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Modern Fiscal Sociology

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1 Introduction

Fiscal sociology as a discipline enjoys a centenary in 2018, with its origins in Joseph Alois Schumpeter's seminal essay of 1918, which only appeared in English in 1954. The complicated publication history of the article has spawned a variety of approaches to fiscal sociology, each with different methodological assumptions born of their respective historical moments and the national economic literatures in which they were established. One variant, the Anglo-Italian school established by D'Maris Coffman and the editors of this volume, has a particular methodological approach, which is consistent with structural political economy, while maintaining a tri-partite interest in taxation, expenditure and public borrowing. This approach is sensitive to the role of macro-fiscal policy in expressing and also in shaping sectoral interdependencies, social relations and economic dynamics. The historical roots of this approach can be found in William Petty, David Hume, Quesnay and Smith, but the heirs to their hermeneutic strategies for understanding the fiscal state are principally concerned with evolution of fiscal systems in the twenty-first century, and their operation at sub-national, national and supra-national levels.

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2 Varieties of Fiscal Sociology

‘Fiscal Sociology’ is a term that was coined by Joseph Schumpeter after the first World War to characterise his approach to studying what he regarded as ‘The Crisis of the Tax State’ War I (1918, pp. 4–7). Forty years later, his essay, originally published in German, was translated into English alongside the posthumous publication of Schumpeter’s *History of Economic Analysis* (Coffman 2017, p. 40). This dating is important to understand, because the original German reception of Schumpeter occurred in a period dominated by the crisis of small-state capitalism (Janeway 2012), by Max Weber’s concept of the state as elucidated in ‘Politics as Vocation’ (1920), and by the ascendancy of functionalist theories of state relations (Groom and Taylor 1975). Schumpeter and those who followed his lead strove to explore how, following Rudolph Goldscheid, ‘the budget is the skeleton of the state stripped of all misleading ideologies’ (Schumpeter 1954, p. 6) in order to understand the formation of bureaucratic states and the challenges they faced. They wanted to know how far the putative ‘crisis of the tax’ state was an inevitable feature of a polity so constituted or if it was an historically contingent outcome (Mommsen 1974). In doing so, Schumpeter and Weber helped to establish institutionalism, alongside the canonical contributions of Veblen and Hamilton (Swedberg 2002). This tradition developed into what is known as the Austrian or German approach to fiscal sociology (McLure 2007, p. 4). Jürgen Backhaus (2005) is the most important descendant of this tradition, and its most influential practitioner today.

Italian fiscal sociology, while indebted to Schumpeter’s initial formulation, is more commonly associated with Vilfredo Pareto and his followers (McLure 2007, pp. 3–4). How far they were ‘independent’ of the Austrian strain, as has often been alleged, is debatable, but Pareto and his student, Guido Sensini, gave the project a different valence (McLure 2003, 2007, pp. 4–5). They were chiefly political economists who opposed those they regarded as ‘literary’ economists (McLure 2007, pp. 8–10). Pareto and his followers were interested in expanding his theory of economic equilibrium to include a theory of social equilibrium (McLure 2007, pp. 12–13), in which there was a place for fiscal theory, so as to maximise the social utility associated with economic policy. Although such claims may be contested, some would argue that it is upon such a basis that Italian contributions to Public Choice Theory were founded (Wagner 2003). Moreover, Paretian fiscal sociology still has adherents today, as it provides a helpful lens through

which to understand the way in which technocratic elites design fiscal processes (Forte and Silvestri 2013).

By contrast, readings and applications of ‘fiscal sociology’ which followed in the wake of its English publication in 1954 occurred in a different context. The English translation was widely read by contemporaries as an intervention into Cold War debates about the growth of the social democratic state, and the ‘the step-changes in defence and social welfare spending in the post-war period’ (Coffman 2017, p. 40). The intellectual climate was different as well: Claude Lévi-Strauss’ structuralism was in the ascendancy in the social sciences, and Schumpeter’s fiscal sociology provided a vehicle for understanding structural configuration of the state. Marxist structuralists, in particular, read Schumpeter to understand state expenditure as a locus for the exercise of power by elites: ‘radicals attempt to measure the relative distribution and redistribution of resources by government and use these measures as indices of government support for particular classes and groups’ (Bates 1985, p. 23). This achieved orthodoxy as the dominant reading of Schumpeter on the Left in the 1980s, as Richard Bates explains, citing Patrick Dunleavy:

