The origins of modern finance ministries

An evolutionary account based on the history of Britain and Germany

Philipp Krause

Working Paper 381

Results of ODI research presented in preliminary form for discussion and critical comment

Working Paper 381

The origins of modern finance ministries

An evolutionary account based on the history of Britain and Germany

Philipp Krause

May 2013

ODI
203 Blackfriars Road,
London
SE1 8NJ
www.odi.org.uk

Acknowledgements
I would like to thank Ed Hedger, Martin Lodge, Allen Schick and Kai Wegrich for their comments on earlier versions of this paper. The usual disclaimer applies.

ISBN 978-1-909464-36-0
Working Paper (Print) ISSN 1759 2909
ODI Working Papers (Online) ISSN 1759 2917

Contents

Tables, figures and boxes

Acronyms

GDP	Gross Domestic Product
OECD	Organisation for Economic Co-operation and Development
NPM	New Public Management

Executive summary

This paper investigates the origins and drivers of fiscal institutions by studying the history of finance ministries. Going much further than just the 20th century predecessors of today's budgetary organisations, it studies the development of finance ministries as controllers of executive spending from their origins as medieval household treasuries – using the history of Britain and Germany in particular. The paper develops an evolutionary account and argues that, for most of their early history, external pressures drove the institutional form of finance ministries. It was the need for states to survive interstate competition and war that set up treasuries as collectors of funds and guardians of spending discipline.

Throughout the early modern period, states that fared well in interstate competition successfully developed strong early finance ministries that were able to keep spending in check. They grew to be that way in parallel with legislative accountability, like in England/Britain, or driven by a powerful absolutist regime, like in Prussia/Germany. I argue that many of the elements of 20th century spending control, like internal and external audit, predictive, balanced and reasonably comprehensive budgets, top-down control and ex-ante authorisation of spending, all originated in this era, and in many instances where already well established by the time a formal budget process in the modern sense came into being.

The dramatic transformation of public spending in the century before ca. 1950 - a rise in the complexity of spending, a much larger budget as a proportion of the economy, as well as the relegation of military spending to one priority among many - did not initially challenge the mode of budgeting and the control regime run by finance ministries. During the post-war generation that ended with the oil crises of the 1970s, there was no need for change, because sustained growth enabled budget officials to focus on the equitable distribution of relatively plentiful increments that became available each year.

Only the oil crises of the 1970s and the following protracted period of austerity in the OECD provided a sustained and fundamental challenge to the way executive government handles public funds. In some ways, central budget institutions have been in perpetual crisis ever since.

1 Introduction[1]

Finance ministries are at the centre of modern government, and in many countries appear to be spearheading all kinds of reforms and initiatives, from short-term economy drives to long-term overhauls of government structures. Yet behind the flurry of announcements and alphabet soup of different initiatives, there is also an immutable constant: finance ministries are always the spoilers, the guardians of public funds, and often the civil servants' civil servants. In fact, in the context of OECD countries, finance ministries have both a very strong functional core and an institutional legacy that makes them very much the oldest part of governments' machinery.

The history of executive budgeting is functionally based on the evolution of the concept of control in modern bureaucracies. It originated in the control mechanisms that lords and kings employed to hold together the purse strings of their personal holdings. As these feudal holdings developed into modern states through the mutually reinforcing pressures of war and taxation (Schumpeter, 1918; Tilly, 1992), executive spending turned from a royal private matter into an issue of public concern. Control therefore began to also mean taxpayers' control over the use of funds they reluctantly handed over to the executive. Lastly, in the 20th century, the size of public spending as a proportion of the entire economy, as well as the ambition of governments to ensure individual welfare of its citizens, increased so dramatically that the scope of control equally expanded from within government to include its ability to be 'in control' of economic outcomes.

This paper outlines the evolution of finance ministries as the agents of executive control and argues that their long institutional legacy is still important today. This perspective most closely resembles an organisational ecology approach (Pollitt, 2008:63). In this paper, I argue that, instead of domestic relations between states and societies, the main original driver of executive budgetary institutions was interstate competition. The executive budgeting institutions that evolved out of this context remain salient today, even though interstate competition has long been replaced by domestic challenges. The first section will cover the medieval origins of modern budget offices and show that, for centuries, state revenues and expenditures were driven by the necessities of war. It will use historical budgetary data from Prussia and England to show a similarly dramatic expansion of spending developing in very different institutional settings. The second section will discuss the combination of internal fiscal authority and external democratic oversight, again using Prussia/Germany and England/United Kingdom as examples. The third section will outline the evolution that finance ministries underwent as a result of the massive increase in public spending and budgetary complexity in the 20th century. The final section will analyse the challenges posed by the repeated periods of austerity that transformed fiscal affairs over the last two generations.

2 Evolution of spending control

Today's finance ministries are embedded in an institutional setting that originated in pre-modern times in Western Europe. It is not easy to conceive of modern budgeting without the regular interplay of different bureaucratic, legislative, and societal actors; mechanisms for allocating funds to satisfy diverse claims; and complex systems of accountability. However, these different elements did not fall into place at the same time or by design; they followed a more complex pattern of evolution. The executive elements of the budget system, specifically the institutions of finance ministries and budget offices, clearly predate all other parts, and are in some ways as old as public administration itself. Their early modern evolution can be roughly divided into three phases. They started out as the personal treasuries of feudal households, evolved through the often chaotic and semiprivate war-funding operations of early modern rulers, and finally turned into hierarchical, professional expenditure control bureaucracies.

[1] A note on terminology: I will refer to budget offices as the administrative unit in charge of the executive budget, which may be part of a larger ministry of finance. The terms budget office and finance ministry are used interchangeably, unless specifically referring to one as part of the other. The term treasury or treasurer is only used to refer to the pre-modern budget office, before the 19th century, when the budget process as such did not yet exist.

During the first stage, early treasuries were firmly a part of the personal household of feudal rulers. Western European states all originated in the system of decentralised feudal rule that covered much of Europe at the turn of the last millennium (Schumpeter, 1918). Feudal lords, from the king or emperor downward, endowed vassals with land in return for loyalty and, importantly, levies in times of war (Finer, 1997: 864). In this setting, the king was often only the first among equal feudal lords around the country, with few, if any, means to collect revenues directly from citizens. As a result, the centre of government coincided with the royal household, where a treasurer would be in charge of royal finances. The institution of treasurer became very common as one of the offices of the feudal household (Ertman, 1997:44). At this time, the treasurer did not require much of an institutionalised administrative apparatus.

For most of the Middle Ages up to the early modern age, most references are to the person of treasurer, rather than to his office or any sophisticated administrative structure. Even so, a slow process of institutional consolidation and growth can be observed in several European polities. The best-documented (and by contemporary standards, the most advanced) case is that of the English exchequer. Even though the royal household itself continued to move around between different domains, after the Norman Conquest the treasury was housed at Winchester, and later developed a series of branch offices in other parts of the realm. The office of the exchequer thus became its own entity, separate from the royal council, where a member of the king's personal retinue would continue to serve as personal treasurer (Roseveare, 1969). Similar processes occurred in France, where, in the late 13th century, a formal treasury headed by two treasurers with a number of clerks existed, as well as a rudimentary chamber of accounts that occasionally audited receipts (Finer, 1997:928). Comparable bodies existed in Castile and Aragon, and also for the multitude of smaller domains in the Holy Roman Empire (Isenmann, 1999; Ladero Quesada, 1999).

Royal spending, coming as it did from the personal treasury of the royal household, and sourced from the personal holdings and feudal obligations towards the king, served the interests of the king. In the feudal Middle Ages, that interest is best described as dynastic survival and glory (Bakka, 1996; Reus-Smit, 1999). The function of these early treasuries was quite simple: to make sure that the royal treasury was physically safe and that spending was under control in order to fund military (and to a much smaller extent) household expenses. There was initially not much need for an administration beyond the immediate needs of the royal household, as in principle, feudal lieges received the necessary tools of war through in-kind contributions from their vassals.

Administratively, treasuries were very basic and often quite chaotic, due to an accumulation of inherited practices and ad hoc solutions (Webber and Wildavsky, 1986:205). They tended to distinguish between revenue receipts and expenditures, and in countries where courts and customs were more settled, began to slowly professionalise. Most importantly, treasuries strove to exercise control over their haphazard networks of decentralised collectors and agents through an early form of audit. Again, the process was best established by the English exchequer, where sheriffs and bailiffs had to regularly present tallies of receipts and expenses to the exchequer. Twice a year, their accounts were then challenged by clerks of the exchequer, in a ritual akin to the annual budget negotiations of later ages (Roseveare, 1969:23; Webber and Wildavsky 1986:207).
In the second stage, executive spending and revenue needs eventually outstripped the personal domain capacity of even the most powerful feudal lords, while at the same time feudal holdings coalesced into states. The ever-increasing demands of competitive pressures between states drove the process of further developing executive budget institutions. Max Weber first articulated the idea that competition between states drove each state to establish a bureaucracy that could keep, and fund, control over its own territory (Weber, 1980 [1921]:565).

This process of state formation falls into the early modern period, covering the 16th–18th centuries. During this time, military technology advanced in a series of transformations that massively increased the complexity of warfare (Parker, 1996), which consequently increased the pressure on the state to fund larger and larger military expenditures. The classical argument, as developed by Elias and later by Tilly and others, is that states competed through war, which became more sophisticated, required more taxes for funding, and needed a more sophisticated apparatus for collecting and expending (Elias, 1976 [1939]; Tilly, 1992; Ertman, 1997).

