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The Thunder of History: The Origins and Development of the New Fiscal Sociology

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1 The Thunder of History: The Origins and Development of the New Fiscal Sociology

ISAAC WILLIAM MARTIN, AJAY K. MEHROTRA,
AND MONICA PRASAD

The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare – all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns the thunder of world history more clearly than anywhere else.

– Joseph Schumpeter [1918] 1991

Everyone knows that taxation is important. Political scientists know that tax cuts are a major partisan battleground in the United States today, and that the rise of neoliberal ideology has propelled taxation onto the international policy agenda. Legal scholars know that the tax code has become the preferred vehicle for promoting an enormous variety of domestic policies – from social provisions to industrial policies to educational subsidies. Historians know that taxation has been a pivotal source of conflict and change from the American Revolution to the Reagan revolution, and that taxes have been central to the formation of civic identity across place and time. Sociologists know that nearly every issue with which they are concerned – the obligations of the individual to society; the powers and legitimacy of the state; the allocation of public and private resources; the rise of bureaucratic administration; the reproduction of class, race, and gender inequalities – runs through the issue of taxation.

There are good reasons why many scholars have recognized the importance of taxation. Taxes formalize our obligations to each other. They define the inequalities we accept and those that we collectively seek to redress. They signify who is a member of our political community, how wide we draw the circle of “we.” They set the boundaries of what our governments can do. In the modern world, taxation *is* the social contract.

Some scholars also know that a new wave of multidisciplinary scholarship on taxation is poised for a significant intellectual breakthrough. In recent decades, scholars in economics, sociology, political science, history, and law – among other disciplines – have begun to recognize the central importance of taxation to modernity, and produce innovative comparative historical scholarship on the sources

We are grateful for comments on this introduction from James Mahoney, Audrey Sacks, and participants of the *Thunder of History* conference.

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and consequences of taxation (see, e.g., Steinmo 1993; Howard 1997; Kornhauser 1985, 1990; Avi-Yonah 2000, 2004; Bank 2003; Brownlee 1996; Zelizer 1998; Lindert 2004; Gould and Baker 2002; Mumford 2002). This research has the potential to challenge conventional understandings of the world in which we live. Current tax scholarship is overturning standard understandings of racial inequality (Moran and Whitford 1996; Brown 2007), gender and family (Jones 1988; Staudt 1996; Brown and Fellows 1996; McCaffery 1997; Kerber 1999; Alstott 2001), the origins of western democracy (Einhorn 2006a; Kwass 2000) and the welfare state (Howard 1997; Hacker 2002; Klein 2004), and many other things. We think that the field may be poised to rewrite conventional accounts of modernity itself by placing the social relations of taxation at the center of any historical or comparative account of social change.

We call this emerging field *the new fiscal sociology*. By using this name, we do not intend to claim the new field exclusively for academic sociology departments. The disciplinary affiliations of the contributors to this field – as of the contributors to this volume – span the fields of economics, political science, law, history, and public policy in addition to sociology. We chose the name *fiscal sociology* to honor the economist Joseph A. Schumpeter, who borrowed that term from his Austrian contemporary Rudolf Goldscheid (1917) to suggest a science that would transcend increasingly narrow disciplines and unite the study of economics with the study of history, politics, and society. The well-known epigraph that begins this chapter summarizes the promise that Schumpeter saw in fiscal sociology. Schumpeter called for students of public finance to take a comparative and historical approach to their subject, and to treat tax policy as both a “symptom” and a “cause” of large-scale changes in the economy and society. “The public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life,” Schumpeter explained. Of fiscal sociology he wrote, “much may be expected” (Schumpeter [1918] 1991: 101).

For most of the twentieth century, scholars in history and the social sciences with rare exceptions heeded only one part of Schumpeter’s call: the admonition to treat taxation as a *symptom* of social change – a useful index, say, of democracy, capitalism, the rise of the state, or the modernization of society. In part, this was because Schumpeter himself emphasized the search for the “*symptomatic* significance of fiscal history” rather than its “causal” aspects (Schumpeter [1918] 1991: 101, emphasis in the original). Because of this, modern scholars discounted the role of taxation as a cause or engine of change, and privileged the symptomatic or reflective aspects of fiscal sociology.

There are many reasons why tax policy makes an excellent index of social change, and thus why scholars have been attracted to studying taxation. Data on tax revenues are abundant, relative to many of the other things that historians and social scientists are interested in. Tax records are among the earliest surviving written records (Webber and Wildavsky 1986), and tax revenues are among the longest-running statistical series in existence (see Mann 1980). Quantitative tax data of relatively high quality and comparability are available for an extraordinarily long swath of historical time and an unusually large number of countries. These

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advantages make tax policy well suited for use as “a measurement instrument for societal-level analyses” (Lieberman 2002: 91), in applications that range from studies of the rise of the state to studies of inequality to studies of social solidarity (see, e.g., Mann 1980; Kraus 1981; Chaudhry 1997; Piketty and Saez 2003, 2006).¹

What is new about the new fiscal sociology is its recognition that taxation has a theoretical or causal – and not just a symptomatic or methodological – importance. This stems from the definition of taxation itself. *Taxation* consists of the obligation to contribute money or goods to the state in exchange for nothing in particular.² To be sure, taxes are sometimes earmarked for particular uses, and in modern, democratic societies, taxation carries the implicit promise that the resources will be spent on public goods (Webber and Wildavsky 1986).³ Nevertheless, a tax is not a fee paid in direct exchange for a service, but rather an obligation to contribute that the state imposes on its citizens and, if necessary, enforces.

Taxation, so defined, has several features that suggest it may have far-reaching consequences for understanding modern social life. First, taxation establishes one of the most widely and persistently experienced relationships that individuals have with their government and – through their government – with their society as a whole. Despite the fragmentation of modern societies into myriads of subcultures, roles, and status groups, paying taxes is one thing that everyone has to do, whether they are consumers, homeowners, wage earners, or investors. This generality makes taxation a crucial element in the development of the “imagined community” (Anderson 1983) of the modern nation-state. When we comply with our tax obligations, we do not know who in particular shares in our contributions; when we make use of roads, schools, and other public goods and services, we do not know from whose tax payments in particular we are benefiting. Taxation enmeshes us in the web of generalized reciprocity that constitutes modern society.

Second, taxation establishes a dynamic relationship between the taxpayer and the state, in which there always exists a potential conflict of interest. Taxation is

¹ The quality of tax records is, of course, highly variable, but – as Robin Einhorn points out in Chapter 9 – even inaccurate records may be inaccurate in symptomatic ways that provide invaluable evidence about the past.

