the analyst to distinguish between the two categories of spending beyond anecdotal evidence. What is undoubtedly important is the total tabooization of the political issue of defense spending. Most of the budget allocations or fiscal policies targeting the defense sector pass by decree or voting unanimity. It is, however, interesting to note that the percentage of budgetary allocations to defense in total expenditure steadily decreases over time, being exceeded by the total amount of child allowance as well as by health and education spending.

The relationship between broad sectors of the population and the political leadership was as ambiguous as the position of industrial elites. During waves of general relaxation of repression, the population was granted significantly higher benefits (increased social security, and higher health and education spending, as the figure of spending composition will show). Increase in population taxes or decrease of material inducements often made the object of some level of contestation in the assembly. Nevertheless, other policies related to the broad population that were seen by the leadership as a cornerstone of its political agenda were completely obfuscated. This was certainly the case the child support funds, despite the fact that arguably they became essential to the package of communist social policies only in the 1980s. By that time, all meaningful policy debate was either preempted or completely concealed.

In line with the cross-national findings of Chapter 3, I also found that policies that led to tax increases were statistically less likely to pass by unanimity compared to all other fiscal measures. For the available voting records, this was not the case of either spending or budgetary implementation. This intuitions are also confirmed by the fact that the reliance of the state on both agricultural and population taxes decreased overtime.
The graphs below plot the entire population of recorded votes in the Grand National Assembly between 1950 and 1989:

The previous chapters have also suggested that transparency can have many meanings; therefore, different indicators best capture it. The concept refers not only to the availability of data for the potential opposition, but also to the ability of contenders to formulate claims on the basis of such information. This is also the case for this particular dataset. The dimension presented so far records votes, so it captures claims making. The table below summarizes the statistical analysis of several dependent variables designed to serve as transparency proxies (decree versus laws, unanimity versus contestation, as well as the magnitude of actual voting dissent).
Several interesting observations emerge from this analysis. First, in line with our theoretical expectations, repression reduced significantly the share of votes against the legislation introduced by the Central Committee. Also, during the high repression phases of communist rule, decrees or laws passed by unanimity were more common than legislative acts that allowed minimal dissent on fiscal policies. Second, if the piece of legislation concerned either the population or the industrial class, the number of votes against it went up. This is an indirect measure of ‘allowed’ or permissible contestation.

Table 31: Contestation of fiscal policies in the Romanian National Assembly (1952-1989)

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Against</td>
<td>Against and absentee vote</td>
<td>Decree</td>
<td>Unanimity</td>
</tr>
<tr>
<td>Repression</td>
<td>-0.279*</td>
<td>-2.944***</td>
<td>0.526***</td>
<td>0.362**</td>
</tr>
<tr>
<td></td>
<td>(-1.92)</td>
<td>(-2.80)</td>
<td>(3.05)</td>
<td>(2.51)</td>
</tr>
<tr>
<td>Taxation laws</td>
<td>2.988*</td>
<td>-18.80</td>
<td>2.074***</td>
<td>-1.953**</td>
</tr>
<tr>
<td></td>
<td>(1.88)</td>
<td>(-1.64)</td>
<td>(4.06)</td>
<td>(-2.04)</td>
</tr>
<tr>
<td>Spending laws</td>
<td>3.000</td>
<td>-19.00</td>
<td>3.745***</td>
<td>-1.907*</td>
</tr>
<tr>
<td></td>
<td>(1.63)</td>
<td>(-1.43)</td>
<td>(6.29)</td>
<td>(-1.83)</td>
</tr>
<tr>
<td>Implementation laws</td>
<td>2.333</td>
<td>-45.67**</td>
<td>-0.419</td>
<td>0.294</td>
</tr>
<tr>
<td></td>
<td>(0.78)</td>
<td>(-2.11)</td>
<td>(-0.46)</td>
<td>(0.43)</td>
</tr>
<tr>
<td>Population</td>
<td>-2.790</td>
<td>48.97**</td>
<td>0.963</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-0.92)</td>
<td>(2.22)</td>
<td>(1.32)</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>-1.314</td>
<td>44.87**</td>
<td>-0.359</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-0.45)</td>
<td>(2.13)</td>
<td>(-0.40)</td>
<td></td>
</tr>
<tr>
<td>_cons</td>
<td>2.593***</td>
<td>38.07***</td>
<td>-3.916***</td>
<td>-2.471***</td>
</tr>
<tr>
<td></td>
<td>(8.86)</td>
<td>(18.00)</td>
<td>(-6.42)</td>
<td>(-5.69)</td>
</tr>
</tbody>
</table>

N           | 75   | 75   | 223  | 232  |
R-sq        | 0.335| 0.245|      |      |

t statistics in parentheses
** p<0.10; ***p<0.05; ***p<0.01
By comparison, agriculture and defense were taboo issues, being passed either by decree or unanimity. Both taxation and spending policies tended to solicit some level of contestation in the legislature, especially if they reduced the privileges of certain categories of policy recipients. Budgetary implementation laws, in contrast, were statistically likely to solicit less legislative dissent than actual fiscal measures.

Besides contestation in the assembly, the second transparency dimension probed in greater detail in Chapter 3 refers to the actual availability of data: were all categories of revenue and expenditure published in the annual budgets or not? If only a handful of indicators were selected for broad dissemination, is there any observable pattern with respect to their selection? This type of analysis is particularly helpful post 1973, when voting records stop being published. Therefore, I generated a series of dichotomous variables that record what categories of revenue and spending were reported in the annual budget. The plots below show the actual fiscal structure for all available data between 1950 and 1989:

Some telling results emerge from statistical analyses and give a sense of what policies were open for minimal contestation or not. In terms of defense spending data, for
example, the total amount increased with repression. At the same time, the availability (or transparency) of data on defense spending in annual budgets was not correlated with repression at all. This mismatch reveals that projecting capacity to repress to society was independent of the actual capacity to do so.

Another interesting set of statistical findings derived from t tests of means shows that the communist regime was more likely to publicize fiscal policies that were beneficial to its allies, and conceal the ones that were detrimental to other societal actors. For example, the data were available for taxes on enterprises and population that decreased over time, but not on agriculture taxes or social security. A more detailed analysis also allows seeing that the data are missing precisely when taxes increased. In 1968, a new 10% hike on agricultural tax affecting rural households was implemented. The data on the actual amount of data collection was never made public. On the expenditure side of the budget, defense and fiscal implementation data were statistically more likely to be public than any other spending categories.

Again, missing data were not exactly haphazard. Health and education expenditure were systematically public before the last two years of the regime. In 1987 and 1988, as the general standard of living of the population went down significantly, these data points were no longer included in the budget text published in the official gazette.

### 6.4.5 Budget implementation and audit during totalitarianism

Just as in the case of fiscal transparency and contestability, at a first glance, budgetary audit seems irrelevant in an authoritarian context in which most of the public

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spending is at the mercy of the political leaders. The story of the Court of Accounts during communism illustrates well, however, the fiscal logic of political alliances between the hegemonic party, industrial elites and the security apparatus.

On November 30, 1948, a decree approved by the leading body of the Grand National Assembly discontinued the activity of the pre-communist High Court of Accounts (the equivalent of a Supreme Audit Institution at the time). Instead, this was replaced with a bureaucratic unit under the jurisdiction of the Ministry of Finance. On March 28, 1973, the Superior Court of Financial Controls was established as an audit body, no longer subordinated to the Ministry. Instead, the institution reported directly to the State Council. The regulatory package accompanying the 1970 law, as well as the 1973 act establishing the Court were adopted and published in less than 15 days.