Importantly, states did not at first develop stronger bureaucracies as they emerged from feudalism. Instead, the first step was an increase of the private relationships around the executive beyond the original feudal network. Instead of feudal levies, wars were increasingly fought by mercenary groups, some of which slowly turned into standing armies. Mercenaries were used prominently in wars throughout the ages, and notably in feudal Europe. Their widespread use to replace levies, however, started in medieval Italy, to the dismay of some contemporary observers (Machiavelli, 1847:442), as well as in England (Ertman, 1997:63). The use of mercenary troops spread through Europe and was commonplace by the 16th century (Downing, 1992:62). Their reputation became linked with a new kind of conflict that drew in Europe's leading powers as they fought one another to exhaustion during the Thirty Years War (Wilson, 2009).

Mercenary troops provided the professionalism and resources for escalating war. Unlike feudal levies, they also required unprecedented and previously unimaginable resources. The search for new revenues from taxes had important, long-term consequences for the relationship between executive and society, but expenditure control by the executive was initially weakened. Mercenary warfare resulted in the wholesale privatisation of the most important area of executive spending. Mercenary captains were hired by lords and then took on the hiring, logistics and fighting, often subcontracting numerous tasks to smaller-scale outfits. The rise of Wallenstein is perhaps the best example of an entrepreneurial general who became nearly indispensable to the cause of his employer (the Habsburg Empire) in the 1620s and 1630s because of his ability to fit out and field whole armies (Van Creveld, 2004).

For executive treasurers, mercenary warfare meant that the actual execution of the funds was beyond their reach, and consequently their role grew much more prominent around raising revenues. The very strong private role for individual treasurers was the salient feature of this period. In different European states, they tended to be very wealthy individuals who often accepted wholesale tax farms in return for promising the executive stable revenues, and not infrequently fell from grace when they tried to put finances on a more stable footing. Several became noted historical figures in their own right, such as Cranfield in Britain (Ashton, 1957) and Colbert and Turgot in France (Stourm, 1917; Lodge, 1931). Between royal household expenses and the demands of war funding, there was little need to plan or develop any capacity to steer allocations. Functionally, treasuries sought to obtain and retain funds, and not much else. In fact, warring states tended to incur massive debts to fund their armies, and as a result, quite a large proportion of revenues would already be spoken for by the time they were obtained from treasurers or external lenders. State finances were frequently in a state of near chaos.

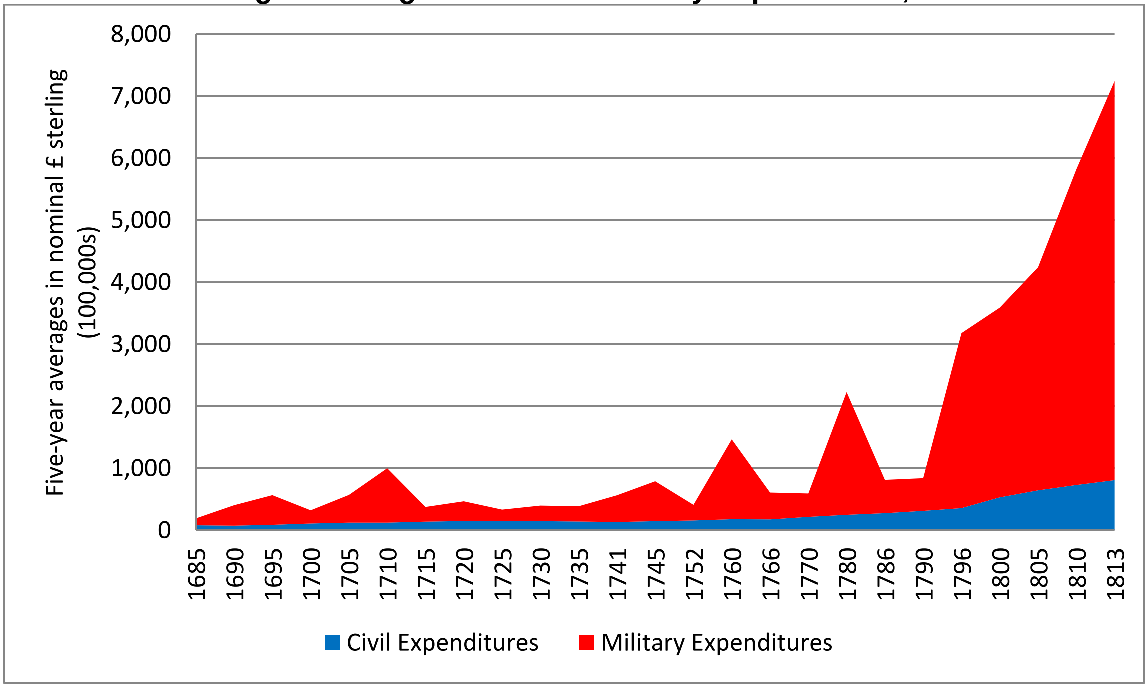
There was continued growth of treasuries because of the sheer sums involved, and improvements in basic accounting, although the use of double-entry bookkeeping was often resisted (Webber and Wildavsky, 1986:278), but there was little fundamental change in the way treasuries operated. In fact, double-entry bookkeeping for the government was only introduced in France in 1815 and in Britain in 1829 (Nikitin, 2001). Furthermore, the semiprivate nature of revenues and expenditures was a highly inefficient way to organise a capable state. It is difficult to estimate the losses on the expenditure side, but mercenary captains often accumulated legendary wealth. Similarly, the sale of venal offices and tax farming generated huge costs. Webber and Wildavsky estimate that during Richelieu's reign in France, as much as two-thirds of assessed taxes were lost before they reached the central treasury (Webber and Wildavsky, 1986:287).

Administrative structures were profoundly affected in the third stage, when the expenditure control apparatus of today emerged for the first time. Like before, one of the crucial drivers was military developments. Before the 17th century, states kept armies together one campaign season at a time, however they were composed. With the Eighty Years' War in the Low Countries (1567–1648) and the Thirty Years War in much of the rest of Europe (1618–48), the major states were forced to keep substantial forces in the field almost constantly for decades, which precipitated the development of standing professional armies. Overcoming considerable domestic opposition, these had become common by the turn of the 18th century. Standing armies, whether composed of mercenaries hired over longer periods, or entirely run by the executive and staffed by conscripts or volunteers, raised pressure on revenues, again to an unprecedented level, and required a much more powerful apparatus to extract (and frequently extort) taxes and channel these funds into effective militaries (Hintze, 1970:68; Downing, 1992:56).

Constantly high military expenditures had now become a dominant characteristic of the emerging nation-states, and they were associated with a permanent bureaucracy charged with collecting and expending funds. The idea of a budget balance was established and treasuries began to estimate expected revenues and expenditures (Webber and Wildavsky, 1986: 285), and as expenditure bureaucracy became more professional, the administration of money moved from an area of private entrepreneurs to that of hierarchical, centralised oversight based on impersonal norms, supervision, and control. In other words, these were the original 'Weberian' bureaucracies that Weber had in mind when he developed his ideal type of legal authority (Weber, 1980 [1921]:124). Taxation reached levels that were nearly confiscatory in many instances, and costly to collect. In this context, it became critical for the executive to keep the leakage of funds under control by enforcing discipline, an issue of paramount importance to administrative reformers – such as the kings of Prussia (Gorski, 2003).

Figure 1 displays the English expenditures between the Glorious Revolution and the end of the Napoleonic Wars. It shows that even in peacetime, military expenditures take up several times the proportion of civil expenses. Spending patterns are highly cyclical, and during wartime, the already lopsided relationship between military and civil expenses becomes even more skewed as the former experiences sharp peaks. The peaks resulting from the English (later British) participation in the wars of Spanish and Austrian succession, the Seven Years War, the American Independence War, and finally the Napoleonic Wars (in chronological order) are clearly visible. It has been estimated that over the course of the entire 18th century, expenditures on war and wartime debt service consumed no less than 90% of British government spending (Reinhard, 1999:324). A capable state apparatus became a requirement to handle such volatile and rising expenditures.

Figure 1: English Civil and Military Expenditures, 1685–1813



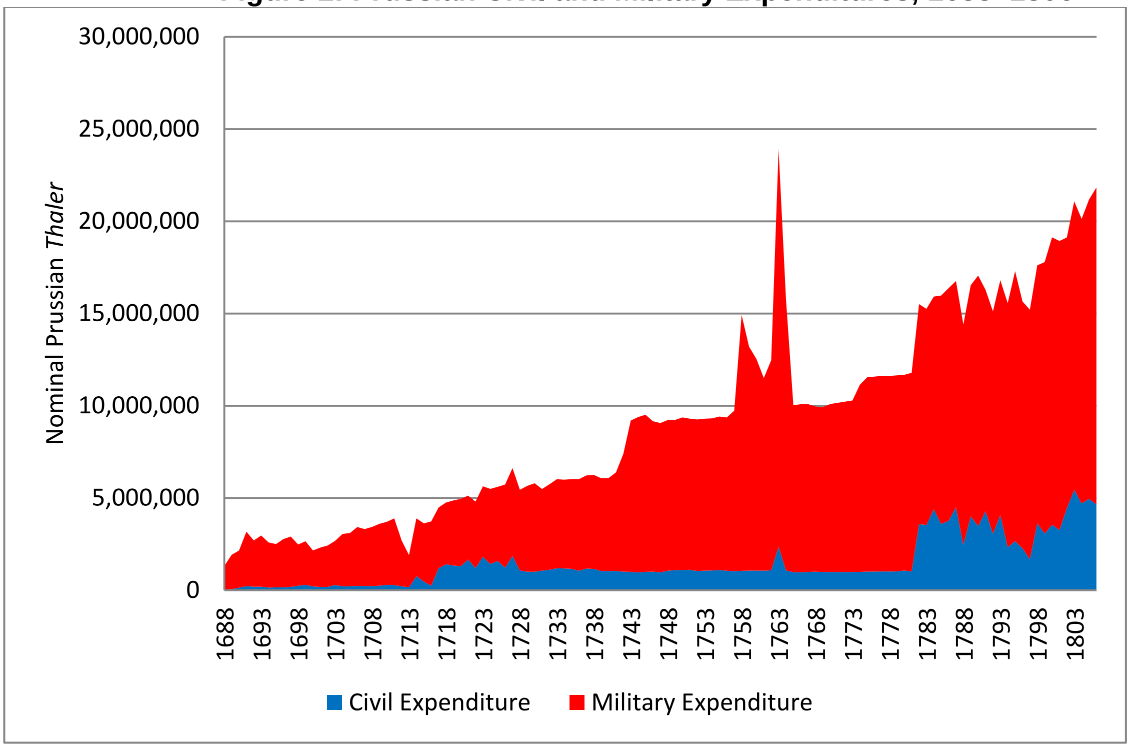
Source: Data from ESFDB dataset engd011.ssd, based on O'Brien and Hunt (1993).