² As early as 1888, the American political economist Richard T. Ely carefully defined taxes as “one-sided transfers of economic goods or services demanded of the citizens by the constituted authorities of the land, for meeting the expenses of government, or for some other purpose, with the intention that a common burden shall be maintained by common contributions or sacrifices” (Ely 1888: 6–7). A century later, the World Bank (1988) similarly defined taxes as “unrequited, compulsory payments collected primarily by central governments.” Our definition differs from Ely’s and the World Bank’s insofar as we define taxation as the socially recognized obligation to pay rather than the payment itself. This definition makes it possible to say, for example, that someone has failed to meet his or her duty to pay his or her income tax – a statement that would be meaningless if the tax were defined as the payment.

³ A great deal of welfare spending is accomplished through payroll taxes that are earmarked for particular purposes. Many scholars suspect that one of the sources of welfare state resilience is the taxpayers’ sense that they have “bought” rights to welfare state provision through such payments. However, there is no one-to-one correspondence between the costs any particular taxpayer pays and the benefits he or she receives: for example, a taxpayer who never uses the health services is still required to finance them.

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perhaps the only state policy that can be counted on to generate frequent resistance throughout history and all over the world (see, e.g., Burg 2004). The degree of actual conflict between taxpayer and ruler varies across place and time, but the potential for conflict makes this a dynamic relationship. The state, the very guarantor of social order in the modern world, depends on a relationship that always contains the latent possibility of conflict and disorder. State authorities have historically responded to this latent potential for conflict with new forms of taxation and new forms of rule. The form of tax obligations is constantly changing as different taxpayers and different rulers seek to renegotiate the relationship to their advantage (see Chapter 10). Because social order depends on the state, and the state depends on the resources provided by taxation, this relationship may be renegotiated, but it will not be severed. The possibility of tension will be continually reproduced rather than resolved.⁴

Third, taxation furnishes fungible resources to the state. In this respect, it is unlike other sacrifices that the state demands from its citizens (e.g., compliance with traffic laws), and even unlike other forms of state extraction (e.g., conscripted military service). The resources extracted through taxation are exchangeable for other resources; they make possible not just one state action, but most if not all of the state's activities. And the more extensive the activities of the state, the more extensive the reliance on taxation – and the broader the potential ramifications of changes in tax policy. Even the decision to decrease taxes – to diminish the obligation to contribute to the state – generates controversy and conflict. In modern states, therefore, taxation is not only a dynamic, potentially conflictual relationship, but one whose changing forms may have potentially far-reaching implications. The taxpayer's decision to evade or resist taxation may challenge the existing social order, as well as the very basis for enforcing social order – in a way that decisions to evade or resist speed limits, social policies, or sumptuary laws do not. The state's mode of establishing and enforcing taxation may shape the social order in its turn. The dynamic relations of taxation may thus influence an enormous range of social outcomes – from the extension of democracy to the formation of the family – as we detail later.

In short, the relations of taxation are pervasive, dynamic, and central to modernity. Why then did it take so long for social scientists to take up Schumpeter's project of fiscal sociology? Why were those scholars who initially responded to Schumpeter's clarion call mainly preoccupied with the reflective aspects of taxation and not its contributory possibilities? Our answers begin with the fragmentation of classical public finance. In the rest of this chapter, we describe the classical roots of Schumpeter's project, and how the disciplinary fragmentation of the modern

⁴ This is what distinguishes taxes from pillage. Ardant (1965: 35) illustrates this point by recounting a debate recorded among members of Genghis Khan's retinue. Having conquered China, the Khan was advised by one of his generals to slaughter the Chinese peasants and take their land for pasture; a perspicacious local advisor named Yelü Chucai persuaded him that he could instead generate more hay for his horses by letting Chinese cultivators live and imposing an annual tax. This policy was good for the Khan and good for the peasants. Yet it also allowed peasants to live again to fight another day – and thereby ensured that the conflict of interest between peasants and their exploiters would remain perennially unresolved.

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research university and the accelerating specialization of intellectual life split the emerging fiscal sociology apart into several separate and isolated strands of scholarship. Finally, we describe the new fiscal sociology that weaves these strands together – and points the way toward the future of fiscal sociology.

THE CLASSICAL ROOTS OF FISCAL SOCIOLOGY

Schumpeter issued his call for a new fiscal sociology during the fiscal crisis occasioned by World War I, in the dying days of the Austro-Hungarian Empire (McCraw 2007; Swedberg 1991). Yet his manifesto was itself the last gasp of classical political economy rather than the first breath of a new science. It seemed to mark the apogee of a long tradition of general studies of public finance instead of catapulting the start of an innovative field of study. The theorists of classical political economy had been broad-minded students of the social sciences as well as public finance. As Beverly Moran reminds us in Chapter 12, Adam Smith was a sociological as well as an economic thinker, who consistently studied taxes in comparative and historical perspective. Smith was just as interested in the social consequences of taxation as in its economic consequences, and he offered innovative analyses of how taxes could create conflict and provide the means for cementing feelings of inclusion in a common status of citizenship (Smith [1776] 1977). In the mid-nineteenth century, John Stuart Mill reminded his contemporaries that public finance had an institutional basis, and situated his discussion of public finance in the context of a broad theory of modernity and progress (Mill [1871] 2004).

Nineteenth-century European social theorists, for their part, were also catholic students of public finance. Tocqueville ([1856] 1955) famously traced the class conflict that erupted during the French Revolution to origins in the prerevolutionary tax code (see also Kwass 2000), and argued explicitly that England had avoided a violent revolution because English tax laws did not draw an explicit boundary between the nobility and the middle classes. Other early sociological theorists also devoted attention to the social sources and consequences of taxation. Herbert Spencer's *Principles of Sociology* devoted a chapter to the growth of taxation, which he attributed to the influence of war (Spencer [1876–96] 1967: 213). Adolph Wagner, a member of the nineteenth-century German Historical School of economics, linked a country's level of economic development to the increase in the relative size of its public sector, and hence by implication its revenue-generating abilities (Wagner 1890). Karl Marx identified taxes as “the source of life” of the capitalist state, and he and Friedrich Engels advocated for steeply progressive income taxes in the *Communist Manifesto* (Marx 1852; Marx and Engels 1848). Emile Durkheim's dissertation on the *Division of Labor in Society* was, among other things, an extended argument that social development tends inevitably toward the confiscatory taxation of inherited wealth ([1893] 1984: 316–22; see also [1892] 1965: 533–4). Max Weber saw tax policy as a proving ground for his theories of state authority and social conflict. Paralleling Rudolf Goldscheid, Weber portrayed tax policy as an outcome of economic struggle among classes, parties, and status groups, and he offered the prophetic observation that modern democracies were more and more “cautious toward the propertied” because governments increasingly must

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compete with one another to attract a tax base of mobile capital (1978 [1922]: 352).

