Abstract

This discussion paper overviews the intellectual foundations of 20th Century fiscal sociology and summarises recent development in the field. It is a draft of the "Fiscal Sociology" entry for the forthcoming International Encyclopedia of Public Policy (Routledge), which is currently being prepared by an editorial board under the direction of Phillip O’Hara.
Fiscal Sociology
by
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Introduction
Analysis of sociological influences on public finances is generally referred to as fiscal sociology. Modern fiscal sociology is largely the legacy of pioneering investigations undertaken towards the end of World War I by Rudolph Goldscheid and Joseph Schumpeter on the question of whether fiscal crises necessarily emerge in states that rely on general taxes to fund the provision of public services (i.e. ‘tax states’). While the issue of fiscal crisis has remained a primary concern in modern fiscal sociology, the scope of the field has expanded to include constitutional, legal and institutional influences on the budget as well as constraints on policy associated with internal bureaucratic custom.

Emergence of Fiscal Sociology
Fiscal sociology emerged as a field of study in Europe, with two distinct traditions developing, one in Austria and the other in Italy. Within the Austrian tradition, seminal contributions were made by Rudolph Goldscheid, such as in his 1917 Staatssozialismus oder Statkapitalismus and 1925 “Staat, öffentlicher Haushalt und Gesellschaft, Wesen und Aufgaben der Finanzwissenschaften vom Standpunkte der Soziologie”, ([1925] 1967), and by Joseph Schumpeter, especially in his influential “Die Krise des Steuerstaats” ([1918] 1954). Within the Italian tradition, formative contributions were made by Gino Borgatta, in works such as “I problemi fondamentali della scienza finanziaria” (1913) and “Lo studio scientifico dei fenomeni finanziari” (1920) and Guido Sensini in his “Cenni di finanza teorica” (1929).

The Austrian approach recognised that the ‘sociology’ of public finances, developed from an historical investigation of fiscal information, provides considerable insight into both the fiscal activities of government and prevailing social structures and arrangements. Goldscheid and subsequently Schumpeter placed the notion of the ‘tax state’ as the subject of their analysis, with financial history and the consequent development of public debt and fiscal crisis central to their critical
assessments. Notwithstanding their agreement on applying sociology to the study of fiscal matters, the differences between these two approaches were significant, with Goldscheid and Schumpeter ultimately reaching quite different conclusions on the nature and sustainability of the tax state.

Goldscheid was influenced by Marx, and relied on class analysis to analyse the exploitative aspects of fiscal outcomes. From fiscal history, Goldscheid found that States progressively disposed of public property in response to increased enfranchisement, which provided the opportunity for public creditors – whose interests he equated with capitalists and the ruling class – to exploit the state as it came to progressively rely more and more on debt. In this circumstance, tax pressures to service debt was presented as a manifestation of social struggle, with fiscal exploitation of workers by the tax state (for the benefit of public creditors) being interdependent with, and complementary to, capitalist exploitation of workers throughout the private economy. A tendency to fiscal crisis became a consequence of the relationship between the fiscal system and capitalism.

In contrast, Schumpeter analysed the nature of the tax state in terms of an evolution in the complexity of the relationship between the individual and collective needs. He reserved use of the term ‘the state’ to circumstances where a ‘public purpose’, as opposed to an individual purpose, was pursued on behalf of the collective. While “Goldscheid saw the emergence of the tax state as leading to state impoverishment, Schumpeter heralded it as the very creation of the State” (Musgrave 1992, p.33). Furthermore, while Goldscheid utilized class analysis, Schumpeter tended to emphasize groups and the role of interests in shaping the activities of the State: “It is always important to recognize who or whose interest it is that sets the machine of state in motion and speaks through it.” (Schumpeter [1918] 1954, p.19). Consequently, Schumpeter’s notion of ‘common’ need was not naive or simplistic, but was considered as something that emerged within the general context of the relationships of social power that exist within and between groups.

Goldscheid’s solution to the twin issues of fiscal crisis and fiscal exploitation was for the working class to conquer the bourgeois classes by creating a wealthy State (a ‘state capitalism’), with the State acquiring property to use for economic purposes and for the associated ‘surplus value’ to be expended in the interests of
society. For Schumpeter, however, the case for fiscal crisis had not been demonstrated. His interest was not in periodic or avoidable crises, but the fundamental question of whether the tax state must descend into fiscal crisis as a result of funding the state provision of services to meet a mixture of common need and private purpose. By complementing his sociological explanation of the growing demand for public expenditures with an economic explanation of the relative stagnation in tax receipts (Seidl 1984, p91), Schumpeter was able to conclude “there is no ‘crisis in the tax state’” (Schumpeter [1918] 1954, p37). That is, while tax states can collapse, a collapse is not a logical necessity of the tax state, at least not in the particular historical moment under consideration.