Why was this audit institution created only in 1973 when the regime functioned for twenty years without one? The relocation of authority to control fiscal and budgetary implementation from a ministry to a quasi-autonomous body has been interpreted by historians of the communist regime as an attempt of the president to centralize and assert greater financial control over the technocratic elites of state owned companies. This process occurred during a period of rule when repression increased exponentially and when the leader perceived the industrial class as being less symbiotic with the Communist party compared to previous decades. Ceausescu allegedly also intended to take away policy domains from the previous protection of Ion Gheorghe Maurer, incumbent Prime Minister, an old party elite, former regime loyalist, but politically sidelined at the time.45

44 Decree 352/1948
45 Maurer was pushed into retirement in 1974.
The newly created institution just centralized a number of mechanisms of control over budget execution that already existed (i.e. CCMAES- the Central Council of the Workers’ Control of Economic and Social Activities). This centralization process was meant to deal with institutional proliferation, as Ceausescu wanted enhanced control over the state administration and economy.

There seems to be no direct information about the events and strategic political logic that led up to the establishment of the Court of Financial Controls. However, historians believe that Gheorghe Radulescu, the Vice-president of the Council of Ministers, played a central role (Murgescu et al. 2005). Although initially close to and constantly promoted by the head of government, Maurer, the Vice-president anticipated the political decline of his own protector, as well as the new strategy adopted by Ceausescu to completely centralize economic, administrative and political power in his hands. As a consequence, he became one of the champions of the new institution that would allow for the ultimate merger between administrative, fiscal and political power in the hands of the state leader. The choice of the geographical location of the Court was also telling for the strategic importance of the new institution. Its office building was located exactly equidistantly between the Council of Ministers where the championing vice-president Radulescu resided and the presidential building.

Interestingly enough, Radulescu was familiar with the pre WWII tradition of the Romanian supreme audit institution, as well as with the operations of INTOSAI, the international organization of Supreme Audit Institutions. Romania has already established contacts with INTOSAI, and government members previously participated in its training events (1960, 1971). Thus, paradoxically, former fiscal inspectors from the
Ministry of Finance drafted the law, based on the international norms of the time. As expected, the process was neither participatory nor open to major disagreements of opinion, and the law was passed fast in the Grand National Assembly, on March 28, 1973.

One interesting detail deserves to be noted as it sheds some light on the new era characterized by a sharp tradeoff between virtual lack of transparency and a minimal level of implementation. The previous legislative session of the Grand National Assembly held at the end of 1972 (December 28, 1972) still recorded some level of dissent (albeit insignificant). Out of three laws submitted for approval to the Assembly at that time, two had five public dissenters (an unusually ‘high’ number compared to average contestation over the entire period), and 36 (!) absentees (i.e. the Law on Workers’ auditing capacity, as well as a sensitive Law for National Defense).46 Coincidentally or not, this was also the last session when the voting records of the Grand National Assembly were ever published again until 1990, following regime transition. From this point on, paralleling the complete centralization process of virtually all policies under the president of the country and the gradual launch of the highest repressive/totalitarian period of communist Romania, the voting process became completely non-transparent.

The only times voting records would be mentioned from this point on, were crucial laws related to the re-shuffling of ‘winning coalition’ members, or national security and military defense. The record in these cases indicated only ‘unanimity’ without real numbers of voters, absentees, etc. The last two laws to differ in terms of published voting records (on the creation of the Supreme Court for Financial Audits and

46 Monitorul Oficial, 1972
on the Supreme Council of Economic and Social Development) were mentioned in the official records as ‘approved’ which, in that particular context, signals the likely contentious nature of the attempt to fully centralize economic and fiscal policy in the exclusive hands of the political leader.\(^47\) The departure from a certain ‘division of labor’ between the party led by Nicolae Ceausescu and the government (Council of Minister) under the leadership of Maurer indicated to many representatives and members of the winning coalition the beginning of a totalitarian era.

A distinct characteristic of the Court that made it institutionally much more powerful than the Ministry of Finance itself and an effective central tool of subordinating the administration and the technocratic class to the newly centralizing political power was its vastly expanded authority: not only was the Court authorized to do ex-post checks of accounts, but also preemptive financial controls and interventions. It was also endowed with full jurisdictional and trial authority. In fact, unlike other Courts or Supreme Audit bodies, this institution uniquely combined administrative, audit, prosecution and court of law attributions. The scope of its authority expanded to all forms of state owned property in the country.

In order to understand the nature of full control exercised by the top political leadership over the industrial technocracy, we should take a look at jurisdictions. First, the Court could prosecute only damages or fraud allegations in excess of 20,000 lei, and only with the condition that the head of the company was directly involved. Second, under no circumstance, the court judged the corruption or fraud cases against military personnel.\(^48\) In 17 years of functioning of the Court, Defense, National security, Justice,

\(^{47}\) Monitorul Oficial, Law no. 2, 1973
\(^{48}\) A 1976 Decree introduced this rule.
or Public Order have never been audited once. Third, the “preventive audit” function extended to all ministries. In fact, one Court inspector was hosted within the ministry building, physically located near the office of the Minister, and supervising and approving each important expenditure line. Needless to point out, the Ministries of National Defense of the Interior were conspicuously exempted from this jurisdiction.

The Court of Accounts had a managing council (the equivalent of a Board of Directors) whose appointments were filled by presidential decrees, and who included the deputy heads of many organizations (the umbrella labor union, the Statistical Office, the Economic and Social Council, the Supreme Court, etc.). This design allowed Radulescu to have all politically relevant organizations represented.

Despite the ‘wide’ participatory framework of this Board or Managing Council, the circle of decision makers who actually discussed and reviewed in detail all the audit reports of fraud, corruption, overspending or misallocation of fiscal resources got smaller and smaller over time. If in 1973 and 1974 the Executive Bureau was in charge with these files, starting in 1988, a very small number of individuals (the Court President and Vice-President) approved the reports and forwarded them directly to the party leadership. This trend undoubtedly paralleled the general totalitarian turn. Effective centralization expanded over all aspects of financial audit in the Romanian society.

Despite the fact that the entire organization had only 50 employees, because of a combination of ex-ante and ex-post controls, as well as because of the full coordination with line ministries in terms of ‘approving’ expenditure, the Court managed to effectively control the administrative and industrial economic elite over the entire territory. As analysts have pointed out, however, the activity of the Court was confined mostly to the
second echelon of administrative and technical class, avoiding altogether members of the winning coalition that had political immunity. Thus, the institution served as an effective instrument of control over the economic technocracy and administration (Pasti 1995).

Here is an illustrative example: over sixteen years, the only documented ex-post check related to administrative class targeted the General Secretariat of the Council of Ministers and one județ (Sibiu). In only one case, in 1975, a deputy minister of heavy industry was sanctioned because of the problematic quality of a bread factory exported to Iraq. The Minister lost his position, paid two monthly salaries and was transferred to a factory in the provinces. Instead, the vast majority of controls took place at state owned companies, unions, and cooperatives – precisely the second echelon of the industrial elite. In terms of the actual objective implementation of policies, while studying the documents of the period, it becomes clear that two domains were considered top priority for the communist elite: export markets and wages and benefits of the urban workers. For example, whereas the Court was systematically blocked from fulfilling its real auditing role by the party, it managed to do so whenever the quality of goods and services for the export markets was poor, and triggered lack of payment (Pakistan, Iraq, Canada, or Thailand).