Fiscal sociology breaks more or less completely with the approach practised in conventional public finance of analysing budgetary decision-making in isolation from the concrete groups and interests promoting expenditures or deriving benefits from particular budgetary decisions. Instead these relationships are taken as central to any explanation, and the budget is treated as a summary measure of the balance of state policy as between social classes and groups’. (Bates 1985, p. 23; Dunleavy 1982, pp. 221–222)

As with earlier readings of Schumpeter, the object was to strip away ideology to reveal the occult operation of class conflict. As Philip Abrams pointed out a few years later, ‘Marxist theory needs the state as an abstract-formal object in order to explain the integration of class societies’ and thus made the state an unproblematic locus for the exercise of power (Abrams 1988, p. 70). The chief difficulty with this approach to Fiscal Sociology, quite apart from other objections that might be levelled at conventional Marxist structuralism as an intellectual project, is the extent to which it conflates the ‘causal and symptomatic elements in the Schumpeterian tradition’ (Coffman 2017, p. 37).

Such a distinction can be found in the original essay (1918, pp. 4–7) and plays a central role in the revival of fiscal sociology in the early twenty-first century. As Jürgen Backhaus explained in 2004, fiscal sociology considers

‘the ramifications of the fiscal activities of the state into areas which are not their primary target. These effects may occur in sectors not directly affected such as related markets, but they may also occur outside the economic sphere proper, such as in politics, culture, religion, or society at large’ (Backhaus 2004, p. 1). In this reading of Schumpeter, the concern is thus with the consequences, occasionally intended but most often not, of the fiscal activities of the state.

In the last few years, there have been various claims to a ‘New Fiscal Sociology,’ each founded in a different reading of Schumpeter. The dominant approach, articulated in by Martin, Mehrotra, and Prasad in their eponymous edited volume (Martin et al. 2009) is most clearly aligned with Backhaus, who himself published a collection based on essays presented at the Erfurt Conference on Fiscal Sociology (Backhaus 2005) and who holds The Krupp Foundation Chair in Public Finance and Fiscal Sociology (Coffman 2017, p. 40). The epilogue to the Martin volume, written by John L. Campbell, casts fiscal sociology as a ‘comparative and historical study of taxation,’ which exposes how states ‘could sustain welfare or defense programs; maintain infrastructures like roads, airports, schools and public transportation systems; regulate businesses and markets; enforce property rights and the law; or support commerce’ (Martin et al. 2009, p. 256). Theirs is an admirably interdisciplinary project, which can explore the role of taxation in the rise of neoliberalism, the dialectics of taxation and globalisation (including global capital flows and the place of tax arbitrage), and ‘taxation as a source of institutional competitiveness’ (Martin et al. 2009, pp. 257–262), which can be virtuous in creating social value or vicious in sparking a race to the bottom. In other words, fiscal sociology can expose how tax regimes either promote greater inequalities or resolve them (Martin et al. 2009, pp. 262–264). This variant of fiscal sociology can also contribute to more nuanced and robust histories of policy (Martin et al. 2009, p. 265), including those of the premodern fiscal states (Monson and Scheidel 2015).

If this is the mainstream ‘New Fiscal Sociology,’ then other approaches are still possible. The Anglo-Italian school has its origins in the attempt by D’Maris Coffman (2013) to revive ‘fiscal sociology’ as a lens through which to view the paradigmatic case of excise taxation in the British Isles, which was ‘foundational to the advent of the Hobbesian Leviathan’ (Coffman 2017, p. 40). This intellectual project, the discussion of which forms the balance of this chapter, is to restore Schumpeter’s fiscal sociology to its rightful place as an instantiation of structuralist hermeneutics and as a mode of economic analysis.

3 Hermeneutic Strategies: Understanding Historical Structural Change

In the version of New Fiscal Sociology advocated by Coffman and her colleagues, Ivano Cardinale and Roberto Scazzieri, it was no accident that Schumpeter's seminal article first appeared in English alongside Elizabeth Boody Schumpeter's publication of *History of Economic Analysis* (Schumpeter 1994). 'Fiscal sociology,' which has acquired a renewed urgency today amidst what commentators have labelled the worst crises in public finance since the interwar period, is but one domain of Schumpeterian 'economic analysis' and should be recognised as such. In that respect, Coffman's 'New Fiscal Sociology' is closely related to Roberto Scazzieri's proposal for a 'Structural Heuristics' (Scazzieri 2012; Cardinale et al. 2017b; Cardinale and Scazzieri 2016).