The Italian approach to fiscal sociology has at least one common factor – its main proponents were ex-students and associates of Vilfredo Pareto. A change in fiscal settings modifies the existing combination of revenue raising, expenditure and debt which, according to Pareto, cannot be considered in isolation. Instead, the variation in economic and social equilibrium resulting from each aspect of a new fiscal setting must first be established before arriving at any judgement on the welfare implications of the new fiscal settings. In a letter written in September 1917 to Benvenuto Griziotti, Pareto complained that “… the ‘science’ of finance knows little of economic equilibrium and nothing of social equilibrium” (Pareto 1975 p.984), but confessed that he was unsure of how fiscal studies should be progressed, contenting himself with the observation that “… at least I have the merit, like Socrates had, of knowing my own ignorance” (Pareto 1975 p.984).

Prominent among Pareto’s ex-students and associates who developed Italian fiscal sociology were Gino Borgatta and Guido Sensini. The importance of these authors is that they developed an analytical framework to accommodate the economics and sociology of public finance that focused on social equilibrium. The starting point of their sociology was that public finances provide a conduit for redistributing economic goods among individuals and groups and altering economic activity in the process. Given this, Italian fiscal sociology examined the conditions that determine the form of a society and its sociological equilibrium, the main attributes of social utility within a given society, the economic and social characteristics of the governing class and its relationship to the governed, the type of
economy and its relationship to the governing class and the role of financial phenomenon in regard to general sociological regularities.

When reflecting on developments in Italian fiscal studies to the middle of the 20th Century, Benvenuto Griziotti (1950) concluded that the renewal of fiscal studies sought by Pareto was largely complete, with fiscal research in Italy developing along three lines: (i) the science of public finance; (ii) the political economy of finance; and (iii) the sociology of finance. Perhaps surprisingly, the Italian approach to fiscal sociology has had little influence on modern fiscal sociology. No doubt language barriers have contributed to this unfortunate neglect, although it is also possible that the concurrence between fascism and the development of fiscal sociology in Italy may have contributed to the lack of enthusiasm for translating or investigating Italian fiscal sociology.

American Fiscal Sociology of Crisis

While fiscal sociology initially found its way to English speaking scholars through the essays of Fritz Karl Mann, an exile from Nazi Germany, it was not until the translation and publication of Schumpeter’s “Crisis of the Tax State” (Schumpeter 1954) and Goldscheid’s “A Sociological Approach to Problems of Public Finance” (Goldscheid 1967) that the subject took a reasonably firm hold within America. Perhaps not surprisingly then, the classic issue of fiscal crisis became the first theme in American fiscal sociology.

The American reprise in the sociology of fiscal crisis is best associated with James O’Connor’s influential The Fiscal Crisis of the State (O’Connor 1973), which developed from within a Marxist intellectual tradition, and Richard Musgrave’s important “Theories of Fiscal Crisis: An Essay in Fiscal Sociology” (Musgrave 1980), which largely followed Schumpeterian lines of analysis.

O’Connor observed that unproductive state ‘social expenses’, such as welfare payments, redress the ‘contradictions of capitalism’ and contended that tax systems under advanced capitalism are designed to effectively quarantine ‘monopoly capital’ from having to fund such unproductive state expenses. Under this analysis, the concurrent growth in monopoly capital and public sector outlays, and the associated privatization of surplus and socialization of ‘social expenses’, were presented as
interrelated but internally contradictory, leading to a tendency towards fiscal crisis in advanced capitalism. In contrast to Goldscheid, who assigned a primary role to public creditors in his analysis of exploitation, O’Connor emphasised the contradiction of advanced capitalism itself and the inability of the state to correct this contradiction. Consequently, instead of following Goldscheid’s prescription favouring the development of state capitalism, O’Connor advocated a reduction in the need for unproductive social expenses, probably though the replacement of advanced capitalism with a socialist system.

The response to O’Connor’s work was mainly from authors writing in Marxist traditions, with critiques generally being favorable, although concerns were raised over the presentation of class struggle within the competitive and monopolistic sectors as incidental to market determined wage outcomes (Loxley 1982) and the difficulty of empirically testing the central thesis due to the abstract classification of public expenditures (Block 1981).

Richard Musgrave (1980) provided the definitive non-Marxist response to O’Connor and the general proposition that structural imbalances in the budget result in a general tendency to fiscal crisis. From a conceptual perspective, Musgrave emphasizes that fiscal benefits and costs cut across class divisions and link better to group interests. For example, taxation activity is often stratified by income source, tastes or the pattern of household expenditure and age. Consequently, not only is the net incidence of fiscal activity too complex and multidirectional to be analysed in terms of the labour-capital dichotomy, but monopoly capital is also unlikely to be quarantined from the economic consequences of fiscal policy. From the empirical perspective, Musgrave noted that the growth in social expenses (as a share of gross national product) has been negligible – which is also contrary to O’Connor’s thesis. He also suggested that much of the observed increase in growth in other public expenditures could be accounted for by a particular factor; the growth in population from the post World War II baby boom.