The position of the Court of Financial Controls with respect to the general distortions characterizing economic reporting at the time is fascinating. Because the entire economy was centrally planned, and the career incentives of administrative personnel were to fulfill or exceed the planned capacity, all production outcomes and outputs were excessively inflated. Interestingly, these reporting distortions also served as the computational basis for the wages and bonuses of workers. Thus, even in cases when
the Court discovered massive numerical inflation, given that correction would have entailed reduction of wages and salaries, therefore political unpopularity and discontent, it refrained from making corrections. In some cases, this procedure entailed the recalculation of real data and subsequent wage deductions.

Some of the files were quite critical and revealed data that would have been never made public at the time. Here are some surprising examples: in the late 1980s, regarding the Ministry of Food Industry, the Court reports revealed that total losses across the ministry doubled between 1988 and 1987, from 1.076 to 2.214 million lei. In the general economic environment of the late 80s, when food shortages were prevalent, this loss was immense. Similarly, one of the large milk factories built in 1977 was used only for 3 months, and not used at all for a period of 10 years.49

The fact that communist one-party regimes distorted economic data, outputs, and intentionally manipulated bad outcomes, to the point of making them incompatible with any attempts at international comparison, is well known. Many Western historians tried to reconstruct such data. However, the debate is still going on: at what level were the data manipulated? How much did the top echelon really know? Were the leaders even interested in finding out the truth or did they let the bureaucracy do the reporting?

Following the 1989 transition in Romania, documents discovered in the summer residence of the presidential couple, revealed two juxtaposed columns comparing the “true” data on agricultural crops with the fabricated data. In the fall 1989, the president himself transmitted the latter to the Politburo (Deletant 1998: 302). Towards the end of the regime, according to some historians, the best (and perhaps the only) informed
bureaucratic unit about the real state of the economy was the second direction (Directia II) of the DSS – the security service.

6.4.6 From totalitarianism to fragile post-communism

This section deserves a longer and more in-depth discussion of various transition related aspects that touch on the fiscal contract. Nevertheless, I will simply focus on transparency issues concretely related to the newly configured political alliances following the events of 1989.

The story of communist Romania suggested so far that the top leaders of the party occasionally allowed some minimal level of policy contestation in the legislature during the periods of relaxation of repression. The range of tolerated contestability comprised fiscal domains (such as tax and spending policies) on which the regime attempted to gather real information over preferences. Other areas, in contrast, were complete taboos and never even went to the legislature for approval. Whenever the Central Committee proposed tax increases or spending cuts targeting the population or the managers of the state owned enterprises, up to 10% of the Assembly opposed the measures. At the same time, taxation of the agriculture and spending allocated to the Secret Police and to the Ministry of National Defense were completely taken out of the legislative agenda.

Transition changed some alliances of the previous era but consolidated others. The story of post-communist transition in Romania until 1996 revolved around political pacts among the ruling party (PDSR), some sections of industrial workers, retirees, peasants, and first and foremost, the domestic capital lobbies. These latter, needless to say, were the former industrial elites of the communist era.
Therefore, the fiscal history of the first years of the transition period was built around a social contract based on significant subsidies to the industrial complex (mining or energy-intensive sectors in particular) and agriculture, major quasi-fiscal activities that escaped parliamentary approval altogether, as well as the creation of an autonomous entity (the Public Property Fund - FPS), not fully coordinated with the central budget, that gave the technocratic industrial class a very powerful influence in the process of privatization. By 1996, FPS privatized only 7.5% of the capital, accounting for 26.8% of the total number of employees in the industrial sectors (Pasti 2006: 451). At the same time, budgetary implementation was severely politicized and non-transparent, as the brief narrative of the Court of Accounts in the post-communist period will show.

In line with the general theoretical argument regarding fiscal contracts in new and fragile democracies developed in this dissertation, the fiscal logic and the negotiation of a certain level of transparency on the side of the political opposition in Romania developed in the permanent shadow of a threat. Several episodes of violent miners’ revolts in 1990 and 1991 demonstrated the potential for mobilization of an important industrial group in danger of losing material benefits, and its strong alliance with the incumbent President and party.

Indirectly, these protests showed a glimpse of a potential social turmoil (if not regime reversal) to come in case their conditions were not accepted. The lobbying power of industrial groups (particularly coalminers) is highly visible throughout the budgetary negotiations of the pre-transition years. In 1995, for example, during a special Senate Finance Committee meeting, Miron Cozma, a powerful union leader, accompanied by a
delegation of miners, pleaded for the increase of mining subsidies in the current budget year.\textsuperscript{50}

\textsuperscript{50} Monitorul Oficia partea a II-a, February 14, 1995, II(4/C): 1
6.4.6 Transparency and contestability

A brief incursion into the parliamentary life of the first transition years helps understand the construction of information asymmetries over the allocation of resources to the benefit of industrial lobbies. Ion Iliescu, former communist elite, became the temporary president. Immediately after containing violence and reinstating minimal control, the new provisional government started to debate the 1990 budget.

On January 23, during a discussion of the law of public finances, a presidential letter deleted one of the articles of the law (21 and 22) that mandated the approval of all budgetary rectifications by the Parliament. In the end, the text amended by the President was voted with only one against and two abstentions. This episode symbolically set the pace of fiscal obfuscation for the first six transition years. Essential parts of the budget were to bypass opposition altogether, crucial funds were scattered through myriad extra-budgetary accounts and unaccountable quasi-fiscal operations proliferated exponentially.

Parliamentary and presidential elections took place two years later in 1992, and brought the victory of the Romanian Social Democratic Party (PDSR), a political organization with strong roots in the communist past. Ion Iliescu kept the presidency. The first parliamentary debates over the 1993 annual budget demonstrated a certain level of frustration on the side of the opposition that there is no full coordination between the central budget and the special Fund for Public Property that concentrated all the state owned enterprises waiting to be privatized. Ion Ratiu, prominent opposition members, for example, proposed amendments regarding shareholder taxation and demanding a better integration of the two fiscal components. Ironically, the 1993 debates also give an
interesting insight into the unmaking of political taboos. If the defense allocations were virtually untouchable before 1989, they were heavily debated in the post-communist legislature. The final vote on the expenditure line for the Ministry of National Defense was 131 to 129. By comparison, the final vote on the general budget across party lines was 224 to 150. Later on, in 1995, a similar law proposing the increase of military pensions according to previous rank and salary was rejected in the Commission for Budget, Banks and Public Finances of the Senate. In 1993, in general, the opposition was also fully able to influence the debate and incorporate key amendments increasing spending allocations for culture and health.