Against this background, the mystery is not why Schumpeter dreamed of a fiscal sociology, but why his call went unanswered for so long. One reason is institutional rather than intellectual. Schumpeter wrote at a time when the forces of professionalization and academic specialization were sundering public economics from history and the other social sciences (Furner 1975; Ross 1991; Haskell 1977; Bender 1997). Academic entrepreneurs of Schumpeter's generation sought to distinguish these disciplines from one another by delineating areas of study proper to each. Many questions at the intersection of these disciplines consequently fell through the cracks that opened when they pulled apart. As Neil Smelser and Richard Swedberg write, sociological studies of economic life more generally "declined after 1920 and would not return to full vigor before the 1980s" (Smelser and Swedberg 2005: 11). Fiscal sociology declined as well.

The new scholarly division of labor created efficiencies, but it also had perverse consequences. For much of the twentieth century, most historians, sociologists, legal scholars, and political scientists did not ask questions about the social or institutional roots or consequences of taxation, because they had surrendered the study of public finance to economists. Economists did not ask questions about the social or institutional roots or consequences of taxation, because they had surrendered the study of such questions to sociologists and other social scientists. Progress in public finance came at the price of narrowing the field. As the field of public economics came to dominate the study of taxation, noneconomic questions seemed to fall away. Gone were the "detailed descriptions of tax rules or administrative issues that characterized many earlier public finance books," wrote Martin Feldstein approvingly, as he reflected on the contents of a 1959 textbook that was the so-called bible of public economics when he entered the field; their place had been taken by "graphs and algebra showing the partial equilibrium effects of taxes on prices and quantities and the associated effects on dead-weight losses" (Feldstein 2002: xxvii). With the detailed descriptions of tax institutions went the theoretically informed study of their social origins and their social consequences.

THE FRAGMENTATION OF FISCAL SOCIOLOGY

The roots of today's new fiscal sociology lie in the separate scholarly traditions that followed this breakup. Schumpeter's prophetic essay had presented taxation as an actually existing social contract, the outcome of a historic bargain among rulers and ruled forged in a particular time and place. His essay raised several fundamental questions about that contract: Why does the bargain take particular forms? How is the bargain maintained – or what sustains taxpayers' consent to be taxed on an ongoing basis? And how does the fiscal bargain affect the culture and "forms of life" (Schumpeter [1918] 1991: 100) prevailing in a society? These questions did not vanish with the splintering of the social sciences.

For most of the twentieth century, however, the scholars who pursued these questions were isolated from each other. Small groups of scholars in academic

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institutions outside of the United States, and in historically oriented corners of the professions of economics and law, nurtured relatively insular theoretical traditions. Each tradition emphasized one of Schumpeter's fundamental questions, to the near exclusion of the others. And – although most scholars sought to answer these questions by discovering universal laws about the interplay of taxation and fundamental social forces – each tradition drew on different classical sources and emphasized different forces. These traditions painstakingly assembled the building blocks of the syncretic new fiscal sociology, although their results were often unsatisfying on their own terms.

Modernization Theory and the Consequences of Economic Development

The first question of traditional fiscal sociology was why tax systems took a particular form; and the first strand of fiscal sociology argued that the answer lay in economic development. We call this strand *modernization theory* because it resembled and sometimes overlapped more general theories of modernization in sociology and political science (e.g., Rostow 1960). In fiscal sociology, modernization theory drew on work by early institutional economists, most notably the writings of Edwin R. A. Seligman ([1895] 1931, 1902, 1911), who was heavily influenced by the writings of the German Historical School (Mehrotra 2007). It was kept alive into the mid-twentieth century by scholars of economics and law who advanced it as the so-called progressive interpretation of American tax history (Blakey and Blakey 1940; Ratner 1942; Paul 1954), and by development economists from the United States and Western Europe who were called on to advise tax officials in developing countries in the context of decolonization and Cold War foreign aid. As W. Elliot Brownlee shows (Chapter 14), Carl Shoup was a leader among this group of development tax economists. Advisors like Shoup found themselves confronted with the questions of which tax policies were best suited to which social environments, and how tax institutions responded to social and economic change.

Scholars in this tradition sought in particular to explain how and why states develop modern tax systems, where *modern* was understood to mean a common set of tax instruments that were efficient, productive, and equitable. The answer was that economic development inevitably led societies to develop modern forms of taxation. Seligman gave this thesis its classic and most categorical statement: "Fiscal conditions are always an outcome of economic relations" ([1895] 1931: 1). And economic relations, it was assumed, followed a common developmental trajectory. Traditional agrarian societies at first produced relatively little surplus to tax. States in these societies were therefore likely to levy low taxes, and to levy those taxes mainly in kind – for example, as a share of the harvest – rather than in money. The growth of markets and the development of industrial production gradually made new kinds of taxes possible. Economic development increased wealth, making a greater surplus available to tax. The increase of trade made it possible for the first time to levy taxes on trade rather than on the produce of land. And development also provided a convenient way to measure the tax base – in the form of money prices (Eisenstadt 1963; Bird and Oldman 1964; Ardant 1965; Hinrichs 1966; Musgrave 1969; Seebom 1976).

Economic development was also said to bring democracy (cf. Lipset 1959), which positively impelled states to implement modern taxes by multiplying the legitimate claims on the state's financial resources. Expanding markets created new demands for infrastructure – roads, schools, utilities – that required the state to raise ever larger sums for public goods (Wiseman and Peacock 1961). And political equality led to demands for redistributive taxation. Seligman's comparative and historical studies of nearly every aspect of taxation expressed this view of the relentless drive of egalitarian forces: the history of all tax policy was a series of successively closer approximations to an egalitarian ideal, of which the modern American tax state might have been the end point (Seligman [1895] 1931). Subsequent progressive historians modified this seemingly whiggish assumption of a historical teleology – but retained the assumption that modernization brought democracy and equality in taxation. With the advent of widespread suffrage for the lower economic strata, “the people” triumphed over “the rich” or “the interests,” democracy triumphed over privilege, and tax policy became increasingly egalitarian (Blakey and Blakey 1940; Ratner 1942; Paul 1954; Buenker 1985).

The great lacuna in modernization theory was its inability to explain variation in tax systems among modern societies. To be sure, modernization theorists did not always predict that societies would converge on the same tax system. The sweeping synthesis by Hinrichs (1966) argued that modernization would ultimately lead tax systems to diverge, because the growth and differentiation of modern economies allowed authorities more choices among policy instruments and “tax handles.” Yet having pointed out the diversity of modern tax systems, Hinrichs and other modernization theorists threw up their hands. The residual variation that could not be explained by economic development was simply chalked up to “culture,” understood to mean a set of preferences that were unique, unchanging, and ultimately inaccessible to scientific or historical explanation (see also Webber and Wildavsky 1986). With this linear view of historical change, modernization theory proved in retrospect to be highly ahistorical, ignoring the specificity of cultural and institutional factors that could produce tremendous variation within similarly developed economies and polities.