**New Issues in Fiscal Sociology**

In addition to the perennial issue of fiscal crisis, other important issues to emerge in new fiscal sociologies include investigations of: sociological intolerances to tax
policy; the relationship between macro and micro considerations; the methodological relationship between cameral sciences and fiscal sociology for studies of economic integration and regulation; the relevance of constitutional themes to fiscal sociology; endogenous preferences where statecraft becomes soul-craft; and the place of bureaucratic arrangements in fiscal policy. The contemporary relevance of Paretian themes to the methodology and method of fiscal sociology is also under consideration.

The Schumpeterian approach to fiscal sociology has now been extended to investigate the sociological ‘intolerances’ associated with the tax structure (Christian Seidl 1984). When public perceptions of the distribution of the tax burden do not reflect evolutionary change in social values, sociological intolerances begin to emerge over the tax system. Within this context, relevant considerations for tax policy include the evolution of social perceptions in regard to: the relative incidence of taxation on consumer and producer sovereignty; the extent of tax related income redistribution; the degree of privacy relative to the degree of avoidance associated with the tax system; and the extent of non-political power enjoyed by private sector benefactors whose actions influence the need for taxation.

Recent investigations have also emphasized the importance of micro considerations to fiscal policy, concluding that an enhanced understanding of the flexibility and subtlety of fiscal arrangements in mixed economies requires investigators to be cognoscente of both macro and micro issues (Musgrave 1991). The importance of this approach is that it suggests that Schumpeter cannot be followed by taking public expenditures as largely given or by ignoring insights from public finance such as the notion of ‘externalities’. The inference here is that the insights of both public finance theory and fiscal sociology are complementary when investigating the fiscal phenomenon; a position which is generally consistent with the Italian approach to fiscal studies. More recently, the methodological foundations of the European tradition in the cameral sciences and Staatswissenschaften have been proposed as a sound basis for casting fiscal sociology as a policy study, particularly for the investigation of issues in economic regulation and integration between jurisdictions such as in the European Union (Backhaus 2002). In this context, fiscal
sociology effectively provides the synthetic unification of economic, sociological, political and legal approaches to public policy issues.

Another promising and recent development in fiscal sociology is the attempt to introduce the principles of constitutional political economy to fiscal sociology (Wagner 2002). This approach contrasts the reliance of exogenous preferences in traditional public finance with a reinvigorated fiscal sociology where fiscal activity is recognized as preference altering activity. Within this framework, rules and procedures of human governance, including the rules governing the operation of fiscal institutions, play an important role in shaping preferences, with statecraft treated as a form of ‘soul-craft’. Like the normative basis of constitutional political economy, the constitutional approach to fiscal sociology is directed towards establishing rules or constitutional frameworks that support liberal governance. The constitutional approach to political economy, like its Schumpeterian predecessor, also has the capacity to consider the development of bureaucracies and their impact on fiscal programs.

Finally, a new approach to fiscal sociology, inspired by Pareto and the Italian approach to fiscal studies, is now emerging (McLure 2003). It considers the relationship between the degree of decentralization in fiscal programs relative to the interacting forces for continuity or change in economic balances (between speculator and rentier activities) the political balances between (between indirect persuasion and direct confrontation) and balances in social behavior (between non-conformist and conformist conduct). A limitation of this generalized approach is that fiscal institutions and the actual ‘form’ of public programs become secondary to the degree of fiscal decentralisation on the one hand, and the degree of decentralization in the economic, political and behavioral balances on the other. Nevertheless, this limitation can be offset to some extent by considering the influence of rules and fiscal institutional on the actual form of fiscal programs when the degree of fiscal decentralization is investigated.

**Outlook for Fiscal Sociology**

It should be cautioned that recent developments in this field are formative and provisional, with a received view on the methodological and analytical framework of
the new fiscal sociologies yet to emerge. For the field to develop into a truly policy relevant body of scholarship, a clearer consensus on the scope of subject must first emerge. In particular, the sociological dimension to fiscal studies will need to be defined as something distinct from, and broader than, ad hoc notions of fiscal ‘politics’.

See Also
budget; budget deficit; bureaucracy; class; company taxation; constitutional political economy; economic and financial crisis; economic power; fiscal policy practices; Pareto optimum, public choice theory; public finance: major principles and concepts; second best and social welfare; taxation; taxation principles; vested interests and rent seeking.

Selected References