Fiscal transparency became a leitmotif of parliamentary contestation. Here are several examples. A motion of censure proposed in March 1993 accused the new government installed in November 1992 of never presenting to the parliament any governing program or strategy.\(^{51}\) During the parliamentary debates on the 1993 annual budget, one of the opposition MPs accused the assembly of not taking any particular political interest in the budget debates, because the Constitution of Romania, unlike in other countries, does not explicitly tie the parliamentary vote on budgets to a vote of confidence in the government.\(^{52}\) He also accused the budget draft put together by the government of centralism, as well as of ignoring health, education, and defense, for the benefit of major subsidies going towards heavy industries that demonstrated significant collective action potential in the recent past. At that time, one third of the budget targeted economic activities of the state, and one third of this amount was spent on subsidies for industry (coalmining in particular) (345 billion lei were allocated to subsidies, compared

\(^{51}\) Monitorul Oficial Partea a II-a, 1992, March 1993, IV (53)
\(^{52}\) Monitorul Oficial Partea a II-a, 1992, 31 March 1993, IV (64)
to only 13 billion lei for the culture budget). In addition, the transfers from the central budget to the localities were also accused of not following a formulaic approach. Instead, they appeared obfuscated, calculated as lump sums, and not taking into account the population of the judet. Therefore, according to this particular MP, the disparity was high, ranging from 4,200 lei/ per inhabitant to 10,000 in Botosani (the latter being a region that voted for the incumbent party).

The same opposition MP pointed to another problem related to obfuscation during the debates surrounding the 1994 annual budget. He accused the government of incompetence, and argued that in addition to a significant part of taxes directed straight to direct or visible subsidies for the heavy industry, an even larger amount (almost double) went towards disguised or concealed subsidies. Here is an illustrative excerpt of the parliamentary transcript:

(...) To see how clumsily these subsidies are hidden, please open these kilograms of paper to Appendix 16 page 39 that escaped to a computer of the government, with 12 columns instead of 10 describing public investments. You will see there that two of these columns refer to what has already been executed by December 31, 1993, as well as to what is left to be executed. On all other pages referring to public investments included in this massive tome, those two columns do not appear. They were just left there. Why? Because the correlation of the budget figures is no longer possible like last year, when we could discover that some of these investments will end in 20, 30 or 100 years. So this year the budget was modernized, improved, but it deprived us of the possibility of correlating (n.a. and understanding) figures. Why? So that we don’t discover that these are subsidies, as well. Exactly as the subsidies from last year’s budget were used, keeping employed and active in production some factories that lack the smallest market for their products, and that only claim allocations from this budget. For example, the RENEL investments, with the exception of the Cernavoda one, and the coalmine investments that actually go to pay the miners’ salaries. This scrap paper contains serious lies.53

53 This is an excerpt in author’s translation from the speech of an opposition MP associated with the National Liberal Party, from Monitorul Oficial Partea a II-a, 1994, V(103): 32.
In 1994, a motion of censure was initiated by the opposition on the procedural grounds that the government submitted the budget with a delay of seven months. Opposition MPs also severely criticized the transparency of the new privatization law, and the total lack of commitment of the government to privatize even 30% of the capital of the SOEs. One year later, the 1995 debate over the annual budget carried on the fiscal transparency theme. The opposition again made accusations that the government omits important information that would give meaning to the budget. Some MPs assessed the report underpinning the budget draft as vague and not allowing a direct correlation of the proposed spending data with declarative principles. Therefore, according to them, this draft was a ‘mystification’ of budget fundamentals that occurred in the previous year and occurs again. Crucial information with respect to the exchange rate and total borrowing was also missing and the government allegedly refused to share it with the Parliament. The blocking of information necessary for decision-making was inadmissible, according to the MP.  

Additionally, out of 29 industrial branches, about 14 registered severe deficits, contributing to unrealistic calculations of the GDP. Macroeconomic forecasting therefore also suffered. Many budgetary rectifications were done via executive orders rather than parliamentary debate. The debts of industrial enterprises peaked, the volume of non-performing credits increased with about 35% in one year, and the losses recorded in only one branch (coalmining) reached 400 million. The total amount of debt was never harmonized by the Central Bank with the consolidated budget, and as a result, the interest on public debt equaled or exceeded the transfers to local governments.

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54 Monitorul Oficial Partea a II-a, February 7, 1995, VI(5): 9
Other accusations from the opposition bench suggested that the debates over subsidies were completely pre-empted in the Senate Committee, even before reaching the floor of the legislature. They also pointed out that the ratio between industrial subsidies and other ministries gave serious reasons for fiscal anxiety. For example, in 1994, about 2700 billion lei were allocated to subsidies, compared to only 1700 billion for the entire budget of the Ministry of National Defense.

Another MP from the opposition emphasized that certain cosmetic measures have been taken to distort the correlation between revenue (and tax collection, on one hand), and expenditure (for example, the fact that the income tax as opposed to the corporate profit tax fueled the entire expenditure component of the budget). Also, whereas the Prime Minister emphasized the fact that there are no hidden reserves, the reports of the specialized commissions revealed that around 14 billion lei were disbursed toward one energy company alone, as masked subsidies. Here is another excerpt from the debate transcript:

And then, we continue to maintain [n.t. within the framework of the state budget], 11 special funds, the FPS budget, the social insurance budget and many others. How is it still possible to correlate? How can I figure out how much I allocated to the health fund, when I have a certain amount in the central budget, and another amount in the budget for localities? And yet another amount in the special extra-budgetary fund for health? In foreign aid, another amount? Can anybody understand how well this money was distributed and spent on current material expenditure, wages, etc.? No. Then, the maintenance of a dense, convoluted and unclear budget, as any economist learns in their freshman years in college, generates new sources of inefficient budget use.55

During the same year, the Minister of Finance responded to the allegations of the opposition and argued that many subsidies were transparent, fully retrievable in the budget draft and targeting the population at large and not only non-performing industrial

55 Monitorul Oficial a II-a, February 17, 1995, VI(5): 18, opposition MP.
sectors (for example, 0% VAT tax for bread and paper, and 9% on meat and some pharmaceuticals, compared to a 18% VAT for the rest of products). He also underlined the fact that subsidies went towards social and cultural sectors as well, and not only towards mining industries where the subsidies were relatively clear and declining continuously.

An even more tangible indicator of lack of fiscal transparency that persisted throughout the post-transition period was the expanding number of extra-budgetary accounts. Despite the fact that they were at the time part of the consolidated budget, just like in the case of the Moroccan Hassan II Fund or the INDH development initiative, extra-budgetary pockets usually reduce accountability, as they tend to attract tax revenue for concrete policy goals, but in the process make the object of special regulations and implementation rules. The figures below show both the evolution of their number, as well as their contribution to the balance of the central budget. In 1995, the Minister of Finance addressed the Chamber of Representatives, acknowledged their problematic transparency, and argued that reducing and streamlining these earmarked accounts was the policy goal of the Government as well.56

Additionally, quasi-fiscal operations were widely used in post-transition Romania to conceal the sensitive subsidies to the heavy industry outside the annual budget. These transactions had three major sources. (a) subsidies through the extension of directed low-interest credit by the Central Bank to agriculture and energy-intensive sectors; (b) the sharp increases in lending by state-owned commercial banks to these industries; (c) the Central Bank’s sales of foreign exchange at an appreciated exchange rate to the energy

56 This address took place within the overall framework of a new tax on lumber and furniture exports supposed to finance the building of forest infrastructure in 1995.
sector; (d) the extension of government loan guarantees; and (e) a dramatic increase in payment arrears by state owned companies.\textsuperscript{57} Again, despite their technical appearance, these disguised forms of support to sensitive political allies reached significant proportions. Moreover, the political costs of their transfer to the budget from 1997 on were had to be internalized by the opposition government.