Elite Theory: Why People Consent to Taxes

The second school of traditional fiscal sociology focused on what might be called the “noncontractual basis” of the fiscal contract (cf. Durkheim [1893] 1984) – the institutionalized norms that led taxpayers to consent to a particular fiscal bargain. During the early and mid-twentieth century, applied studies of taxpayer compliance proliferated in the disciplines of law, criminology, accounting, psychology, and economics. The broader question of taxpayer consent, however, as Evan Lieberman points out in Chapter 6, encompasses not only individual compliance but also political acquiescence. Taxpayers who comply with taxes – in the narrow sense that they pay what is legally required – might nevertheless protest those taxes, vote to change them, or even take up arms against them.

Scholarship on taxpayer consent in this broader sense was largely confined to a tradition that drew on the classical Italian sociology of elites (Michels [1915] 1968;

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Mosca 1994; Pareto [1916] 1963). We call this tradition *elite theory*.⁵ The most influential text in this strand of fiscal sociology was probably the *Theory of Fiscal Illusions* written in the 1890s by the Italian economist Amilcare Puviani ([1903] 1973). Elite theory survived into the postwar era among European scholars of public finance (Laure 1956; Schmolders 1960; Volpi 1973). Under the influence of the economist James Buchanan, who encountered the Italian *scienza delle finanze* during a Fulbright year abroad, elite theory entered American public economics in the 1960s, and was an important influence on the development of public choice theory (see Buchanan 1960). For American economists who were critical of the Keynesian consensus that dominated the profession in the post-World War II era, elite theory's disenchanted view of public officials was appealing, and this tradition of fiscal sociology provided powerful tools for questioning the benevolence and efficacy of state planning (Medema 2000; Morgan and Rutherford 1998).

Proponents of elite theory described a fundamental conflict of interest between rulers and subjects. Rulers sought to maximize their revenues. Subjects sought to keep resources for themselves. Why then would rational taxpayers consent to their own exploitation? The answer advanced by Puviani was that they had incorrect information (Puviani [1903] 1973). Rulers could exploit their subjects' pocketbooks most thoroughly by designing tax policies to exploit their subjects' perceptual biases.⁶

The imperative to conceal taxes explained many of the common institutional features of modern tax systems. Puviani's treatise took the form of a catalog of techniques by which policy makers could conceal the burden of taxation and exaggerate the benefits of public spending. By the 1970s, there was a small literature exploring the hypothesis that "fiscal illusion" explained why voters consent to heavy taxes (for critical reviews, see Gemmell, Morrissey, and Pinar 2002; Mueller 1989; Oates 1988).

Another strand of elite theory, drawing heavily on the economics and sociology of Pareto ([1916] 1963), led public choice scholars in the United States to explore the role of formal political institutions. Led by Buchanan and Gordon Tullock (1962), public choice scholars explored the constitutional rules that might allow democratically elected governments to be manipulated by rent-seeking bureaucrats, politicians, and special-interest groups. With the Leviathan captured by special interests, they argued, political leaders could use taxation to redistribute resources for the benefit of an elite minority. In subsequent decades, U.S. economic and political historians motivated by public choice theory and sympathetic to a growing conservative intellectual and political movement came to see the growth of taxation as an expression of the power of special-interest groups. They portrayed the creation of new tax powers and the suppression of tax protests as critical

⁵ We call this stream of fiscal sociology *elite theory* to emphasize its continuity with the classical study of elites in Italian sociology and political science. It should not be confused with the *power elite theory* more familiar to American and British political sociologists, which treated the state as an instrument for powerful capitalist interests (Domhoff 1998; Miliband 1974; Mills 1956).

⁶ In this way, elite theory can be seen as a forerunner of a more recent interest in behavioral public finance, which also attends to cognitive biases and limitations, although without seeking to privilege the position of elites. See McCaffery and Slemrod (2006).

episodes in the struggle of rent-seeking groups to expand their influence (Higgs 1987; Baack and Ray 1985; Beito 1989).

The tradition of elite theory no doubt contributed to many varieties of “new institutionalism” in the 1980s, and public choice theory continues to yield new insights into the political economy of taxation. Yet many scholars found the theory unsatisfactory for its neglect of the question of the historical development of institutions.⁷ Its focus on explaining why taxpayers consent to a particular equilibrium left it ill equipped to study how institutions change over time, or why different societies might develop different sets of institutional arrangements. For broader insights into the patterns of institutional change, scholars of fiscal sociology turned back to modernization theory – or to a third tradition that emphasized war.

Militarist Theory: The Consequences of Taxes for State Capacity

The third tradition of post-WWII-era fiscal sociology followed Schumpeter’s interest in the social and cultural outcomes of taxation. The development of sophisticated tools for measuring the economic consequences of taxation was one of the great triumphs of public economics in the postwar era, but few scholars took up Schumpeter’s call to study social and cultural consequences. How did particular fiscal bargains affect civilizations, cultures, and ways of life? For Schumpeter, these were crucial questions of fiscal sociology. The third strand of postwar fiscal sociology posed these questions – and developed an answer that had been proposed by Schumpeter himself. The social consequence of taxation lay primarily in its importance for military conquest.

We call this tradition *militarist theory*, because scholars in this tradition argued that military competition and the development of taxation went hand in hand. Like elite theory, militarist theory had classical roots that can be traced to Spencer’s *Principles of Sociology*, and it later became popular among German and Austrian social theorists in the early twentieth century (Goldscheid [1925] 1962; Hintze 1975; Schumpeter [1918] 1991; Weber [1922] 1978). It gained new traction in the 1970s at a time when western political economies were confronting the socioeconomic dislocations associated with the end of Fordism. Consequently, modernization theory lost its cachet. Critics of modernization theory in the disciplines of history, sociology, and political science who sought to understand the pattern of European state formation turned to militarist theory instead (Finer 1975; Mann 1980; Tilly 1975).

The central question for militarist theory was to explain the rise of the modern bureaucratic state. In the classical version of this theory as expounded by Schumpeter, taxation was the key to the rise of the state, because taxation furnished the resources that allowed states to make war and eliminate their competitors. As Schumpeter told the story, the princely households of the European Middle Ages had drawn their funds not from taxes, but from personal dues owed to the princes as individuals, and from the exploitation of their own lands. At the turn of the sixteenth century, however, “the growing expenses of warfare” rendered this system obsolete. As the costs of warfare escalated, princes turned to consultative bodies of

⁷ For a general criticism of “rational choice institutionalism” along these lines, see Thelen (1999).