Both Anglo-Italian New Fiscal Sociology and Structural Heuristics make an important distinction between interpretation and explanation, or between causation and causality. Causality rests on a particular mechanism by which X has an effect on Y. Explanations can be realistic in the sense that they try to account for external reality, or epistemic (anti-realist) in the sense that they strive for the internal consistency of the empirical model (Mayes 2013). In general, modern mathematical economics strives for the latter, whereas the natural sciences present themselves as interested in the former, except perhaps in cosmology. In economics and finance, the movement of prices is easy to explain: they rise when there are more buyers than sellers, they fall when there are more sellers than buyers. The willingness to buy or sell is, indeed, partly influenced by individual expectations of future prices, such that for markets to function there has to be heterogeneity of belief. Predicting the movement of prices is an occult science, whether practiced by 'chartists' who do 'technical analysis' or by punters who pontificate on the market outlook for a particular stock. Interpreting price behaviour (explaining *why* market prices rise or fall) lies somewhere in between, though much of it depends on normative judgments about 'value.' To imagine that you are in a speculative bubble is to imagine that the current prices of an asset have diverged from some 'rational' judgement of fundamental value.

Similar problems occur when explaining and interpreting the effects of taxation. The legal incidence (who is meant to pay) and economic incidence (who actually pays) of taxation is relatively easy to establish: some indirect taxes are forward-shifted onto consumers, others are back-shifted onto other economic agents in the supply chain, some are capitalised (thereby changing industrial organisation) and eventually most appear in reality (as well as in

the Dynamic General Stochastic Equilibrium or DGSE Framework) in the form of higher wages (Seligman 1899; Coffman 2013; Coffman and Gao 2011; Coffman 2017). Although welfare assessments are less straightforward, it is also comparatively easy to assess the mean welfare effects, or whether a given tax is progressive, regressive or (the unicorn) proportional. Interpreting these phenomena is much more elusive: which sectors of the economy benefit, whose socio-economic and political interests are served, what kind of path dependencies may be created, and so on. These are valid questions for political economy, even if they are scarcely of interest to most practitioners of public economics.

Because economic, social and cultural systems are complex structures of interdependencies, their elaboration requires an interpretative strategy capable of identifying structural discontinuities while remaining sensitive to longer-term causal processes that proceed incrementally. Anglo-Italian New Fiscal Sociology offers a strategy for framing the backdrop against which it is possible to understand the historically contingent formulation of fiscal policy. Such an intellectual project of investigating the occult interests and interdependencies at work in fiscal policy formation requires a simultaneous consideration of causes and consequences, in a dialectic that advances through chains of narrative causation. This variant of Fiscal Sociology rests on particular assumptions about historical structural change, while providing a specific modality for identifying and interpreting the causal forces at work with a given field of possibilities. This is essentially Aristotelian casuistry, with the assumption of a relationship, albeit a complex one, between policymaking and sociocultural configurations, i.e. structural change.

The Anglo-Italian variant of Fiscal Sociology interprets the dynamics of economic systems as showing both features of variance and features of change, and that the frequent recurrence of the same debates (about the economic incidence of various forms of taxation and about normative tax burdens) point to fundamental structural characteristics of economic systems as they evolve across space and time. These recurrences point to relatively invariant structural features of the economy, whereas the irregularity of recurrence points to the irreducible historical uncertainty concerning 'ruptures' and 'shifts' from one dynamic regime to another. This characterisation of historical structural change can be described as an instance of 'non-Marxist structuralism,' in the sense that it is not deterministic and preserves contingency. This approach also maintains a clear consideration of the way in which fiscal policymaking shapes societal expectations. Instead, it might be called 'structural historicism.'