One of the obvious problems associated with analysis of contestability and transparency of parliamentary debates stems from objectivity versus rhetoric. Who was right? The opposition, the government? Therefore, let us briefly look at the data of the period regarding fiscal transparency:

\textsuperscript{57} SM/00/250. November 6, 2000: 45.
In 1996, when an IMF mission visits Romania to meet the new government and the President Constantinescu after winning the November 1996 elections, it strongly emphasized the need for subsidy reduction in agriculture and energy intensive companies (i.e. mining) that came at the expense of social protection. The first things underlined by civil society representatives and labor unions at the meeting with the IMF delegation,
called for ‘adequate resources for social programs and the need for transparency in economic policies.”

6.4.7 Fiscal implementation

The generally low level of fiscal transparency was closely matched by problematic implementation of budgets. The new role of the Court of Accounts during the first years of post-communism tells the story well. A decree passed in February 1990, immediately after the transition, closed the activity of the old court and mandated the transfer of a majority of its employees to a fiscal control unit placed under the Prime Minister, with a much diminished mandate. This temporary institution became completely subordinated to the executive. During the first two transition years, there was a complete void of budgetary implementation, despite the fact that the Romanian Constitution from 1991 created an independent Supreme Audit Institution expected to start its activity in 1992. This project was however severely delayed.

After some debates related to the capacity of control bestowed upon the new institution, the bill mandating a new and independent court of public accounts passed in the Senate, with only one vote against and three abstentions. The draft caused more contestation in the Chamber of Representatives. The sour point of contention seems to have been related to the independence of the court from any political interference. President Iliescu who advocated for the independence of the new institution sent the law back to the legislature. Finally, the act passed with an overwhelming majority in the Senate and the Chamber in September 1992. As a consequence, the scope and

59 Monitorul Oficial, partea a II-a, nr. 127/24.06.1992, p. 15.
institutional competence of the Court expanded significantly. For the first time, the Court could audit the accounts of the parliament and government units. Nevertheless, despite the initial political consensus over the Court of Accounts, institutional resilience was never achieved. There were 6 major amendments passed over a 12-year period, many via executive orders.

From this moment on, the battle between the incumbent party and the opposition was fought mostly over the auditing capacity of the newly created Court (jurisdiction and number of auditors). In spite of the legal mandate of independence from political interference, the incumbent *de facto* and *de jure* appointed a significant percentage of all the general auditors. This method allowed for occasional political retaliation.\(^6^0\) Counter-intuitively, it seems that the opposition attempted to limit the interference of the Court in the parliament’s spending and privatization after winning elections in 1996. The explanation resides in the mandate of the institution to conduct ex-ante audits inherited from the communist regime. Whenever the new opposition government attempted to disburse certain spending categories, the ex-ante controllers with political allegiances towards the communist successor party refused approval for expenditure. In 1999, as a result of previous budget deadlocks, the ex-ante control function was taken away from the Court and moved to the Ministry of Finance.

Another important and sensitive competence of the Court related to broad issues of transparency pertained to the domain of campaign funding for political parties. The first electoral funding report came out in 2001 and examined the 1996-2000 term,

\(^{60}\) In 2003, for example, the Court of Accounts opened up investigations over the nature of the privatization process initiated by the opposition party between 1997 and 1998, which attracts an open protest from a PNL MP, former Minister of Privatization at the time (Murgescu et al. 2005).
precisely the period of opposition rule. Starting in 2003, the Court has kept a registry of political parties, donors, and official receipts issued from campaign funding transactions.

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This section developed a story of shifting political alliances and fiscal transparency over two distinct regime types: totalitarianism and fragile democracy in Romania, between 1952 and 2003. I argued that the communist leaders forged alliances with the security apparatus, and occasionally with the broad population and industrial elites. Sometimes they allowed moderate contestation on taxation and spending policies for informational and co-optation purposes. Simultaneously, they repressed agriculture and systematically drained its resources. The transition to post-communism does not completely dismantle some of the old alliances, but restructures their level of sophistication. The first years of the new regime are marked by strategic fiscal obfuscation as a strategic tool used to subsidize selected industries, and to a lesser extent, agriculture. In contrast, defense – a former privileged domain – was neglected. This story should of course be taken as a stylized version of the real fiscal politics of the period. The political alliances were not always as linear and clear-cut as they appear here,\(^{61}\) and the construction of information asymmetries not always as deliberate. The general contours however match the meta-theoretical argument of this dissertation.

\(^{61}\) Despite the fact that the political and industrial leadership virtually merged until 1996, there were also sporadic confrontations among these actors. At some point, following a major dispute between the first post-communist president, Iliescu, and the new industrial lobbying bureaucracy (the Fund for Public Property), the president wanted to change the head of the organization, but the Parliament and the FPS effectively blocked him (Pasti 2005).
6.5 Turkey: national defense and fiscal taboos in the post-junta years

This section goes back to the political actor sidelined by rulers in both Morocco\(^1\) and Romania: the army. There are perhaps no better cases of fiscal tabooization with respect to military spending than Turkey - a country that witnessed three (and a half) military coups followed by civilian governments ruling until quite recently in the shadow of powerful generals. Within the theoretical framework of this dissertation, the Turkish case illustrates well two mechanisms: first, the incentives of military rulers to cultivate political alliances with influential groups (i.e. large businesses) and second, the strategies used to obfuscate a key component of the fiscal contract in order to secure benefits for the army that would survive civilian governments. As we will show, a significant share of military expenditures and of the central budget bypassed all forms of accountability until the democratization reforms of the late 1990s.

6.5.1 A brief summary of the Turkish coups, and their redistributive consequences

6.5.1.2 1960-1961 – the ‘left wing’ coup

In 1960, a faction of the military staged a coup against a democratically elected government and came to power with a very ambitious fiscal reform agenda. Between July 16 and August 23, 1960, at least 29 of the 38 members of the National Unity Committee (NUC) – the newly formed ruling body - gave interviews to the *Cumhuriyet* newspaper

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\(^1\) Under the liberal period of Hassan II (1999) and Mohammed VI, the army has made a comeback mainly due to the sensitive security situation in Western Sahara. In a symbolic gesture, the late monarch gave the authority to deal with the Sahraoui files to an army officer close to the palace, for the first time since the 1970s coup attempts and Dlimi’s death. The decision was largely perceived as a change in monarch’s attitude towards Basri and the Ministry of the Interior (Vermeeren 2001: 37).
and announced their policy priorities: education, land reform, tax reforms, and agricultural modernization (Weiker 1963). One of the generals promised that the NUC would do what vote-seeking politicians could not afford without high political costs. Tax reforms made the top priority list, among other policy initiatives with important fiscal consequences (i.e. a wedding ring drive that asked the entire population to donate their gold and silver rings in order to provide reserves for the nation, forced household savings and the first comprehensive declaration of wealth in Turkey). The defining feature of the proposed fiscal reform entailed making agricultural income a taxable category, in addition to major changes in land and building taxation.

In the first section of this chapter, I summarized some of the classic theoretical arguments about the structure of the makhzen in Morocco. I argued that agriculture, specifically large landowners, forged a long lasting alliance with the royal palace. As a consequence, rural profits and products are still exempt from taxation or VAT deductions to this day. When the military came to power, Turkey faced a very similar problem. In a country with 75% rural population, Turkey's tax system completely exonerated agricultural income from any fiscal obligations. Ataturk himself removed both the tithe (10% levy for support of religious establishments), as well as the heavy levies imposed by the previous Ottoman government. For political reasons, his successors never reinstated agricultural taxation.