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nobles and burghers – the estates – for more funds. Princes demanded the right to levy taxes for the common defense; in exchange, the estates won the right to administer the taxes, and began to develop a public bureaucracy that was independent of the princely household. With the separation of the public purse from the prince's private household, "the tax state had arrived – its idea and its machinery" (Schumpeter [1918] 1991: 105). And the tax state was a machine for making war.

Although Schumpeter's essay was written during the Great War to illuminate a particular political conjuncture – in particular, to raise the prescient question of the consequences of mounting war debts for the stability of the postwar order in Central Europe – the Darwinian logic of his argument was easily generalized to other times and places. Subsequent scholars applied militarist theory to explain the evolution of the state throughout history. States at war need to mobilize resources rapidly. Moreover, the fiscal demands of war escalate over time, because states are in perpetual competition to develop the most advanced military force and thereby secure an advantage over their rivals. States that adopt the most productive taxes and institutionalize the most modern forms of tax administration are able to mobilize ever greater quantities of labor and materiel, and therefore have the edge in this perpetual arms race. The historical sociologist Michael Mann spelled out the logic thus: "A state that wished to survive had to increase its extractive capacity to pay for professional armies and/or navies. Those that did not would be crushed on the battlefield and absorbed into others" (Mann 1980: 195). Victorious states achieved their victories by institutionalizing the most effective and efficient forms of resource extraction – meaning, in practice, taxation. Vanquished states had modern tax policies imposed on them by their conquerors. In the long run, military competition led all surviving states to converge on efficient and productive tax systems, and those tax systems in turn led to the militarization and bureaucratization of society.

Militarist theory had its weaknesses. Like modernization theory and elite theory, it had difficulty accounting for divergent tax structures among states that survived the winnowing of centuries of warfare. The theory also seemed to have little to say about the transition from the warfare state to the welfare state in the most developed economies of the twentieth century. These states increasingly put their tax institutions to work funding health, welfare, and educational establishments, eventually outstripping even their spending on defense. Explaining this fiscal trend seemed to require attention to economic development and political institutions – the stuff of modernization theory and elite theory.

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The new fiscal sociology began when these three strands of research began to merge in the late twentieth century. The new scholarship built on the foundations laid by an earlier generation of scholars, but it also engaged with this earlier literature by questioning its premises and stretching its parameters. As previously noted, developments within each camp led authors to look to the others for new insights.

Developments outside of academia also played a part in bringing these separate streams of research together. Although the American tradition of tax resistance and

anti-statism seemed to be latent during the prosperity of the post-WWII period, these forces were on the resurgence during the last third of the twentieth century (Keller 2007; Zelizer 2003). A series of high-profile fiscal crises in American state and local governments and the emergence of property tax revolts in the 1970s consequently brought renewed attention to the classics of fiscal sociology (O'Connor 1973; Bell 1973; Musgrave 1980; Padgett 1981; Block 1981; Shefter 1985; McDonald 1986; Hansen 1983). Taxation also took on a new prominence in American national politics, as well-organized conservative interest groups exploited the intellectual exhaustion of Keynesianism (Gray 1998; Blyth 2002), the end of the “era of easy finance” (Brownlee 1996; Steuerle 2004), and the growing dissatisfaction with sub-national property taxes (Sears and Citrin 1983; Martin 2008) to assail the principle of progressive taxation, and to seek tax cuts as a means of de-funding the welfare state or “starving the beast” (Hacker and Pierson 2005b; Wilentz 2008). Outside of the United States, the increasing international mobility of capital led to fears of international tax competition, and – along with the influential U.S. Tax Reform Act of 1986 – contributed to what scholars have described as an international wave of tax reform in the 1980s and 1990s (Tanzi 1995; Steinmo 2003b; Swank, 1998, 2006). Similarly, the end of the Cold War brought a renewed focus on issues of development, political economies in transition, and the financing practices of failed states (Bird 1992; Burgess and Stern 1993; Turley 2006; Bräutigam, Fjeldstad, and Moore 2008). All of these developments drew new scholars from across the social sciences into the comparative and historical study of taxation.

The newcomers began to discover and weave together strands of fiscal sociology that had hitherto remained separate. Influential works by Charles Tilly (1985) and Margaret Levi (1988) explicitly drew the elitist and militarist traditions together in what Levi called a “theory of predatory rule” by war-making elites. As scholars of state formation and political power, these initial – and perhaps inadvertent – pioneers of the new fiscal sociology were drawn indirectly to taxation because it was a central part of their larger research agenda to understand and explain the sources and implications of state power, an agenda that was shared by many other historically-minded social scientists (Evans, Rueschemeyer, and Skocpol, 1985). Following this lead, other scholars have continued to test and refine the fiscal-military model of state formation with newly available data on early modern Europe (Brewer 1990; Ertman 1997; Bonney 1999; Kiser and Linton 2001), sub-Saharan Africa (Herbst 2000), the Levant (Heydemann 2000), China (Wong 1987), and the Americas (Bensel 1990; Centeno 1997; Edling 2003; Thies 2004, 2005, 2006; Sparrow 1996; Johnson 2005; Bank, Stark, and Thorndike 2008). Although the findings of this research program are not all easily summarized, much of the literature points to the need for synthetic models that explain patterns of tax policy development by the interaction of military competition with institutional features of the polity and with patterns of economic development.

A similar, though more conscious, institutionalist synthesis began to arise from the late 1980s through the early 2000s among scholars working on tax policy in democratic states of the twentieth century. Independent studies by the sociologist John L. Campbell (1993), the historians Elliot Brownlee (1996a, b), Robert Stanley (1993), and Martin Daunton (2001, 2002), and the political scientists John Witte

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(1985), B. Guy Peters (1991), Ronald King (1993), and Sven Steinmo (1993) explicitly sought to bring together war, economic development, and political institutions into synthetic theories that would explain the development of the tax state. Unlike the earlier wave of fiscal-military theorists, this group of scholars explicitly saw their object as understanding not only state formation in general, but tax policy in particular. Despite differences, all of these scholars argued for a model of fiscal development that treated economic development as a motor force – but one that propelled the tax state along tracks that were laid down by political institutions and along a course that was set during wars and other moments of crisis.