Britain's ability to successfully finance and fund these wars was essential to its rise to great power status (Brewer, 1990); similarly for the Netherlands' success after gaining independence from Spain (Glete, 2002). In the second half of the 17th century, about a century into the period of the Military Revolution, the English Treasury underwent one of its periods of great expansion and prominence under the leadership of Sir George Downing. In 1667 and onward, the Treasury established and retained full administrative control over financial matters within the government (Roseveare, 1969:63). Conversely both Spain and France initially also saw considerable innovation in taxation and expenditure control, but eventually struggled with fragmented and disrupted administration and failed to keep up with their competitors (Lodge, 1931; Glete, 2002; Poole, 2004).

The experience of Prussia during the same period is instructive (Figure 2). Prussia rose from rather modest beginnings to become a significant military power at the turn of the 18th century. It was not well endowed in terms of population, wealth or location, and the potential for taxation was consequently lower than for its larger European competitors. Yet by some measures, Prussia was even more successful in funding its military than Britain was. Average military expenses in Prussia during the 1740s were already 198% more than the average of the 1690s. During the 1790s, the average had increased another 80%. In Britain, average annual expenditures only increased 32% during the first period, and then rapidly rose 211% between the 1740s and 1790s.

Prussia benefited from a comparatively large royal domain, which insulated it somewhat from the need to privatise revenue collection and war. In a development much noted since Weber's writing about the Protestant work ethic, Prussia's rulers were Calvinist Protestants ruling over a collection of territories with different confessions, mostly Lutherans. Their minority religion served to set them and their court apart from local elites and insulated the royal family and their state from society. Successive rulers emphasised discipline and probity of civil servants, and kept court expenditures far below the levels of their European peers (Gorski, 2003). Prussia was an early adopter of a standing army, having done so in the second half of the 17th century; it kept expanding the army over the next century, even through prolonged periods of peace.

Figure 2: Prussian Civil and Military Expenditures, 1688–1806



Source: Data from ESFDB dataset prum002.ssd, based on Riedel (1866).

Prussia's administration centralised control over public spending and began to wrest it away from its local estates as early as the 17th century. This development, away from a hodgepodge of different local and regional tax collectors and spenders toward a relatively cohesive bureaucracy, took place in parallel with the state establishing its defined territorial form (Maier, 1986:155). It was the policy of successive rulers to develop the scattered territories of Brandenburg-Prussia into a cohesive state. Starting with the Great Elector in the wake of the Thirty Years War, rulers centralised and formalised the fragmented pre-modern fiscal administration. This process was driven mainly by the centralisation of military administration. In the 1650s, the standing army was established, which directly necessitated the centralisation of revenue administration (Hintze, 1916: 218). Separate offices were established for the administration of the household finances (the *Hofrentei*) and the public finances (the *Amtskammer*). In 1655, instead of having scattered accounts for each of the different provinces, the process was centralised into a single central budget that was drawn up in advance each year by the royal executive (Dorwart, 1953:114). There were repeated setbacks in the following decades, and many aspects of military budgeting remained separate from the civilian administration.

During the reign of Frederick William I (1713–40), Prussia adopted the most centralised administration in Europe, with a heavy emphasis on top-down control. Controlling expenditures was central to the way the executive was run. The government united all different funding sources and expenditures in one treasury, managed by a single administrative body, the General Superior Finance War and Domain Directory (known as the *Generaldirektorat*, established in 1723). The Prussian tax administration became known as one of the most capable in early modern Europe (Kiser and Schneider, 1994). Administrative bodies had to draw up budgets covering revenues and expenditures in advance. These budgets were submitted to the Generaldirektorat and needed royal approval (Hintze, 1916:290). A separate internal supreme audit body (the *General-Rechenkammer*) had the authority to check the books (Dorwart, 1953:158). The *Rechenkammer* would later become the supreme audit body of Germany and its current successor is the German *Bundesrechnungshof*. Prior to the establishment of the German Reich in 1871, the *Rechenkammer* reported directly to the king, and was therefore not independent of the executive.

Supervision and control from the top took many forms. Spies and supervisors (including the king himself) carried out frequent checks. These new bodies were increasingly staffed by appointed professional staff whose terms of office exhibited the elements of Weberian rational bureaucracy. The entire central, provincial, and local administration was organised in a single hierarchy overseen and audited by a central budget office. Prussia was the first state to incorporate the modern understanding of expenditure control based on hierarchy and centralisation (Hintze, 1916; Dorwart, 1953; Gorski, 2003).

Even more so than England, and later the United Kingdom, Prussia was able to keep civil expenditures under very tight control—court expenses remained virtually constant in nominal terms for more than 50 years (Riedel 1866:73). Prussia was able to fund extreme increases of military expenses throughout the 18th century (Figure 2). As a relatively weak state in the centre of Europe, Prussia could not escape the competitive pressures of international politics in the early modern period. Its administrative reforms were driven mainly by military requirements, and its fiscal affairs served the funding demands of the army. By its own standards, this process was met with success, as Prussia became accepted as a major European power during the rule of Frederick II (1743–86).

The development of executive control over public spending shows that strong, centralised treasuries or budget offices emerged mainly as a result of pressing demands to maximise revenues and minimise leakages to conduct large-scale warfare. Administrative developments were closely linked to military innovation, and more specifically, the need to support large standing professional armies. States were following the dictates of military necessity, and treasurers were scrambling to catch up, not always successfully. It has been argued that Spain's imperial ambitions fell apart when its mercenary Army of Flanders mutinied in the 1590s after going without pay for too long too often (Parker, 2004:157). The French Revolution was precipitated by the failure of the government to prevent fiscal collapse after the costly wars of the preceding decades (White, 1989).

In the early modern period, feudal holdings coalesced into modern states that exercised the legitimate monopoly on violence in the territory they controlled (Weber, 1980 [1921]:822). Dynastic survival and state survival became synonymous. That competition for survival is the most important driving force for states to develop in similar ways is a very well established contention in international relations theory (Waltz, 1959). If the aim of early modern states was to survive by succeeding in interstate competition, then Britain and Prussia (as well as Sweden and Holland, among others) successfully adapted to the challenge of the military revolution. They did so by successfully growing into capable fiscal states and in particular by adopting powerful central expenditure control (Brewer, 1990; Glete, 2002; Gorski, 2003).

3 Executive budgeting and democracy

The discussion so far has focused almost exclusively on the developments within the executive and how treasurers at the centre of government tried to control spending. Initially there was nothing public about spending control. Much of the literature on state formation in early modern Europe emphasises a different aspect: the relationship between rulers and citizens via the increasing demands concerning taxation and appropriation of funds. A state's sources of revenue have a strong causal influence on its governance (Schumpeter, 1918; Campbell, 1993; Moore, 2003). Ultimately, all tax collection relies on some measure of voluntary contribution from taxpayers; otherwise the costs of enforcing tax collection would barely be sustainable (Levi, 1989). The more the state relied on taxation from a broad base of citizens, the more these taxpayers cared about the use of their money and developed a stake in the state (Moore, 2004). As a result, citizens developed a growing stake in parliamentary oversight of executive spending.

This relationship between taxation and accountability should not be equated with the emergence of parliamentary democracy per se. As the demands of war exceeded the capacity of the royal domain in the early modern period, states were forced borrow from domestic, and eventually international, banks and ultimately, to negotiate higher taxes with representatives of their taxpayers. Short-term loans and other measures such as the sale of offices plugged short-term gaps, but in the long run funding was still needed. What could not be funded from the royal purse directly would inevitably have to come from the rest of the population. Many regions or provinces in Western Europe had representative estates that would have to consent to any new taxes (Blockmans, 1978). As the idea of permanent taxes was only slowly and very reluctantly accepted, this usually meant estates had to consent every time new funds were needed, and the resulting subsidies to the crown lasted a few years at best.

Medieval Holland was the first region where local estates, backed by a vigorous urban economy, resorted to debt issues secured against long-term revenues to fund appropriations. This development took place during Habsburg rule between the 1530s and 1570s, before it became a republic (Tracy, 1985; Tracy, 1990; Tracy, 2008). This enabled the Holland estates to fund the demands of the increasingly cash-strapped Habsburg rulers who were funding a large mercenary army in the Netherlands. In return for their provision of debt-backed appropriations, the estates were not only given the right to audit and control the accounts to ensure that funds were actually spent on defence (Tracy, 2008:39), but also the right to appoint treasurers to be in charge of disbursements (Tracy, 2008:39:47). On the strength of this system, the newly founded Dutch Republic was then able to finance a standing army large enough to rival, and eventually defeat, imperial Spain ('t Hart, 1993: 43).