This time, the military NUC was resolute in targeting the middle and large farms with a progressive tax system whose highest income bracket reached 70%. Additionally, the accompanying land reform led to the expropriation of 55 Anatolian ağas (large landowners). The implications of this episode are still far from clear. On one hand, the

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2 Cumhuriyet, January 4, 1961
targeted group managed to soften the conditions of exile and land confiscation. On the other hand, some argue that wealth and land were not the sole criterion of policy targeting. The landowners were mostly Kurdish and they might have been identified by the military as a potentially threatening ethnic group (Hale 1994). This reform component was not to last for long. Following the coup, the first civilian government that came to power restored the land and property to their original landowners.

The urban land and building taxation proposal seems to have been more popular and less controversial at the time since, according to the Minister of Finance, low-income groups had been paying 66% of all taxes collected in Turkey before 1960. On November 4, the National Unity Committee announced that taxes on land and buildings would be increased between 5 and 15 times their 1942 rate.\(^3\)

As chapter 4 has already mentioned, unlike any other military junta in Turkey, during the reform process, the NUC allowed some degree of contestation and transparency. The median voter in the Constituent Assembly, the non-democratic legislature, was in fact more conservative than the generals. According to all assessments of the period, the new package of tax revision “(…) became probably the chief subject of bargaining between the NUC and the Constituent Assembly, with each side winning some points” (Weiker 1963: 152, Kili 1971).

The military rulers also sought to secure material benefits (salaries and subsidies) for the army that would last under civilian rule. In 1961, towards the end of the first Turkish coup, the NUC founded OYAK (the Armed Forces Mutual Assistance Fund) to act de facto as an investment fund for military personnel and their families. 10% of all the salaries of the military and civilian employees were to be paid directly to the fund and

\(^3\) Cumhuriyet, November 4, 1960 and February 17, 1961 cited in Weiker 1963
reinvested in productive enterprises. OYAK provided low mortgages, subsidized consumer goods, pensions, and a full range of other benefits to members of the military. According to some analysts, OYAK brought the army and urban businesses closer than they have ever been before. This relationship was there to last for the subsequent episodes of military rule (Hale 1994).

Despite the commitment of the generals, the tax reform (especially its components targeting agriculture) was not long lived. In 1961, the new civilian government immediately reduced the politically unpopular income tax for farmers. Moreover, additional tax incentives were provided to vocal business groups to encourage investment and exports (Bulutoglu and Thirsk 1997, Ates 2010).

The following twenty years were marked by inconsistent fiscal policies across the board. In 1965, the government gave large taxation concessions to businesses. Given the rising deficit, the 1970s brought back seven new taxes and increased the existing ones. However, because of weak coalition governments, no major tax reform was initiated (Bulutoglu and Thirsk 1997, Ates 2010). Therefore, given the political unpopularity that civilian governments could not afford, the next major episode of fiscal reforms had to wait for the 1980s coup.

6.5.2.2 1980s: Generals, large urban businesses and untouchable pockets of benefits in a fragile democracy

The third coup occurred on September 12, 1980. The National Security Council (NSC), a new ruling body, came to power allegedly because of the severe fiscal failures of its civilian predecessors. Prior to that day, the civilian Ecevit government faced many economic challenges: rising debt and inflation, two failed attempts to comply with the
conditionality of the stand-by programs proposed by the IMF in 1978 and 1979, as well as widespread non-compliance with tax laws and the implicit tax base erosion this entailed. Under these circumstances, fiscal reform was not a wise political option.

In 1979, the Demirel government succeeded Ecevit’s team and appointed Turgut Ozal in charge with designing an urgent economic stabilization program. Ozal had a business background and was well respected among the Turkish umbrella business associations. He had strong ties to TÜSİAD (Türk Sanayicileri ve İşadamları Derneği), the Turkish Industrialists’ and Businessmen’s Association that represented the interests of the large capital. During his previous career, Ozal was also the president of the Metal Industrializations Union, as well as a top-level executive in one of the largest Turkish holding company (Sabancı).

The new team stood up to the task and proposed a new stabilization program in January 1980. The policy package seems to have been the result of many consultations and interactions between a number of actors: the Demirel government, Ozal’s team, the IMF, the World Bank and TÜSİAD (Krueger and Turan 1993, Ates 2010). The result was a neo-liberal proposal to deal with the crisis that inscribed most of the recommendations of the business association. Observers perceived the bureaucratic process as vertical and highly fragmented. The majority of the ministries involved in executing it were not engaged in any decision making outside their strict area of administrative control.

The package contained drafts of a tax reform bill aiming to streamline the income tax according to the evolution of inflation, and to create a VAT taxation system. The stabilization program however never made it out of a contentious and highly polarized parliament on the brink of the economic crisis (Ates 2010). This is when the military
rulers stepped in and kept power for the next three years, until 1983. The first rule of the
game was: politicians out, technocrats in. The National Security Council banned Demirel
from politics, but kept Ozal and Kaya Erdem, main architects of the stabilization program
and tax reform proposals.

It seems that both technocrats and TÜSİAD (the business association) had a
significant influence in shaping the fiscal reforms under the military regime. Between
1980 and 1983, for example, repression reached an all-time high. Dissidents and
opposition were imprisoned, martial law declared, and interest groups banned. TÜSİAD,
however, had a special status and was allowed to function even during those years (Heper

Guided by technocrats, yet somewhat sensitive to the reception of the new fiscal
reforms by the general population, the National Security Council implemented about one
fourth of all recommended measures. Personal income tax brackets were adjusted
upwards and tax rates increased. The corporate income tax was unified. Interestingly, the
VAT tax system was not adopted during the three years of direct military rule, but
immediately after, under the first civilian government in the post-junta era (1984).
Presumably, the generals might have feared diminished popularity because of the
introduction of a regressive tax on goods and services. Overall, despite a mix bag of
progressive and regressive policies, the net effect seems to have disproportionately
affected the low and middle income groups (Ates 2010).

The alliance between the military rulers and the large urban businesses was
mutually beneficial. The latter obtained favorable tax policies, a pro-capital neo-liberal
policy environment and a fiscally responsible macroeconomic framework. The former
got the implicit political support of Turgut Ozal’s ANAP (Motherland) party backed by businesses and technocrats.

In the post-coup ‘guided’ democracy era, despite the power of the NSC as military rulers, the generals still needed some level of support from the civilian political parties in order to lock in benefits for the military in a domain untouched by the whims of political competition for years to come. During the junta years, policy could be enacted by decree. After that, in order to last, it required some civilian support. Needless to say, for opposition parties, attempting to dismantle fiscal taboos that could have triggered another coup served as a deterrent. This logic fits within the meta-argument of this dissertation. In new, fragile or ‘guided’ democracies like Turkey after 1983, the fiscal contract tends, paradoxically, to be less transparent than in some hybrid regimes. Even for opposition parties that might want to lift the veil of secrecy, the distant threat of a potential reversal to autocracy does not payoff.