Scholars from all of these traditions also began to turn from general history to comparative history. They abandoned blanket contrasts between tradition and modernity and the search for general covering laws of history. Instead, students of fiscal sociology today are more likely to puzzle over differences in tax policy across states or countries at similar levels of development, particularly because, as John L. Campbell notes in the epilogue to this book, variations in tax structure seem resilient even in the face of putative pressures to converge brought about by globalization (see e.g., Kiser and Lang 2001; Slemrod 2004; Swank and Steinmo 2002; Mumford 2002; Ganghof 2007; Livingston 2006; Sokoloff and Zolt 2006). These scholars characteristically use comparison to arrive at explanations for these differences rather than to search for universal laws. Even scholars who are not themselves comparativists have generally abandoned the pretense – common in earlier waves of fiscal sociology – that the tax history of any one society, such as the United States, illustrates a universal pattern.

Perhaps most fundamentally, the new studies differ in several ways from public finance as it is taught today in most departments of economics. First, the new fiscal sociology typically focuses on *informal social institutions*. Whereas much of contemporary economics and the political science of budgeting examines what John Carey has called “parchment institutions” (2000) – mainly constitutions and written laws – much of the excitement of the new fiscal scholarship comes from the discovery that taxation is deeply enmeshed in social relationships that are no less institutionalized for not being written down. Tax policy shapes and is shaped by patterns of public trust; patterns of social cleavage; institutions of family, religion, work, and leisure – the list is long and growing, as the contributors to this book illustrate.

Second, the new studies take historical sequence and context seriously. They often draw on theories such as path dependence to argue that the development of social institutions is often defined by critical junctures, positive feedback processes, divergent and contingent historical paths, and institutional continuities. Following Schumpeter’s lead, the new fiscal sociology attends to the importance of seminal historical events in the unfolding of social and political processes.⁸ Modernization theory had envisioned history as a linear path, with different societies following

⁸ As Schumpeter explained, “The events of fiscal history” provide insight “into the laws of social being and becoming and into the driving forces of the fate of nations, as well as into the manner in which *concrete* conditions, and in particular organizational forms, grow and pass away” (Schumpeter [1918] 1991: 101, emphasis in the original).

lockstep (from the most traditional to the most modern). The new studies treat history instead as a garden of forking paths, with critical junctures – usually wars and economic crises – marking moments of choice. Once a society is committed to a certain developmental path, positive feedbacks may reinforce that choice. It is this insight that underlies this book’s focus on historical explanation: We agree that effective explanations for many fiscal and social phenomena must be historical. The observation of an economic or political equilibrium at any single point in time is not sufficient to explain observed outcomes in a world where multiple equilibria are possible.

Third, the new studies often focus on phenomena that are properly measured at the level of the society rather than the individual. This book exemplifies this aspect of the field with studies of wars, durable social distinctions, religious traditions, gender regimes, labor systems, and other such macrosocial phenomena. In addition, the new studies show a corresponding interest in the relationship between taxation and the biggest questions of the social sciences – such as the rise of democracy, the development of the state, and the sources of social solidarity.

The new fiscal sociology promises to shed light on all of the classic questions raised by Schumpeter – the social sources of tax systems, the determinants of taxpayer consent, and the social and cultural consequences of taxation. Treated by separate traditions for most of the late twentieth century, these questions are now addressed by crosscutting literatures on economic development, political institutions, and war. In particular, the new fiscal sociology points toward a new theory of taxation as a social contract that multiplies a society’s infrastructural power. While many details remain to be worked out, the new theory suggests that economic development does not inevitably lead to a particular form of taxation, but rather that institutional contexts, political conflicts, and contingent events lead to a diversity of tax states in the modern world; that taxpayer consent is best explained not as coercion, predation, or illusion, but as a collective bargain in which taxpayers give up resources in exchange for collective goods that amplify the society’s productive capacities; and that because taxation is central not only to the state’s capacity in war, but in fact to all of social life, the different forms of the tax state explain many of the political and social differences between countries.

By focusing on these three aspects of taxation – the state-based sources of tax policy, the development of taxpayer consent, and the implications of taxation – this volume illustrates the potential of the new fiscal sociology.

Part I. Social Sources of Taxation: American Tax Policy in Comparative Perspective

Part I examines the sources of the fiscal-social contract from the point of view of one of the contracting parties, the state. Why do particular states settle on particular tax policies? A central premise of the new fiscal sociology is that answering this question requires attention to particular histories. Our contributors illustrate this approach by focusing on the development of tax policy in one particularly well-known, distinctive, and influential case: the United States. We argued earlier that one of the hallmarks of the new fiscal sociology is the realization that particular

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moments of history may set different societies down contingent paths that never converge. In what should be considered a vigorous demonstration of the promise of this approach, the contributions of the new fiscal sociology are painting a remarkable picture of the historical development of American political economy.

In a now well-known example, tax scholars have upended the standard account of the United States as an underdeveloped and stingy welfare state. Employing Stanley Surrey's path-breaking analysis of tax expenditures (Surrey 1973), scholars have demonstrated that the U.S. welfare state is not a laggard in comparative perspective, but merely unusually reliant on indirect spending via tax expenditures that skew toward middle- and upper-income people (Howard 1997; Adema 1999; Hacker 2002; Klein 2004). An equally compelling development – well-known among tax scholars, but not common knowledge among students of the welfare state – is the finding that the United States had a more progressive tax structure for most of the twentieth century than the big, social democratic welfare states. This peculiar tax system can be traced to the beginnings of the modern American tax system and the Progressive-era impulse to use direct and graduated levies to shift fiscal obligations toward those U.S. regions and classes that had the greatest tax paying ability (Ratner 1967; Mehrotra 2005a; Morgan and Prasad, 2009). The result was that at least until very recently, the United States taxed capital at higher rates, and labor and consumption at lower rates, than the welfare states of Europe, including egalitarian outposts like France and Sweden (Steinmo 1993; Carey and Tchilinguirian 2003; Martinez-Mongay 2003; Mendoza, Razin, and Tesar, 1994; Lindert 2004; OECD 2001; Sørensen 2004; Volkerink and de Haan 2001). According to the best recent study of comparative tax progressivity, even if we put aside the question of national consumption taxes the United States had a more progressive tax structure than France or the United Kingdom in 1970, although the neoliberal tax cuts of the 1980s have reversed the comparative progressivity picture (Piketty and Saez 2006; see Prasad and Deng 2009 on the measurement of comparative tax progressivity).

Together these observations about U.S. tax policy have had implications for several strands of comparative-historical research. First, they have helped to solve one of the most important puzzles in welfare-state scholarship: how the large social democratic welfare states have survived the internationalization of capital markets. They have done so because they rely on consumption taxes, which are not vulnerable to the globalization of finance or trade (Ganghof 2006; Lindert 2004). Second, these findings place contemporary American politics in a new light. It is only a slight exaggeration to say that domestic economic policymaking in contemporary America is all about taxation, in that the quest of the corporate lobbyists who descend upon Washington normally ends with a tax benefit of some kind (see Clawson, Neustadt, and Weller 1998; Birnbaum and Murray 1987). This pattern suggests that the vigor with which lobbying is conducted in the United States may not be an index of the power of business, but rather of the cleverness of politicians and of their success at generating a structure that brings them steady campaign funds (Doerenberg and McChesney 1987; McChesney 1997; McCaffery and Cohen 2006). Third, some analysts have suggested that the greater progressivity of the American tax structure is a factor in the greater intensity of neoliberalism there (Wilensky 2002; Campbell and Morgan 2005; Prasad 2006).