In the following centuries, the relationship between consent for taxation and governments' ability to fund long-term debt varied considerably between countries, and produced different institutional settings and led to different outcomes. The executive had to negotiate more and more taxes and debt issues with its subjects, and develop ever-larger bureaucracies to collect and expend them. In time, out of the legislature's concern over the use of funds, oversight and accountability developed to the extent that, ultimately, the tools of the executive would be transformed from the private administration of the royal household into the public administration of the whole country. The states that were best able to go through these mutually reinforcing steps ultimately became modern states (Elias, 1976 [1939]; Tilly, 1992).

The classic case in the literature for this evolution is England. Following the *Magna Charta*, extraordinary revenues needed approval by the grand council, which would later become Parliament. Throughout the 13th century these royal requests – and the corresponding funds –

were frequently denied, firmly establishing the principle that taxes could not be raised without parliamentary approval (Ertman, 1997:165). Parliament retained this power of the purse through the following centuries as the demands for financing grew ever larger. England adopted the Dutch system of debt financing after 1688 (Brewer, 1990). According to North and Weingast, the limits placed upon the executive allowed the kings to borrow much more freely than rulers in other countries (North and Weingast, 1989).

The percentage of state revenues appropriated by Parliament rose from 27% by the end of the 16th century to 97% around 1700 (Reinhard, 1999: 323). There were no provincial estates, and Parliament appropriated funds to the executive for the king to use, but it had a strong interest in an effective control institution within the executive to rein in spending by a fragmented administration. As Edmund Burke remarked in the 1780s: *'How could it be expected that the […] Treasury should be responsible, if a variety of lesser treasuries were to exist, each of which would govern the branch of the public expenditure under its direction, just as it thought proper?' (Roseveare, 1969:121)*

The British Treasury became the model of a strong central finance ministry that kept a tight rein on spending, down to the individual candle-end (Roseveare, 1969; Thain and Wright, 1995: 502). In modern times, it came to see itself as the 'taxpayer's representative in government' because of its overarching aim to ensure responsible and efficient public spending on behalf of the population (Lipsey, 2000:141).

The experience of Holland and Britain suggests that being accountable to the legislature may weaken the king's discretionary hold over the executive, but at the same time reinforces the internal control of treasuries over the executive bureaucracy. This would be in line with organisational theory, which suggests that very strong external control over an organisation leads to the development of hierarchical and rigid bureaucracy (Mintzberg, 1979:290). Even before the British Treasury became a model of expenditure control, very powerful formal controls were developed in the early Dutch Republic. Already in the 1570s, payments by the state could only be issued if co-signed by a representative of the estates (that is, the legislature) as well as the executive (Tracy, 2008:131). Similarly, the French administration only developed its rigid expenditure controls in the 19th century, after the executive came under legislative control for the first time during the French revolution (Lord, 1973:4).

However, it would be much too big a step to argue that strong legislatures are a prerequisite for powerful expenditure controls, or that the simple presence of a legislature to oversee the executive is already sufficient to bring them about. The experience of the United States shows the faultiness of the latter point, where the most powerful legislature among modern democracies coincides with a very late developing, and still today, very weak executive spending control (Wildavsky, 1964).

Prussia, the often-cited model of an early professional bureaucracy, developed a centralised control regime without legislative accountability. In fact the Prussian state, like other absolutist regimes in Europe later on, succeeded very early in significantly curtailing the authority of medieval estates. During a period of near-mortal external threat by war that culminated in the 1650s, the elector of Brandenburg, as it was still called, overcame the estate's resistance against his authority to raise taxes at will. Faced with an existential crisis, protesting nobles were pushed aside and put on trial, and the army collected the taxes it needed without consent and, if necessary, by force. Unlike in England, the executive won the fight (Downing, 1992).

The subsequent development of centralised controls, modern budget techniques and rational bureaucracy were driven by the executive's need to compete internationally, and do the needful domestically. Whether it was the Protestant ethic of the Prussian rulers, or the fact that the country was lucky to be governed by several long-lived competent rulers in the span of 150 years, the emergence of a highly capable fiscal state in Prussia did not depend on its legislature, as it did not have one. Legislative oversight only came about in modern times and by some measures only in the 20th century.

Dincecco finds a strong relationship between capable early modern fiscal states and external control over the executive, as well as a centralisation of revenues (Dincecco, 2011). Yet Prussia clearly succeeded as a fiscal state. There does not seem to be a functional requirement where legislature oversight is necessary for strong executives to emerge. As a comparison between Figures 1 and 2 above indicates, Prussia was just as able as England to increase its military spending almost exponentially during the 18th century. As late as the 1860s, Bismarck rose to power in Prussia through a constitutional conflict over whether the king could fund an army expansion without legislative approval – which the executive won once again (Stourm, 1917:21; Dehio, 1931).

Between the examples of England and Prussia, there are many common elements, but no automatic or logical sequence. They shared many basic economic and political features, they were part of the same competitive state system, and both emerged from the early modern period with capable fiscal states. However, they acquired the building blocks of a modern public expenditure system in different ways, and their political histories evolved very differently as well.

The modern budget—in today's sense of comprehensively covering all expenditures, being passed regularly, proposed and executed by the executive, voted on, approved and controlled by the legislature, and codified by law—is a relative latecomer. It is important to note that the perennial struggles between kings and legislatures were over appropriations, not budgets (Schick, 2002). In Germany, Britain and France, the budget process developed its modern form in the 1860s and 1870s (Morsey, 1957; Roseveare, 1969:140; Lord, 1973:6), long after legislative authority over appropriations was soundly established in Britain (Schick, 2002:20). This modern budget makes little sense without a degree of formal democratic accountability. It assumes different actors participating in the budget process to process their overlapping claims on public funds and to keep the executive in check. As fundamental as this seems today, historically, the formal budget process was the final piece of the puzzle, and not the founding principle of budgeting.

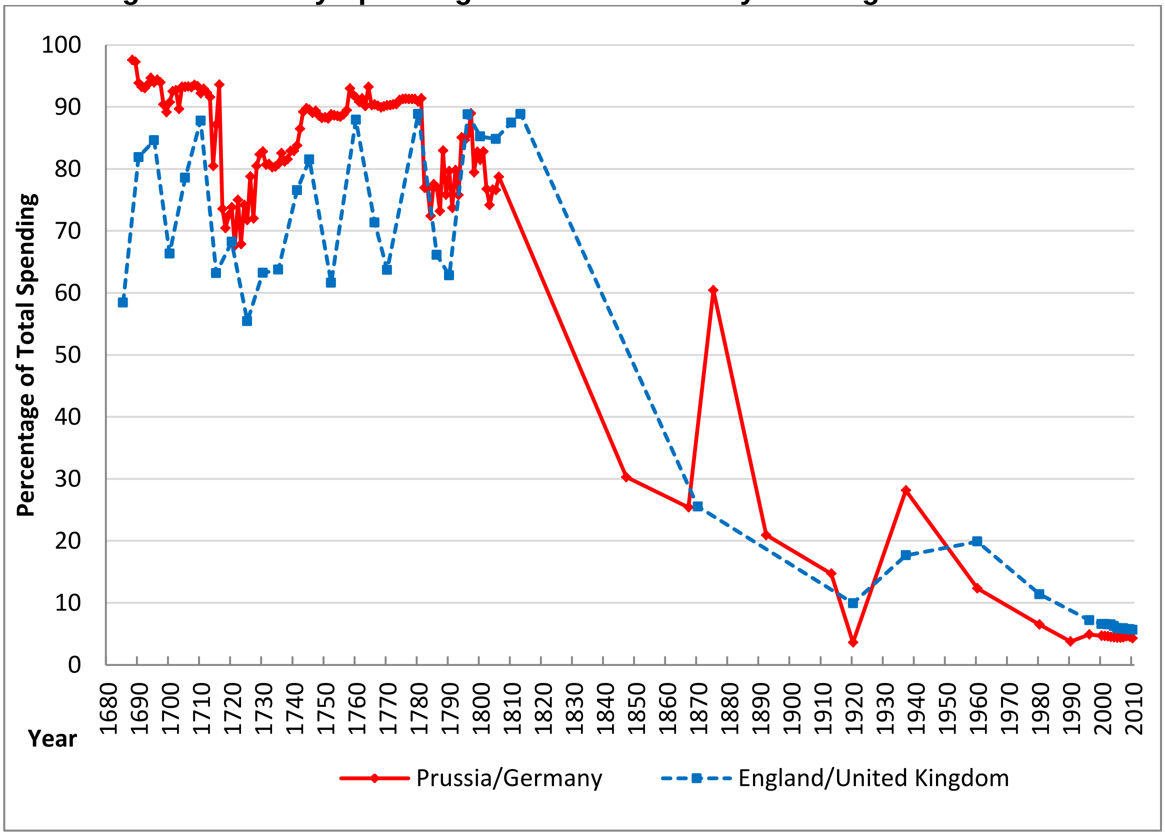
From this historical discussion emerge two different meanings of control, bearing evidence that control in the public sector is surprisingly difficult to define, and has different connotations in different contexts (Hood, 2000; Pollitt, 2009). First, there is the strictly hierarchical control within the executive, which implies a centralisation of authority in one actor; a hierarchical structure where money can only be spent by one actor after being authorised by another. The exercise of control takes place inside the bureaucratic apparatus of the state, without interference from the outside. It affects the formulation and execution phases of the budget process, which are both largely internal to the executive. Its main purpose is to keep money from slipping away, unauthorised and unaccounted for.

There is a straight line that leads from the medieval treasurer, via early modern treasuries, to the modern budget office. Only with the establishment of the modern budget process in the late 19th century did the treasuries turn into budget offices – the administrative unit that leads the executive budget internally and liaises with the legislature - but their role within the executive remained functionally the same up until very recently. The budget office's instruments are necessarily detailed and regulate the micro-budgetary details of administrative behaviour. From detailed ex-ante authorisation of spending, to oversight and supervision of spending (including spying on spending units), to detailed ex-post audits, spending control worked through centralisation of procedures and oversight by one central office. The tools of budgetary control that came to define the budget systems up until the 1970s were developed before there were modern budgets. This is particularly so for expenditures needing prior authorisation, revenues and expenditures being planned beforehand, and audits for probity and correctness. When this administrative control is successful, the budget is executed as intended.