6.5.3 The making of a fiscal taboo: extra-budgetary funds for military spending, autocratic legacies in the post-coup era

In 1983, Turkey returned to civilian politics in a period of ‘guided’ democracy. Only three parties approved by the National Security Council were allowed to run for elections: Anavatan Partisi (ANAP) (or the Motherland Party) under the leadership of Turgut Ozal, Halk Partisi (HP), a new political organization designed to carry on the political legacy of the CHP - Ataturk’s original party, and Milli Demokratic Partisi (MDP), a new entity created by the generals. Moreover, to safeguard the policies of the military years, Kenan Evren – the leader of the National Security Council- became the President of the Turkish Republic.
The consequences of the post-junta political configuration were reflected almost immediately in the general transparency of the fiscal contract. In 1984 and 1985, the budgetary process started to be increasingly complex and opaque. One of the most striking features of Turkish public finance was, according to several IMF documents of the time, the dramatic proliferation of extra-budgetary accounts as well as the exponential increase in resources available to local authorities.⁴ The former category of spending that circumvented the parliamentary channels of accountability included a Housing Fund that provided the private sector with housing financing, a Public Participation Fund, financing public sector investment, a Petroleum Consumption Fund for infrastructure, a Social Solidarity Fund providing transfers to the poor, and – the cherry on the cake—the Defense Industry Fund (Savunma Sanayi Destekleme Fonu, SSDF) for the modernization of national defense technology and personnel. Later on, an additional fiscal entity to deal with the weapon industry was founded and attracted substantial public resources (Turk Silahlı Kuvvetlerini Güclandırma Vakfı, TSKGV).

The proliferation of these funds coupled with the large share of public resources they took away from the annual budgets, reduced the overall transparency and contestability of the fiscal contract significantly, and became one of the most often criticized features of public financial management in the post-junta years.

The SSDF fund was created in 1985 and, unlike other extra-budgetary accounts, did not depend on the national defense budget appropriations and received earmarked revenues directly (10% of taxes on fuel, 5% of all corporate and income taxes, as well as taxes on alcohol and tobacco). Figure 75 below shows the complete structural evolution of the revenues transferred to SSDF and TSKGV between 1985 and 2000. One notices

⁴ IMF, SM/87/8, January 6, 1987
that in addition to earmarked revenue, its resources also derived from assets, foreign loans and budgetary transfers. In fact, after 1992, the latter increased at the same pace as the independent revenue sources (see yellow line).

However, we cannot get the full picture of the unprecedented share of the central and consolidated budget resources that these extra-budgetary funds mobilized without taking a look at Figures 73 and 74.\(^5\)

The general defense budget in Turkey between 1980 and 2000, allocated to the Ministry of National Defense (*Milli Savunma Bakanligi*), accounted for anywhere between 18% and 20% of the central budget, and 12% to 17% of the consolidated budget. This share of budget appropriations was the second highest among all line ministries spending, surpassed only by the Ministry of Finance. By regional and world standards, it was also quite highly ranked in term of total amount and share of funds. In terms of structure of spending, as Figure 74 shows, the transfers to military personnel by far exceeded the technology and equipment expenditure.

The extra-budgetary funds (SSDF and TSKGV) added over 20% of military spending on top of what was already included in the central budget (Figure 73). The difference between the two categories was that the first (central budget appropriations) was still submitted to Parliamentary approval, whereas the second avoided any civilian oversight and accountability until the beginning of the 2000s. This translated virtually into around 5% of the central Turkish budget completely locked outside of the political process.

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The tradeoffs it entailed could not be ignored either. Even within the scope of the annual budget, not to mention extra-budgetary accounts, some studies that analyzed the existence of a potential tradeoff between the defense budget and education or health allocations found that overall the Turkish government allocated military expenditure independently of health and education spending considerations. The analyses also discovered a negative tradeoff between health and defense, but a positive relationship between education and military spending (Yildirim and Sezgin 2002).

Figure 73: Total defense spending in Turkey, by general budget and special budgetary accounts (1987-2000)
Last but not least, to understand the symbiotic relationship between the military rulers, large businesses and technocrats that allowed this fiscal taboo to survive for at
least two decades, I will briefly summarize the interesting results of parliamentary voting on the 1985 creation of the SSDF fund.

Keeping in mind that Turkish civilian politics in 1985 was unfolding under indirect military scrutiny, the TBMM (parliamentary) distribution of seats was the following: ANAP, Ozal’s party, held 211 seats, Halk Partisi (HP) -117, and MDP -71. In general, 276 votes were needed for legislative majority. Given this configuration, the final votes for earmarking revenues and committing them to the new extra-budgetary fund SSDF was interesting: out of 291 total voters, 213 agreed, 73 rejected; 103 (one third of all MP votes) refused to vote at all out of either fear of retaliation or the futility of opposing a powerful military that could have intervened again in the quasi-civilian status quo of the time (TBMM Archival documents- B26, November 7, 1985, O:1).

Over time, as civilian rule consolidated, several Constitutional amendments and reform packages managed to introduce a certain level of oversight and accountability that led to moderate increase in the overall level of budgetary transparency. The so-called ‘democratization packages’ – a set of legal reforms passed between February 2002 and August 2003-brought several important amendments that reduced the scope of military discretion. The Seventh Package is particularly relevant to public finance and fiscal contract openness, because it mandates explicit measures targeted at transparency (publication of regulatory acts in the Official Gazette, as well as the jurisdiction expansion of the Turkish Court of Accounts over military public expenditure) (Ozbudun and Yazici 2004, Paker et al. 2005).
6.6 Conclusion

This chapter told the stories of the fiscal pacts between rulers and their coalitions of support in Morocco, a hybrid political regime, Romania, a totalitarian state followed by a rocky transition to post-communism, and Turkey- a country with a military past. The first two settings, despite obvious differences, shared a similar dynamic. Leaders, be they monarchs or presidents, had to identify foes and friends, open up some level of fiscal contestation in order to gauge the ‘price of loyalty,’ and co-opt or repress based on such information. The logic of political alliances in all contexts, I argued, revolved around three core interest groups and domains: agriculture, managerial/business elites and security forces/military.

In terms of the relationship between the first two pacts, Morocco and Romania followed two exactly opposite trajectories. The very heart of the traditional makhzen in Morocco required the royal palace to keep agriculture out of political contestation and unconditionally secure benefits to rural notables and large landowners. These privileges were granted at the expense of urban businesses and popular constituencies from the outskirts of the cities until the late 1990s. Following the era of relative political liberalization, businesses and the urban poor were recognized as new entrants to the establishment and, as a consequence, the agricultural fiscal taboos are currently slowly being replaced with an urban counterpart. The act of political survival thus moved from the countryside to the large Moroccan cities.

In contrast, in Romania, agriculture was systematically crushed by the communist regime and its surplus transferred to urban industries. However, communist party leaders also realized that in the process they created an industrial technocratic class that might
potentially assert independence from the party. While agricultural revenue extraction
became the fiscal taboo, they allowed some level of transparency and contestation on
industrial policy and managerial benefits in order to identify the preferences and ideal
points of an emerging industrial group possibly endowed with collective action capacity.

In both contexts, autocratic rulers had to rely heavily on a repressive apparatus
that guaranteed them that fiscal taboos remained untouched. On this issue, King Hassan
II and President Ceausescu had identical survival instincts. Both of them started trusting
and rewarding the military until the early 1970s. Coincidentally, both were in for
surprises. They managed to uncover plots and coup attempts organized by various
factions of the army, and the trust in the military soon dissipated. Instead, Hassan II and
Ceausescu, roughly around the same time, shifted away from reliance on generals to
personalizing security forces that had the capacity to use the stick and the carrot more
effectively.