In short, as Schumpeter predicted, looking at the American fiscal structure has revealed “the thunder of history” for students of comparative political economy. It has also put a new set of issues on the agenda: How the big welfare states came to rely so heavily on consumption taxes, and what this finding might tell us about the rise of capitalism in the advanced industrial countries and the developing world.

The contributors to this book attend to this new picture of American political economy, and contribute to larger debates over how states settle on particular forms of taxation. We begin Part I with Joseph J. Thorndike’s chapter on the New Deal. As Thorndike shows, the twenty-first-century conflicts over progressive taxation have deep roots in American tax history. Thorndike echoes the judgment of prior scholars that the New Deal was a key moment in the formation of the American tax state (see Leff 1984; Higgs 1987; Beito 1989; Amenta, Dunleavy, and Bernstein 1994; Coleman 1996; Brownlee 1996b). Yet one of the New Deal’s key tax laws, the Revenue Act of 1935, did not establish major new revenue-raising capacity as the adoption of national consumption taxes in subsequent decades would do in European countries, nor did it reward interest groups. What it did was attempt to soak the rich – and thereby contribute to the entrenched mistrust and mutual hostility that was so characteristic of the relationship between wealthy American businesspeople and the state for much of the twentieth century. Thorndike traces the 1935 Act to the outcome of a competition between legal and economic experts in the Roosevelt administration, and argues that Roosevelt’s own preferences – rooted in prior conflicts – contributed significantly to defining the direction of policy. Thus, in this key state-building episode, political elites followed patterns of conflict laid down in earlier conflicts over policy, and paved the way for future conflicts in turn.

We then turn to a dialogue between Andrea Campbell and Fred Block on the sources of the current period of seemingly continual tax cuts. Campbell finds the origins of this phenomenon in the connection between taxpayer attitudes and the rhetoric of elite politics. Campbell argues that American voters’ attitudes toward taxation have generally corresponded to the level of taxation. She presents the first complete time series of data on American public opinion toward taxes since the 1930s, and demonstrates that the percentage of voters who believed that federal income taxes were “too high” co-varied closely with the actual tax burden. Yet she also shows that discontent with taxes does not always translate readily into political behavior. Taxes became politically salient when elites introduced them onto the public agenda as a subject of political competition. Thus, following in the footsteps of Puviani, Campbell suggests that public officials can influence taxpayers’ behavior at least somewhat independently of the actual costs and benefits of taxation. It is the combination of rising tax burdens and a new elite rhetoric that has put tax cuts at the center of the policy agenda since the 1970s – and that led to the dramatic tax cuts of 2001 and 2003.

How, then, did American political elites come to place tax cuts at the center of the policy agenda? Fred Block’s chapter takes up the case of the Bush tax cuts of 2001 and 2003 and attempts to explain what the analysis of public opinion leaves unexplained. Drawing on a historical analogy with the ideologies prominent in nineteenth-century England, Block argues that American political elites at the turn

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of the twenty-first century cynically employed an individualistic ideology to forge a new coalition between religious conservatives and self-interested business elites. This electoral coalition is antitax because its individualistic ideology denies all social obligations that extend beyond the family. Block argues that this ideology – embraced by ordinary people as a comforting response to uncertainty in a globalized world – has kept tax cuts at the top of the federal agenda for the last thirty years. When the economic cycle begins to turn downward, as it has in recent years, tax cuts frequently re-emerge as a counter-cyclical measure to manage the national economy. Thus, regardless of whether tax cuts are pursued as an indirect way to shrink the size of government or to stimulate a beleaguered economy, tax cuts seem to have become a favored policy instrument, and debates over tax cuts have become a recurrent feature of the American political scene.

Finally, Christopher Howard examines those other hardy American perennials, tax expenditures – tax benefits that lead to indirect spending in the form of foregone revenues. Howard shows that tax preferences for social welfare objectives are an enormous and overlooked component of the American welfare state and that they are skewed toward middle- and upper-middle income groups. Building on his earlier work (1997), Howard's chapter explores how the dynamics of American party politics at the turn of the twenty-first century have led to the maintenance and, in some cases, expansion of tax expenditures that provide social provisions. Although Democratic and Republican lawmakers have disagreed about tax rates, they seem to have found common ground on the use of tax policy as social policy. These tax breaks, moreover, have helped constitute interest groups by providing the cognitive boundaries and common interests that cement new coalitions together (see also Hacker 2002; Steensland 2008).

Our contributors' observations question the thesis of "American exceptionalism," because they cast doubt on the interpretation of the United States as a weak, laissez-faire state.⁹ Americans have been as willing to embed the market through state intervention as the European democracies are, but this embeddedness has taken the form of progressive taxation. Moreover, the United States does have a large welfare state, but instead of functioning as the welfare states of Europe do (first collecting revenue through taxes, and then disbursing those resources in the form of welfare payments), it works by foregoing tax collection in targeted ways. In challenging one set of stereotypes about American distinctiveness, these chapters also introduce a more sophisticated argument about ways in which the United States is different from Europe, and a new set of questions: Why did the United States adopt this "soak the rich" method of taxation rather than the national consumption taxes that finance Europe? Why have American political elites been unusually interested in tax policy at some moments and less so at others? What led the United States to its distinctive reliance on tax expenditures? Did tax reductions play a role in the economic crisis that began in 2007, and can the American state continue to convince creditors of its ability to raise tax revenue to pay its debts?

⁹ For a recent summary of the sociohistorical literature challenging the traditional notion of the laissez-faire American state, see William J. Novak (2008).

The contributions in Part I add up to a rich picture of the American fiscal state. The American social contract is one that insists on progressive taxation – thereby provoking the conflicts over taxation that dominate the headlines and also permitting the tax expenditures that more quietly but perhaps more substantially delineate the features of economic life in this country. Our contributors would not argue that the American tax system presents the generic picture of modernity, as some progressive historians imagined; but the chapters on the United States in this book do exemplify general processes of path dependence that set different states on particular paths and thereby give rise to the diversity of tax states in the modern world. Tax policy is the outcome of particular political conflicts, and the lines of conflict were laid down by prior tax-policy choices. As we will see below, the outcome of these conflicts over tax policy may affect many other facts about political life, inequality, and state capacity – even those that seem remote from taxation.