In a second sense, control can also refer to the control of the legislature over the executive, a crucial element of democratic accountability. Parliaments control the public purse and appropriate public funds, and the executive implements the public will on behalf of the legislature. The discussion above has shown that historically, the implicit assumption that budget offices are agents of the public does not necessarily hold—these different elements have fallen into place in modern democracies, but they did not evolve in combination.

Most importantly, until the 19th century, there was no common understanding that the state should use public funds for individual welfare on a large scale. State spending eventually became public spending, but it still remained spending on war. It is impossible to describe the institutional heritage of executive budgeting without reference to the composition of spending. In the case of Prussia and Britain, military spending remained the predominant budget item well into the 19th century (see Figure 3). In Prussia especially, military spending consistently took up around 90% of the budget for decades on end. As a consequence, fiscal institutions developed to reduce the unwanted leakage of funds, both on the collection and expenditure sides of the treasury. Treasuries did not exist to arbitrate between competing claims on the public purse.

Figure 3: Military Spending in Prussia/Germany and England/Britain 1680 -2010



Source: Data from ESFDB data set, prum002.ssd, based on Riedel (1866); engd011.ssd, based on O'Brien and Hunt (1993); Hobson (1993); Spoerer (2010), Tanzi and Schuknecht (2000); World Bank (2012).

This perspective adds an important nuance to the narrative of state-formation and fiscal-institutional development in the tradition of Schumpeter and Tilly (Schumpeter, 1918; Tilly, 1992). In this literature, modern states develop through war and taxation, where war-making kings eventually submit to the oversight of legislatures representing taxpayers, leading to modern fiscal institutions. This narrative draws much inspiration from, and is strongly based on, the experience of Britain and to some extent France. In England, fiscal institutions and external accountability evolved very much in tandem, and Britain's success as a state is taken as a consequence of this process. In France, the executive did succeed in achieving considerable power over resources and was able to operate without much constraint between 1614 and 1789 (Stourm, 1917:34). Ultimately, it proved a less capable fiscal and political regime and failed violently in the French Revolution, before a powerful fiscal state was established (Lord, 1970).

A focus on the executive institutions of expenditure control, and especially the example of Prussia, adds two findings. First, a mutually reinforcing evolution of executive capability, taxation and external oversight is not necessarily the only way in which modern fiscal institutions evolved. In Prussia, which in some ways led the European competition in developing an executive budget system, external accountability came last, after all the other elements of a modern budget were already in place. Just because institutions arose in a similar environment at similar times does not necessarily mean they were serving the same purpose or had the same consequences, something pointed out by Hood specifically with reference to England and Prussia (Hood, 2000:205).

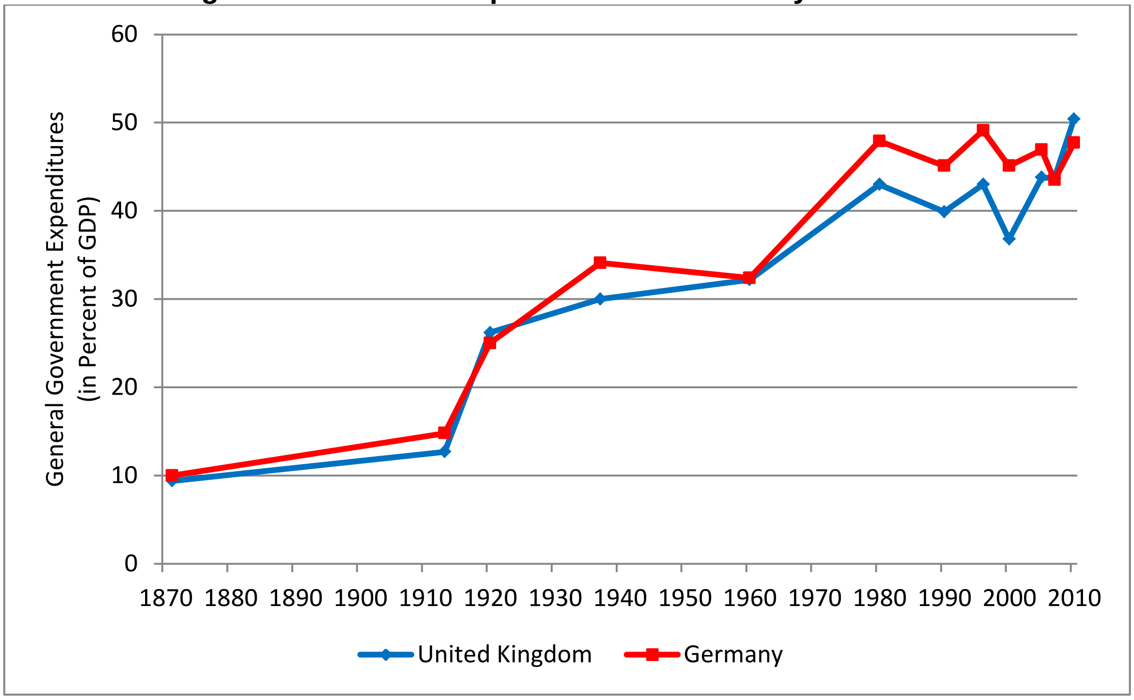
Second, when the modern budget emerged in the second half of the 19th century, executive institutions were entirely set up to obtain and conserve funds in order to cope with the tremendous stress imposed by escalating warfare. They were not set up, nor had they much experience in, the provision of benefits for the larger population (other than protection from military threats) and consequently the allocation of funds between competing priorities. In today's literature on budgeting, it is commonly assumed that budget systems serve three purposes: fiscal discipline, allocative efficiency, operational efficiency (Schick, 1998). Prior to the 20th century, including the period when the institutional framework of modern budgeting took shape, operational efficiency would only have mattered as a function of fiscal discipline, and allocative efficiency not very much at all for any of the actors involved.

Rather than a predominantly domestic perspective of what drove the evolution of executive budgeting, this discussion also adds an explicitly international dimension. The scale and capability of the executive in the early modern period has not been driven primarily by the relationship between state and citizens, but by the demands of inter-state competition. As pointed out by Weber, states can derive legitimacy in different ways not necessarily based on the provision of public spending (Weber, 1980 [1921]:17).

4 The golden age of executive budgeting

Between the mid-19th and mid-20th centuries, public spending as a proportion of gross domestic product (GDP) increased consistently. The comparison between Germany and the United Kingdom again illustrates this process. In 1871, both governments spent the equivalent of about 10% of GDP. Spending was still below 15% in both countries on the eve of the First World War, but rapidly increased to around 25% in 1920, and passed 30% before the Second World War. It reached a plateau in both countries and only started increasing rapidly again in the 1970s. In 1980, spending was around 47% in Germany, and 43% in the United Kingdom. This level has been, with some variation, broadly sustained since then. It is notable just how closely aligned spending grew in both countries over a period of 140 years. Only in the last 30 years or so did a relatively consistent gap of about 5% of GDP emerge, which seems to have disappeared again after 2007. Apart from relatively slow increases or stagnation, both countries experienced two periods of significant expansion, one in the inter-war period, and one starting in the 1970s (see Figure 4).

Figure 4: Growth of Expenditures in Germany and Britain 1871-2010



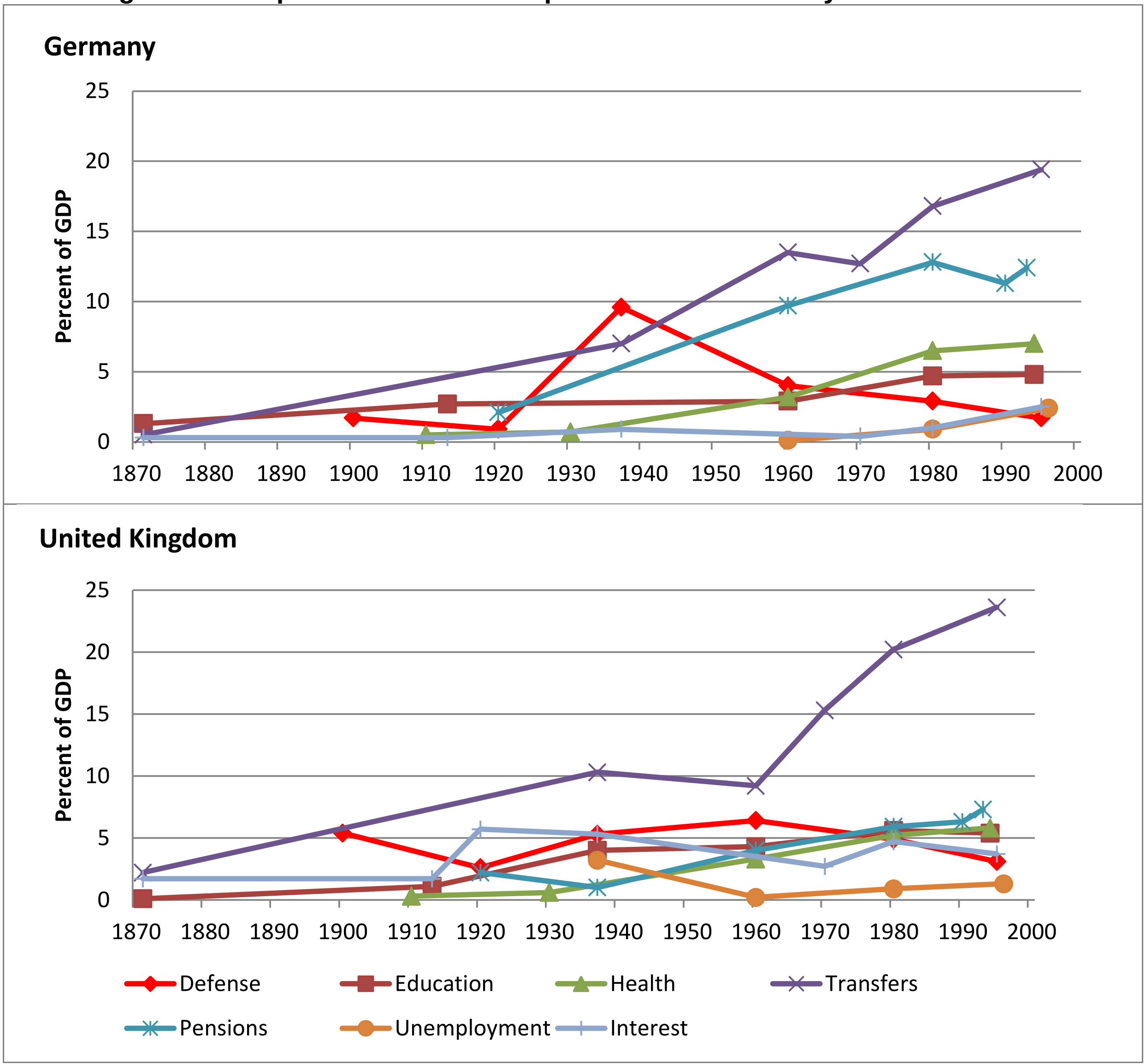
Source: Tanzi and Schuknecht (2000), Eurostat (2012)