While possible objects of historical analysis are manifold, studies of historical structural change can roughly be characterised as either examining an entire system of interdependencies (whether sectoral or social) or investigating the evolution of a given sector or social group, both internally and in conjunction with competing sectors or groups (Scazzieri 2012). Anglo-Italian 'New Fiscal Sociology' offers an example of the first approach in studies of the early modern fiscal state. Schumpeter's modern fiscal state developed in the early modern period as a solution to the strains placed upon power-elites (usually in the form of the crown estate) as a result of the ever-rising cost of warfare. This development, characterised by some as the Military Revolution necessitated the imposition of taxes to mobilise the vast domestic resources needed to finance participation in armed conflicts between mercenary armies. Much contemporary economic writing, including that of those who are often called mercantilists and those who are classified as physiocrats, was 'concerned with how to maximize tax revenues without impairing either agricultural production or the growing commodity economies' (Cardinale and Coffman 2014, p. 278).

In France, commentators, including Quesnay in his famous *Tableau Économique* saw the aristocratic or rentier class (as well as the crown, insofar as royal estates accrued rents) as identified with absolutist monarchy (Cardinale and Coffman 2014, p. 279; Quesnay 1972). In British economic writings, the 'state' had emerged from mid-century crisis, i.e. the Civil Wars and Interregnum, as an abstract-formal 'artificial person that was not dependent on the idea of monarchy, much less on the feudal system, but instead had a distinct role in the circulation of the economic system by exacting charges (in the form of taxation) that would defray the costs of securing the whole' (Cardinale and Coffman 2014, p. 279). As Cardinale and Coffman (2014, p. 279) observe, the fiscal apparatus of the state thus became a battleground between Whigs and Tories and their competing socio-economic and sectoral interests.

In furnishing analytical tools with which to understand both the diachronic (the rising cost of warfare amidst the territorial ambitions of early modern states) and synchronic (the social and sectoral interdependencies which characterised in the composition of power elites) processes, Anglo-Italian Fiscal Sociology reconstitutes a rigorous and robust methodology for understanding historical structural change at the societal level. This in stark contrast to the crudity with which mainstream economists promote their own heuristics about fiscal sociology. For example, the 90%-rule promulgated by Kenneth Rogoff and Carmen Reinhart (2009), which does not acknowledge the possibility of fundamental structural changes in the

economy and, in fact, ridicules such possibilities, may very well prove to encourage inappropriate policy responses (Coffman 2017, pp. 38–39).

4 Beyond Taxation: Expenditure and Public Borrowing

Another key principle of the Anglo-Italian variant of Fiscal Sociology is that taxation is only part of the story; a rounded fiscal sociology ‘must include not just expenditure but also both taxation and public borrowing’ (Coffman 2017, p. 37). If this approach has a genealogy, then the genesis can be found in David Hume’s writings on political economy, when he notes the relationships between modalities of taxation, the technological and sociopolitical conditions that create them, and the assessments by elites of their probable distributional effects, as well as their value as collateral for increasing levels of public borrowing:

In every nation, there are always some methods of levying money more easy than others, agreeably to the way of living of the people, and the commodities they make use of. In Britain, the excises upon malt and beer afford a large revenue; because the operations of malting and brewing are tedious, and are impossible to be concealed; and at the same time, these commodities are not so absolutely necessary to life, as that the raising their price would very much affect poorer sort. These taxes being all mortgaged, what difficulty to find new ones! What vexation and ruin of the poor! (David Hume, ‘Of Public Credit’ 1753, p. 171)

The public debt, in turn, financed the unprecedented expansion of British military infrastructure with which to fight the European and colonial wars of the eighteenth and nineteenth centuries. Holding taxation apart from expenditure and borrowing obscures the sense in which these processes are necessarily interdependent, and, in doing so, has the potential to depoliticise the legislative processes that shape them. Coffman’s study, *Excise Taxation and the Origins of Public Debt*, treats the domestic excise taxation as both a ‘compelling case study into the institutional mechanics of state formation in the British Isles and a lens through which to re-assess the political culture and economic thought of the Civil Wars and Interregnum’ (Coffman 2013, pp. 11–12).

As Coffman explains, excise taxation was introduced in response to political crisis. Its opponents thought it unconstitutional, regressive and divisive,

‘but as David Hume had realized, excise taxation (especially on the production of native liquors) proved nicely suited to the evolving English economy and its new commercial society’ (Coffman 2013, p. 11). More importantly, the excise could be used to extend the fiscal reach of the state into remote geographies and, to the extent it was assessed on commodities rather than on individuals, could be imposed on friends and enemies of the Parliamentary regime alike. Both sides also immediately apprehended the value of the excise in gathering intelligence and monitoring dissent (Coffman 2013, p. 11). Extending the reach of the state offered social benefits like ‘discouraging consumption of luxuries, in promoting social cohesion (by making the poor stake-holders), in encouraging the protection and consolidation of domestic industries, in enforcing a positive balance of trade, and in giving the regime the capacity to reduce or expand the quantity of coin in circulation in the realm’ (Coffman 2013, p. 5).