In Morocco, this was the moment when the Ministry of Interior became powerful
and its feared head, Driss Basri, the only person the monarch would ever trust again. In
Romania, the same episode led to the prominence of DGSS (known as Securitate), a
secret police that by 1989 was only rivaled by the German STASI in terms of coercive
capacity and penetration of society. Ironically, if during the dark years of repression in
both countries, the fiscal benefits awarded to these institutions were the taboos par
excellence, during periods of political transition, part of the veil lifted, their perks
diminished, and other groups in society became able to at least partially challenge their
budgetary allocations or institutional structure. In Morocco, business associations were
indirectly able to influence a crucial ministerial appointment to the Interior, whereas in
post-communist Romania, the expenditure of the military and of the secret service/police were among the most contested item votes during annual budget debates.

Turkish fiscal politics, I argued, took place within the boundaries of a tacit pact between military rulers and business/technocratic circles. Most of the tax reforms implemented in the 1980s had the clear imprint and blessing of the largest business association in Turkey. The bureaucrats who designed the economic stabilization package were given political prominence for about ten years after the coup, until the early 1990s. In exchange, the military rulers expected their civilian political support for locking in material benefits and discretionary expenditure accounts that would long term benefit the army. The stories of the SSDF and TSKGV, the two most important extra-budgetary funds in Turkish public financial management, confirm my theory of fiscal tabooization in fragile democracies, as well as the political alliance developed during the junta years.
7. Implications and Conclusion

In this dissertation, I argued that political leaders under all regime types strategically construct information asymmetries on the fiscal contract in order to form political alliances and survive in office.

Chapter 2 first introduced a generic formal model that issued the broader hypothesis of the study, namely that budget openness and contestation follow a S-shaped curve as political rights linearly expand. One of the intriguing results shows that the expected fiscal transparency in new democracies is lower than in competitive authoritarian contexts.

Chapter 3 started the series of cross-national empirical tests of these theoretical propositions. Until quite recently, it would have been difficult to perform this task since there were no available cross-national measures of fiscal transparency. I use several original and preexisting datasets to capture the core theoretical concepts of budget openness and fiscal transparency. Following the generic result, I also test the factors that influence the transparency of specific fiscal policies: expenditure, revenue, legislative engagement of governments, etc. The theoretical hypotheses are partially confirmed. The findings also corroborate the hypothesis that autocracies in particular strategically manipulate fiscal information for achieving political goals, and discipline or co-opt the opposition.

Chapter 4 continues the cross-sectional tests of the formal hypotheses, but instead of emphasizing general transparency or contestability issues, it shifts focus towards the budget implementation stage. First, I develop a signaling game. One of the major findings derived from this model is that even executives with high enforcement capacity in
competitive authoritarian systems strategically obscure fiscal implementation information, as revealing it would shed light on their “selective” repression tools, and would run the risk of being mistaken by the opposition for a low repressive capacity regime.

After deriving the hypotheses, the chapter narrates a series of vignettes that illustrate how hybrid regimes use discretionary implementation of tax and spending policies to punish political opponents. I go beyond anecdotal evidence and also perform some cross-national statistical tests of signals sent by governments on key budget implementation dimensions: audits, extra-budgetary funds, end of the year executive reports, and secret expenditure (police and military spending). Finally, I conclude with a section examining the data construction process itself. This chapter also explains the dissertation title: ‘ambidextrous’ regimes manage to effectively use simultaneously both fiscal contestation and implementation, taxation and spending, co-optation and retaliation in order to stay in power.

Chapter 5 concludes the cross-national tests, by tying together leader survival and fiscal transparency. I use two datasets for leader survival and compute original indicators of transparency and implementation of various tax and spending policies. The results corroborate the original hypothesis from chapter 2. In contexts characterized by limited multiparty or military multiparty competition, the leader’s political tenure is significantly prolonged by increased fiscal transparency.

Last but not least, Chapter 6 sketches three case studies—Morocco, Turkey and Romania— in an attempt to cover the regime types that are crucial to my study. Morocco represents well the “electoral autocracies” that allow political competition on a restricted
domain of issues. Turkey has a history of multiple alternations between democracy and military rule that goes hand in hand with the pace of its fiscal history. Romania between 1950 and 1989 is the poster case of a closed totalitarian one party regime. These three cases also illustrate the temporal alternation between various fiscal mechanics associated with regime transitions. Through in-depth fieldwork, I collected and coded original archival data on annual votes on budgets in legislatures, as well as on the evolution of budgetary allocations over time. The case study narratives also draw upon archival documents and in-depth elite interviews with major political actors involved in fiscal policy making. In order to provide empirical evidence, I go into the details and variations of shifting political alliances, leaders’ survival and fiscal taboos in all three countries between 1950 and 2003.

This dissertation research has important implications for three different bodies of theoretical literature in political economy, as well as significant policy implications. First, the dissertation contributes to the general debates on re-distribution by bringing together taxation, spending policies, fiscal transparency, and analyzing the variation in their linkage. Second, given the centrality of political regime type for the theoretical argument, the findings have direct implications for the major political economic theories of democratization stressing the role of social groups and inequality. Third, fiscal policy implementation has so far been treated in relative isolation from the literatures on regime type and re-distribution. This research attempts to link these different bodies of work in a unified theoretical framework.

One of the take away theoretical points of this dissertation is that, by looking only at fiscal outcomes without understanding the process that generated them in the first
place, we cannot effectively disentangle competing theories. As Chapter 6 suggested, if we just analyze the fiscal transfers between agriculture and urban centers, it becomes hard to isolate a ‘demand’ based collective action explanation (i.e. groups mobilize better in urban centers) from a ‘supply’ based theoretical mechanism. I am focusing on the latter and argue that leaders often submit to full political contestation and oversight only a fraction of the fiscal contract. Key parts get concealed and politically insulated precisely because they are essential to alliances and survival. These are the fiscal taboos.

Finally, understanding the “ambidextrous” state that has to design simultaneously strategies of rule for both information collection and co-optation of political opponents is crucial for getting to the heart of fiscal policies and redistribution. The international development community has created numerous indicators that attempt to capture the general concept of good governance and transparency. The orthodox paradigm of development policies tells us that efficient and open state bureaucracies perform better on all dimensions. By disaggregating fiscal policy and the political incentives for opaqueness or transparency under different political regime types, this project offers a nuanced theoretical view of varieties of “governance” across institutions. Given that the fiscal contract and public good provision in the developing world are at the forefront at academic and policy debates, the proposed research is designed to contribute to an analytically important and consequential conversation.
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Biography

Cristina Corduneanu-Huci attended graduate school in Political Science at the University of South Carolina and Duke University. Her research interests relate to politics in non-democracies, autocratic survival, and government transparency. In addition, she has written and published on social movements in autocracies, clientelism in developing countries, bureaucratic reform, as well as the politics of healthcare. While her main geographical area of interest is the Middle East and North Africa, her work also draws comparisons between this region and selected countries in Eastern Europe and Central Asia. For her dissertation research, she conducted fieldwork in Turkey, Morocco, and Romania. Cristina’s work has appeared in *Comparative Sociology, World Bank Policy Research Working Papers* series, as well as in the edited volumes *Economic and Political Contention in Comparative Perspective* and *New Frontiers in Comparative Sociology* published by Brill.