Prior to the 19th century, states had also spent resources on items not related to defence and court maintenance, but in principle, these were meant as investments in the long-term development of a better tax base, not to serve the interests of the citizens. Examples include support for manufactures, canal-building and land reclamation (Lodge, 1931; Blackbourn, 2007). Only after the French Revolution, Nationalism and popular representation transformed the relationship between states and citizens over the course of the 19th century did states begin to take on a number of other tasks relating to economic development, education, health, and a broad range of social welfare spending, which increased steadily in size and complexity up until the mid-20th century.

The expansion of the voting franchise gathered pace in the United Kingdom after the Reform Act of 1832 gave the vote to all males holding a certain amount of property, and took until 1928 for the unrestricted vote to be extended to all men and women. In Germany and Prussia, the same process was much slower until the revolution of 1919 established universal suffrage at all levels of government. It became more and more the 'moral purpose of the state' to serve the interests and welfare of its citizens (Reus-Smit, 1999). Lindert explicitly links franchise expansion in Western Europe to the growth of social spending (Lindert, 2004).

This fundamental transformation of politics in many Western countries was followed by a fundamental transformation of the size and complexity of public spending. In a selection of large OECD countries, spending on transfers and subsidies rose from 1.1% of GDP in 1870 to 4.5% in 1937 and to 9.7% in 1960, while defence spending fell from around 4% of GDP around 1900 to 3.4% in 1960. Even in 1950, the notion that public spending was directed toward a multitude of public investment and consumption items, where defence did not make up the majority, and often was not even the largest portfolio, was, by longer historical standards, still a relatively recent development. Recalling Figure 3, in both Germany and the United Kingdom, military spending took up more than half of the budget in the 1870s, to decisively fall to below 10% after the First World War, when it became just one spending category among (increasingly) many.

Figure 5: Composition of Public Expenditures in Germany and Britain 1871-1996



Source: Tanzi and Schuknecht (2000).

Looking at the spending composition in Germany and the United Kingdom, some differences appear, but similarities abound (see Figure 5). In both countries, transfers and subsidies appear as the single largest spending category after 1950. In Germany, spending on pensions consumes around 10-15% of GDP, making it easily the second-largest category over the same period, whereas in the United Kingdom, pension spending remains significantly lower (7.3 versus 12.3% of GDP in 1993). In Germany, defence spending falls faster and stays lower than in Britain after the Second World War. Otherwise, spending on health, education and unemployment benefits all reach significant proportions of GDP and together form a spending composition that is far more complex, and far larger than ever before. It is worth noting that in both countries, the first expansion of public spending levels and complexity in the interwar period coincides with political systems based on nearly universal suffrage.

In principle, the growth of public spending levels and budgetary complexity, combined with a novel direction of public spending, could have posed a fundamental challenge to the way executive budgeting works. However, neither the advent of a democratic budget process nor the emergence of complex, multi-ministerial public expenditures necessarily created pressure to reform the traditional budget office. The conflicting demands of different spending ministries might provide a counterforce. But for the first post-war decades, the pressure on the executive to reallocate funds efficiently between portfolios remained low, because the existence of steady annual surpluses allowed budgeting to settle into a stable, incremental pattern.

The three ‘golden’ decades after 1945 (Eichengreen, 2009) were the golden age of executive budgeting. It was defined by an incremental annual budget process. The appeal of incrementalism lay in its stability and the reduction of complexity. Each year, ministries would start with last year’s budgetary ‘base’ and add a margin based on expected revenues and inflation. Budget negotiations took place between ministries and the budget office, as well as the legislature, over how to divide that year’s increase in total spending (Wildavsky and Caiden, 2004: 46). Western economies were expanding strongly at the time, and public spending rose as a proportion of GDP, which meant that the annual increment was quite sufficient to satisfy the centrifugal interests of spending ministries, as well as recurring contingencies. Real, let alone nominal, cuts to existing budgets were seldom necessary and hardly ever happened.

The budget office served, as before, as a counterbalance to escalating demands and a check on the executive to weed out waste at a detailed line-item level. In incremental budgeting, conflicts were about the ‘fair share’ that each agency or ministry should receive in addition to its untouched base. The logic and rhythm of these annual negotiations would have been familiar to a budget officer of earlier times. The role of the budget office was to challenge and oversee spending departments, and push for economies, where possible, one item at a time.

Incrementalism is a remarkably pervasive pattern. Wildavsky first described it for the congressional budget process in the United States, where the administrative relationship between budget office and ministry hardly mattered. In the United Kingdom in the same period, where the relationship between Treasury and departments dominated the budget process, the pattern was much the same (Heclo and Wildavsky, 1974). Incrementalism defined budgeting in other countries in Europe, in Japan, and in subnational governments (Wildavsky, 1986). Even an account of the contemporary public finances in a German city state describes the same mechanism of stable increases and incremental change year after year (Bahnsen, 2006).

Incrementalism has suffered much criticism, both as a normative goal and an analytical category (Meyers, 1996). As incremental budgeting unravelled following the 1970s, it was held up by Wildavsky and others as a desirable state of affairs. According to Schick, this view essentially glorifies a state of affairs where the old wins out over the new, and budgeting almost lacks a point (Schick, 1983). At the same time, authors hoped that incrementalism would serve as a viable theory of budgeting (Davis, Dempster et al., 1966). As an analytical concept, however, it is almost impossible to define. Berry counts 12 different definitions in the literature. In the original formulation, a budgetary change must be regular and small to be incremental. In practice, it is very difficult to decide just how small and regular a change would have to be to qualify as incremental, or exactly how many incremental changes in a given period would make a budget process incremental. Empirical studies frequently used arbitrary cutoffs and did not produce very useful results (Berry, 1990). Despite these flaws, incrementalism remains the central descriptive concept of classical budgeting, and remains a key concept for understanding the conflictive new politics of budgeting (Caiden and Wildavsky, 2004). The response to its perceived failure in the real world and in the academic literature defines much of what has happened since in budgeting.

5 Traditional budget institutions in crisis

Two connected secular trends in public finances served to unravel the stability of incremental budgeting from the 1970s onward: first, the growing rigidity of public budgets, and second, the steady worsening of governments’ fiscal positions. Neither of these trends became evident overnight, or had a completely unambiguous impact on the governance of public finances. The evolution of budgeting is closely related to the dominant macroeconomic trends, and to broader thinking on public sector reform. In the 1980s, authors observed that the pattern of incremental budgeting was falling apart, which sparked much debate about the implications for budgeting in the future (Bozeman and Straussman, 1982; Schick, 1986; Schick, 1988; Wildavsky and Caiden, 2004). By the 1990s and 2000s, this debate had moved on to the implications of the reforms sparked by fiscal crises, the possible transformation of budgeting that resulted from these reforms, and the institutional and political determinants that allowed countries to respond to fiscal stress.

Drivers of budgetary rigidity are both exogenous and endogenous to the budget process, and literature offers differing assessments of their relative importance. The primary endogenous cause is the rise of entitlements and other nondiscretionary spending items. Spending on public services is heavy in salaries for public sector employees, which can create liabilities far into the future. Furthermore, spending sectors that rely on staff-heavy services are likely to see slower productivity growth over time, meaning that the same level of services will take up an ever-increasing share of the budget—an effect known as Baumol's cost disease (Baumol, 1993). Entitlements such as unemployment benefits, health coverage and pensions create individual rights to certain expenditures, and the executive cannot control, beyond the initial establishment, how much is spent on these items. A proportion of public spending is thus removed from the annual budget process and the traditional control tools of the budget office. The classical budget process, with its focus on a single year, is not laid out to encourage the legislature or the executive to ponder long-term fiscal implications (White, 1998). Exogenous factors, such as demographic change and more frequent economic slumps, exacerbate the pressure on entitlement spending, and over time, further increase the proportion of the budget removed from traditional control.