The success of the mid-century experiment in excise taxation was the catalyst for the seventeenth-century destruction of the old fiscal system; it also led to new formulations of the principles of taxation, beginning with William Petty (1662) and culminating in the formulation given by Adam Smith (1776). The retention of the excise after the Restoration (1660) and the permanent abolition of the Court of Wards completed this transition from a demesne state to a tax state (Coffman 2013, p. 8). In short, excise taxation ‘catalyzed structural change, but furnished a political compromise, which preserved pre-revolutionary discourses of legitimation even as new ones evolved to describe the new underlying realities’ (Coffman 2013, p. 6).

Cardinale and Coffman (2014) further explore the relationship between the fiscal mix and social structures in eighteenth-century Britain and France, in which they observe the path dependence of the sociopolitical configurations established in a century earlier. Not only did pamphleteers in the British Excise Crisis of 1733, which had erupted in the wake of Prime Minister Walpole’s proposal to make up a shortfall caused by a reduction in the land tax by imposing excise taxes on tobacco and wine, recycle (without changing more than the date on the title page) the pamphlet literature of the 1640s, but also interlocutors on both sides of the Massachusetts Excise Controversy of 1754 recycled the pamphlet literature of 1733 in their own arguments (Boyer 1964; Becket 1985; Coffman 2013; Cardinale and Coffman 2014).

This persistence of argumentation and interest is striking, not least because it has bequeathed us our modern categories of analysis. But as Coffman and Kabiri (2017) observed, the real value of the eighteenth-century case for the Anglo-Italian New Fiscal Sociology is that it permits

easy mapping of political parties and economic interests to the primary (agriculture) and secondary (manufacturing) sectors. More complex polities, such as the Eurozone, with their highly variegated systems of taxation, require considerably more nuanced analysis.

This is important because the ability of states to borrow from international capital markets is directly a function of their fiscal capacities, their institutions and governance structures, and their political stability (Coffman et al. 2013; Murphy 2013; North and Weingast 1989). Equally the existence of fiscal rules within the European Union, enshrined in the Maastricht Treaty, or alternatively rules promulgated globally by the Washington Consensus, put constitutional and political limits on contra-cyclical fiscal policy and prohibit intergenerational transfers. In some American states, similar ‘balanced budget amendments’ enshrine a particularly rigid method for ensuring fiscal probity into constitutional law, while preventing local fiscal stabilisers (Liu et al. 2013). Often the operation of these rules only serves to reinforce racial and class hierarchies in the United States (O’Brien 2017). Competition among sub-national polities can also create virtuous circles (if regions attempt to align fiscal policy and industrial policy) or promote races to the bottom as polities compete to offer low-tax regimes to business and financial interests. These are all valid objects of study of the Anglo-Italian School of New Fiscal Sociology. Other approaches may well attend to them, but with different emphases and without the appreciation of the ways in which they both catalyse and confound structural change.

5 Conclusions

The Anglo-Italian variant of New Fiscal Sociology is a mode of economic analysis and a hermeneutic strategy for apprehending the role of fiscal policymaking in shaping the course of historical structural change. Our movement is concerned primarily with the way fiscal strategies exploit, shape and magnify sectoral interdependences and sociopolitical competition, and in doing so create path dependencies. The approach is well-grounded historically in empirical studies of the seventeenth- and eighteenth-century British and French fiscal-military states, in studies of the modern Eurozone, and in histories of Western European economic analysis. This approach is distinct from other forms of New Fiscal History in that it is not principally concerned with teleological histories of capitalism, nor is it deployed as a defence of Public Choice Theory, but instead focuses on exploring how fiscal policy can support or hinder industrial policy and specialised credit policies

which are the result of renewed attention to intermediate levels of aggregation. The Anglo-Italian variant of the New Fiscal sociology is both dependent upon and indispensable to the methods and tools that form the basis of Structural Political Economy.

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