These elements of rigidity were present to some extent throughout the post-war period and probably would have had a much slower, less drastic impact if not for the sharp deterioration in most Western government's fiscal position following the oil price shocks of the 1970s. Their effect on the level and composition of public spending are clearly visible in both Germany and the United Kingdom (see Figures 4 and 5). In many countries, growth slowed, recessions were longer, and structural unemployment rose. These economic trends interacted with relatively inflexible budgets to cause a sharp rise in budget deficits. In G-7 economies, for instance, public debt had fallen continuously from 1950 to 1974, when it reached 35% of GDP. Between 1974 and 2007, it rose past 80% (Cottarelli and Schaechter, 2010). Other sources show similar trends for other industrialised countries (Tanzi and Schuknecht, 2000:64).

Governments faced more frequent fiscal crises, a generally less favourable macroeconomic environment, and a perception that executives could not cope with austerity. The challenge posed by the austere and turbulent environment for the budget office and the core executive can be summarised as follows: what good was all the control over spending units if spending was still out of control? More specifically, traditional budgeting was challenged in two ways.

First, the traditional ways of exercising control over spending did not necessarily facilitate the core executive steering the public sector in a way that kept aggregate deficits and debt in check. Traditional treasury control does not come without cost; to check budgetary inputs, many budget analysts are required. If their efforts are ultimately just able to reduce expenditures at the margin, making enemies in spending departments in the process, without effectively controlling budgetary totals, then the legitimacy of the budget office is undermined (Schick, 2001).

Second, the benevolent economic environment of the post-war period seems to have masked a good deal of institutional variation between countries that affects their ability to control their public finances. In many countries, the heart of the classical budget process works from the bottom up—ministries draw up budget proposals that are deliberately excessive, the budget office turns them down; eventually a reasonable compromise is reached. This exercise is repeated for each ministry, every year. If a sizeable surplus is not available, the bottom-up process does not easily allow tradeoffs between ministries. Furthermore, some budget offices seem better able to enforce top-down solutions, whereas in other countries they fail to do so (Bozeman and Straussman, 1982).

The debate over how to respond to this budgetary challenge has been closely linked to the much broader debate over the role of the state and administrative reform. The New Public Management(NPM) debate, in turn, had a very strong focus on budgeting, pushing it in the direction of a more flexible, results-oriented system (Thompson, 1994). One can certainly make the case that the budget reform response to the failure of incrementalism, or classical budgeting, has been one element of a broader cultural shift in public administration, a rejection naturally resulting from the manifest failure of the old (Dunleavy and Hood, 1994). However, the actual reform trajectories do not fully confirm this interpretation, and the record of budget reform remains quite ambiguous.

The internal executive control of a budget office over the spending bureaucracy and the external control of the legislature, and ultimately the citizenry, over the executive both push the executive towards greater hierarchy and oversight. Ultimately, they result in relatively similar control institutions, and differ principally not in how control is exercised, but on whose behalf. The challenge posed by austerity illustrates the third meaning of control: it refers to the broader process of public spending, and the ability to control the outcomes of spending. A government that finances itself through broad-based taxation will find certain kinds of expenditures, levels of debt and spending more desirable than others, and so will its voters. Yet countries often find themselves with higher debt, higher spending, and expenditures different from the preferences of any of the main actors of public spending, even if the budget is administratively under control.

6 Conclusion

This paper explored the evolution of executive control over public spending and the origins of modern finance ministries. It analysed how the institutional legacy of pre-modern treasuries remains highly relevant for the present. The institutional predecessors of modern budget offices, the treasuries and finance councils of early modern and medieval states are the oldest administrative element of contemporary public finances. They considerably predate the budget process, legislative budgeting and Weberian bureaucracies. In countries in Western Europe that had pre-modern predecessors, treasuries slowly evolved over centuries, parallel to, and at the centre of, modern state-formation.

The evolution of modern finance ministries proceeded in four steps. First, pre-modern treasuries emerged out of feudal households as an administrative institution in a context where the purpose of the state was driven by dynastic rivalry and interstate competition. The necessities of war were the main preoccupation of early treasurers. The resulting institution was overwhelmingly concerned with the collection of revenues and with ensuring that resources were not lost or siphoned off. Expenditure control meant preventing state agents from spending without authorisation. Second, the transformation of private royal treasuries into public offices accountable to a legislature for the taxes they spent only served to reinforce their role as hierarchical controllers of expenditure. As the formal budget process found its modern form in the 1860s and 1870s, the basic tools of executive budgeting had been well known in several European countries for extended periods of time: detailed checks and ex ante authorisations of expenditure, internal and external ex post audit, as well as regular challenges of spending items and spending levels proposed by ministries.

Third, even the rise of spending complexity in the century before 1950, accompanied by a dramatic expansion of the size of public spending, did not immediately change the way budget offices operated. For the first time, military spending ceased to be the overwhelming priority of the state, and governments became more concerned for the individual welfare of its citizens. For an extended period, however, steady economic growth allowed for relatively stable fiscal governance. The three decades following the Second World War became a golden age for budgeting, as governments settled into a stable pattern of incremental increases, where budget officials were mostly preoccupied with marginal savings and the distribution of a small annual increase. Finally, the advent of sustained austerity and the growing rigidity of public spending from the 1970s onward created a profound challenge for executive budgeting.

The comparison between the spending and institutional history in Prussia/Germany and England/United Kingdom illustrates how the institutional development was initially driven by external, not domestic factors. Throughout the feudal and early modern periods, the needs of warfare and state survival dominated executive budgeting. Both Prussia and England succeeded in developing capable fiscal states, and were highly innovative administrators of large amounts of funds. Yet while England since the Middle Ages had a system of accountability towards Parliament and legislative appropriations, the Prussian state disabled domestic checks and ran its finances unchecked by legislative oversight for centuries.

When popular representation and the norm that state spending would serve individual welfare instead of state survival became widespread, the institutions and instruments of executive budgeting were largely already in place in England and Prussia. In some ways, external oversight served to reinforce the existing executive control regime. The dramatic transformation of both the size and the complexity of public spending in the late 19th and 20th century was not immediately followed by a similarly dramatic institutional transformation.

The evidence considered here has its limitations. It is heavily based on the historical trajectories of two countries and the history of early modern and modern Western Europe more broadly. That said, England, and later Britain, are the single most important inspiration for much of the literature on the institutional roots of fiscal institutions, and notably influenced Tilly, North and Weingast, as well as Moore (North and Weingast, 1989; Tilly, 1992; Moore, 2004). The contrast drawn here between England and Prussia helps to contextualise the peculiar nature of the English case. For good or bad, England and Prussia, as well as other familiar competitors like Holland and Sweden came to dominate Western Europe. Western European institutions, fiscal or otherwise, became dominant the world over. These cases matter beyond a simple n of 2.

Table 1: Overview of Evolutionary Phases

	1650	1700	1750	1800	1850	1900	1950	2000
Budget Institutions in Crisis								
Golden Age								
Growth of Complexity								
Democratisation								
Age of Warfare								

Source: Author's compilation.

The institutional development of executive budgeting is an instance of path dependency – decisions taken in earlier times represent sunk costs, and influence and constrain the shape of decisions taken later (Pierson, 2000). In those countries where institutions continued throughout the early modern period, these decisions, each responding to the pressures of their time, accumulated over very long periods. Through the 19th and 20th centuries, as interstate competition receded and domestic factors came to dominate expenditure policy, the path was already set (see Table 1). The legacy of their origins is still important for finance ministries today, and it is not too much of an exaggeration to say that they are very much 'governing with the past' (Pollitt, 2008).

It was only the stresses of budgetary rigidity and austerity since the 1970s that prompted a more fundamental challenge for budgetary institutions. For budget reformers considering the new challenges that emerged since the 1970s, this legacy is the 'iceberg' (Andrews, 2013:44) that underpins the visible institutional setting of executive budgeting. Decades of reform, often prompted by the ideas of the New Public Management, followed, and for the first time in modern times represented a fundamental challenge to the institutional setup of budgeting described here. What the appropriate setup for the 21st century might be remains very much an open question, and different countries are formulating very different answers to that question.

References

Andrews, M. (2013) *The Limits of Institutional Reform in Development*. Cambridge: Cambridge University Press.

Ashton, R. (1957) 'Deficit Finance in the Reign of James I', The Economic History Review **10**(1): 15-29.

Bahnsen, U. (2006) *Merkur, Moneten und Macht: Ein Streifzug durch die Hamburger Staatsfinanzen*. Hamburg: Ellert & Richter Verlag.

Bakka, P. H. (1996) 'Elements in a Theory of State-Building: An Inquiry into the Structural Preconditions for Successful State-Building in Europe', Scandinavian Political Studies **19**(4): 293-308.

Baumol, W. J. (1993) 'Health care, education and the cost disease: A looming crisis for public choice', Public Choice **77**(1): 17-28.

Berry, W. D. (1990) 'The Confusing Case of Budgetary Incrementalism: Too Many Meanings for a Single Concept', Journal of Politics **52**(1).

Blackbourn, D. (2007) *The Conquest of Nature: Water, Landscape, and the Making of Modern Germany.* New York: W. W. Norton and Company.

Bozeman, B. and Straussman, J. D. (1982) 'Shrinking Budgets and the Shrinkage of Budget Theory', Public Administration Review **42**(6): 509-515.

Brewer, J. (1990) *The Sinews of Power: War, Money and the English State, 1688-1783.* Cambridge, MA: Harvard University Press.

Campbell, J. L. (1993) 'The State and Fiscal Sociology', Annual Review of Sociology **19**(1): 163-185.

Cottarelli, C. and Schaechter, A. (2010) 'Long-Term Trends in Public Finances in the G-7 Economies', IMF Staff Position Note **SPN/10/13**.

Davis, O. A., Dempster, M. A. H. et al. (1966) 'A Theory of the Budgetary Process', The American Political Science Review **60**(3): 529-547.

Dehio, L. (1931) 'Bismarck und die Heeresvorlagen der Konfliktszeit', Historische Zeitschrift **144**(1): 31-47.

Dincecco, M. (2011) *Political Transformations and Public Finances: Europe, 1650-1913.* Cambridge: Cambridge University Press.

Dorwart, R. A. (1953) *The Administrative Reforms of Frederick William I of Prussia.* Cambridge: Harvard University Press.

Downing, B. M. (1992) *The Military Revolution and Political Change: Origins of Democracy and Autocracy in Early Modern Europe*. Princeton: Princeton University Press.

Dunleavy, P. and Hood, C. (1994) 'From Old Public Administration to New Public Management', Public Money and Management **14**(3): 9-16.

Eichengreen, B. (2009) *The European Economy Since 1945: Coordinated Capitalism and Beyond*. Princeton: Princeton University Press.

Elias, N. (1976 [1939]) *Über den Prozeß der Zivilisation: Band 2.* Frankfurt: Suhrkamp.

Ertman, T. (1997) *Birth of the Leviathan: Building States and Regimes in Medieval and Early Modern Europe.* Cambridge: Cambridge University Press.

Eurostat (2012) 'Government Finance Statistics Database', retrieved from: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/introduction.

Finer, S. E. (1997) *The History of Government from the Earliest Times: The Intermediate Ages.* Oxford: Oxford University Press.

Glete, J. (2002) *War and the State in Early Modern Europe: Spain, the Dutch Republic and Sweden as Fiscal-Military States, 1500-1660*. London and New York: Routledge.

Gorski, P. S. (2003) *The disciplinary revolution: Calvinism and the rise of the state in early modern Europe*. Chicago: University of Chicago Press.

Heclo, H. and Wildavsky, A. (1974) *The Private Government of Public Money: Community and Policy Inside British Politics*. London: Macmillan.

Hintze, O. (1916) *Die Hohenzollern und ihr Werk: 500 Jahre vaterländischer Geschichte.* Berlin: Paul Parey.

Hintze, O. (1970) *Staat und Verfassung*. Göttingen: Vandenhoeck & Ruprecht.

Hood, C. (2000) *The Art of the State: Culture, Rhetoric, and Public Management*. Oxford: Oxford University Press.

Isenmann, E. (1999) *The Holy Roman Empire in the Middle Ages. The Rise of the Fiscal State in Europe, c. 1200-1815*. R. Bonney. Oxford: Oxford University Press**:** 243-280.

Kiser, E. and Schneider, J. (1994) 'Bureaucracy and Efficiency: an Analysis of Taxation in Early Modern Prussia', American Sociological Review **59**(2): 187-204.

Ladero Quesada, M. A. (1999) *Castile in the Middle Ages. The Rise of the Fiscal State in Europe, c. 1200-1815.* R. Bonney. Oxford: Oxford University Press**:** 177-200.

Levi, M. (1989) *Of Rule and Revenue*. Berkeley: University of California Press.

Lindert, P. H. (2004) *Growing Public: Social Spending and Economic Growth Since the Eighteenth Century. Volume 1.* Cambridge: Cambridge University Press.

Lipsey, D. (2000) *The Secret Treasury*. London: Viking.

Lodge, E. C. (1931) *Sully, Colbert, and Turgot: a Chapter in French Economic History*. New York: Lenox Hill Publishing.

Lord, G. (1973) *The French Budgetary Process*. Berkeley and Los Angeles: University of California Press.

Machiavelli, N. (1847) *The History of Florence*. London: Henry G. Bohn.

Maier, H. (1986) *Die ältere deutsche Staats- und Verwaltungslehre*. München: Deutscher Taschenbuch Verlag.

Meyers, R. T. (1996) 'Is there a key to the normative budgeting lock?' Policy Sciences **29**(3): 171-188.

Moore, M. (2003) 'The New Fiscal Sociology in Developing Countries', Paper presented at the Annual Meeting of the American Political Science Association. Philadelphia: American Political Science Association.

Moore, M. (2004) 'Revenues, State Formation, and the Quality of Governance in Developing Countries', International Political Science Review **25**(3): 297-319.

Morsey, R. (1957) *Die Oberste Reichsverwaltung unter Bismarck*. Münster: Verlag Aschendorff.

Nikitin, M. (2001) 'The Birth of a Modern Public Sector Accounting System in France and Britain and the Influence of Count Mollien', Accounting History **6**(1): 75-101.

North, D. C. and Weingast, B. R. (1989) 'Constitutions and Commitment: the Evolution of Institutions Governing Public Choice in Seventeenth-Century England', The Journal of Economic History **49**(04): 803-832.

Parker, G. (1996) *The Military Revolution: Military Innovation and the Rise of the West, 1500-1800*. Cambridge: Cambridge University Press.

Pierson, P. (2000) 'Increasing Returns, Path Dependence, and the Study of Politics', American Political Science Review **94**(2): 251-267.

Pollitt, C. (2008) *Time, Policy, Management: Governing with the Past.* Oxford: Oxford University Press.

Pollitt, C. (2009) 'Debate: Approaches to Control - The Poverty of "What's Hot and What's Not" ', Public Money & Management **30**(1): 7-8.

Poole, S. (2004) *Juan de Ovando: Governing the Spanish Empire in the Reign of Phillip II*. Norman: University of Oklahoma Press.

Reinhard, W. (1999) *Geschichte der Staatsgewalt*. München: Verlag C.H. Beck.

Reus-Smit, C. (1999) *The Moral Purpose of the State: Culture, Social Identity, and Institutional Rationality in International Relations*. Princeton: Princeton University Press.

Riedel, A. F. (1866) *Der brandenburgisch-preussische Staatshaushalt in den beiden letzten Jahrhunderten*. Berlin: Ernst & Korn.

Roseveare, H. (1969) *The Treasury: The Evolution of a British Institution*. London: Allen Lane/ Penguin Press.

Schick, A. (1983) 'Incremental Budgeting in a Decremental Age', Policy Sciences **16**(1): 1-25.

Schick, A. (1986) 'Macro-Budgetary Adaptations to Fiscal Stress in Industrialised Democracies', Public Administration Review **46**(2): 124-134.

Schick, A. (1988) 'Micro-Budgetary Adaptations to Fiscal Stress in Industrialised Democracies', Public Administration Review **48**(1): 523-533.

Schick, A. (1998) *A Contemporary Approach to Public Expenditure Management*. Washington, D.C.: World Bank.

Schick, A. (2001) 'The Changing Role of the Budget Office', OECD Journal on Budgeting **1**(1): 9-27.

Schick, A. (2002) 'Can National Legislatures Regain an Effective Voice in Budget Policy?' OECD Journal on Budgeting **1**(3): 15-42.

Schumpeter, J. A. (1918) *Die Krise des Steuerstaates*. Graz, Leuschner & Lubensky.

Spoerer, M. (2010) *The Evolution of Public Finances in Nineteenth-Century Germany. Paying for the Liberal State: The Rise of Public Finance in Nineteenth-Century Europe*. J. L. Cardoso and P. Lains. Cambridge: Cambridge University Press**:** 103-31.

Stourm, R. (1917) *The Budget*. New York: D. Appleton and Company for the Institute for Government Research.

Tanzi, V. and Schuknecht, L. (2000) *Public Spending in the 20th Century: A Global Perspective.* Cambridge: Cambridge University Press.

Thain, C. and Wright, M. (1995) *The Treasury and Whitehall: The Planning and Control of Public Expenditure, 1976-1993*. Oxford: Oxford University Press.

Thompson, F. (1994) 'Mission-Driven, Results-Oriented Budgeting: Fiscal Administration and the New Public Management', Public Budgeting & Finance **14**(3): 90-105.

Tilly, C. (1992) *Coercion, Capital and European States, AD 990-1992.* Oxford: Blackwell Publishing.

Tracy, J. D. (1985) *A Financial Revolution in the Habsburg Netherlands: Renten and Renteniers in the County of Holland, 1515-1565*. Berkeley and Los Angeles: University of California Press.

Tracy, J. D. (1990) *Holland under Habsburg rule, 1506-1566: The Formation of a Body Politic*. Berkeley and Los Angeles: University of California Press.

Tracy, J. D. (2008) *The Founding of the Dutch Republic: War, Finance, and Politics in Holland, 1572-1588*. Oxford: Oxford University Press.

van Creveld, M. L. (2004) *Supplying War: Logistics from Wallenstein to Patton*. Cambridge: Cambridge University Press.

Waltz, K. N. (1959) *Man, the State, and War: A Theoretical Analysis.* New York: Columbia University Press.

Webber, C. and Wildavsky, A. (1986) *A History of Taxation and Expenditure in the Western World*. New York: Simon and Schuster.

Weber, M. (1980 [1921]) *Wirtschaft und Gesellschaft: Grundriss der verstehenden Soziologie.* Tübingen: Mohr Siebeck.

White, J. (1998) 'Entitlement Budgeting vs. Bureau Budgeting', Public Administration Review **58**(6): 510-521.

Wildavsky, A. B. (1964) *The Politics of the Budgetary Process.* Boston: Little Brown.

Wildavsky, A. B. (1986) *Budgeting: a Comparative Theory of Budgetary Processes.* Piscataway, New Jersey: Transaction Books.

Wildavsky, A. B. and Caiden, N. (2004) *The New Politics of the Budgetary Process.* New York: Pearson/Longman.

Wilson, P. H. (2009) *The Thirty Years War: Europe's Tragedy*. Cambridge, MA: Belknap Press.

World Bank (2012) *World Development Indicators and Global Development Finance Database.* Washington, D.C.: World Bank.

Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ
UK
Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
Email: publications@odi.org.uk
Website: www.odi.org.uk
ISBN 978 1 909464 36 0
Working Paper (Print) ISSN 1759 2909
ODI Working Papers (Online) ISSN 1759 2917