Part II. Taxpayer Consent

Part II of the book examines the origins of the fiscal contract from the point of view of the taxpayer. The chapters in this part ask why people consent to particular tax systems. This question was the central concern of elite theory, and our contributors all recognize the importance of political elites and political institutions. In other respects, however, they exemplify the new fiscal sociology in their syncretic approach to the question. Several chapters explicitly draw together war, economic development, and political institutions to explain variation in consent. They also attend to institutionalized social divisions and political coalitions.

Perhaps most importantly, the new fiscal sociology departs from the individualist premises of elite theory to argue that taxpayer consent is the product of a *social* contract. These scholars argue that taxation cannot be explained only as illusion or coercion, but should be seen instead as a collective fiscal bargain in which taxpayers may surrender resources willingly if they believe that those taxes fairly reflect the cost of providing for the public good. To say that taxpayers are concerned with fairness means that taxpayers are not concerned only with their own individual costs and benefits – all taxpayers' consent is crucially dependent on how they believe other taxpayers are treated.

The new fiscal sociology of taxpayer consent builds on the foundational contribution by Levi (1988), who proposed a theory of “quasi-voluntary compliance” to complement her theory of predatory rule. Levi posed the question of why taxpayers choose to comply with their obligations instead of evading taxes. In contrast to the standard model of tax compliance derived from the economics of crime – which treats the decision to comply as a straightforward function of the risk of detection and the cost of punishment – Levi drew on the elite theory tradition to argue that taxpayer compliance has a “voluntary” element. Taxpayers comply with their obligations when they perceive their tax obligation as a fair exchange for private or collective goods provided by the ruler. To be sure, tax authorities do exercise coercive authority – in this sense, compliance is *quasi*-voluntary – but Levi argued that the main purpose of coercion is to persuade the taxpayer that she is paying a

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fair price by demonstrating that other taxpayers are being forced to pay it as well (1988: 54).

Levi's contribution left several crucial questions unanswered and thereby opened avenues for further inquiry. One such unanswered question is where norms of fair taxation come from. Recent comparative historical scholarship on tax protest and tax evasion has emphasized that people in different times and places have held very different ideas about what counts as a fair fiscal bargain. The new fiscal sociology has typically sought to explain these norms by showing historically how the policies and practices of governments have institutionalized particular expectations of government responsiveness (Lo 1990), administrative practice (Bergman 2003; Martin 2008), or channeled the flow of information (Wilensky 1975, 2002) in ways that may provoke evasion or protest. There is much work still to do on which policies acquire the weight of customary norms in which social and historical contexts.

Another unanswered question is how taxpayers define the collectivity whose welfare they wish to maximize. Taxpayers may acquiesce to be taxed when they think it contributes to the collective good – but which collective? A pioneering effort by Lieberman (2003) identified moments of constitution-writing as the critical juncture when ideas about the collectivity are institutionalized. He argued that taxpayer consent in Brazil and South Africa in the twentieth century depended on different conceptions of race and nation that were encoded in their respective national constitutions at moments of national founding.¹⁰ Other recent scholarship has identified tax policy itself as a source of social boundaries and political identities – so that taxpayers in regimes that depend heavily on progressive income taxes may come to identify themselves as members of an income-tax bracket, say, while taxpayers in consumption-tax-dependent regimes may arrive at a more broadly shared political identity (Wilensky 2002; Kato 2003; Morgan and Campbell 2005; Prasad 2005, 2006).

In Part II, our contributors continue to push these frontiers in the study of taxpayer consent. Evan S. Lieberman opens this section with a bold restatement of his theoretical argument that identities and social boundaries affect taxpayers' consent and hence state capacities. The perception of collective goods and the willingness to sacrifice for the collectivity requires a prior shared conception of the collectivity – a division of the world into “we” and “they,” in-group and out-group. By contrasting tax policy with government responses to the acquired immunodeficiency syndrome/human immunodeficiency virus (AIDS/HIV) pandemic in two starkly contrasting collectivities – the nation-states of Brazil and South Africa – Lieberman underscores the importance of social and ethnic boundaries and historical processes. Taxpayers may be less likely to sacrifice if they lack a strong collective solidarity, or if they are unsure who might benefit from their tax payments. Alternatively, they may be more likely to accept a heavy burden of sacrifice if they believe that their taxes go to benefit their in-group. Lieberman explains how

¹⁰ In contrast to much recent economic scholarship on taxation in multiethnic states (e.g., Alesina and Glaeser 2006), Lieberman takes ethnic boundaries to require explanation rather than taking them as historical givens.

historical racial conflict in South Africa increased tax compliance among whites, and enabled the development of comparatively high tax rates and an efficient and effective tax administration at an early and critical stage in the development of South Africa's tax system when white taxpayers believed that their taxes benefited other white citizens. By contrast, in Brazil, the historical absence of comparably rigid racial boundaries contributed to the development of less productive tax policies and weaker tax administration because taxpayers were less concerned about benefiting those of their own race. In-groups simply didn't exist in the same sense, and taxpayers therefore did not think in terms of benefits for their in-group. A contrary set of path-dependent processes unfolded in the realm of AIDS policy in those two countries. Lieberman's argument brings a sociological question into the heart of the cost-benefit calculation by asking who the relevant unit is for whom costs and benefits are being weighed. Lieberman points out that social boundaries are themselves historical creations; his argument implies that the consideration of history is unavoidable if we wish to explain why taxpayers consent.

In the following chapter (Chapter 7), Eisaku Ide and Sven Steinmo argue for the importance of another social factor in generating taxpayer consent: the social norm of trust in political elites. Their empirical case is well chosen to illustrate the potentially dire consequences when taxpayers do not consent to be taxed. Japan's remarkable turnaround from a model of fiscal discipline to a model of runaway deficits is a cautionary tale for current policy makers, and a major puzzle for contemporary tax scholarship. Ide and Steinmo argue that one factor that undermined citizens' willingness to pay taxes was their sense that the government could not be trusted to handle the revenue responsibly. And this mistrust, they argue, was borne of prior tax-policy choices. Having squandered the trust of citizens by embracing neoliberal fiscal policies and by repeatedly displaying preferential treatment toward the richest taxpayers, Japanese political elites lost the ability to demand sacrifices from common citizens. Their argument implies that the study of taxpayer consent must have a historical dimension, because consent at any given time is a response to prior policies, which themselves represented an accommodation with taxpayers' prior willingness to sacrifice. Moreover, their case study points out that taxpayer consent may be withdrawn in modern societies. If taxpayer consent was primarily a function of coercion or manipulation, as the elite theorists argued, these patterns would be hard to explain. Rather, this case suggests that taxpayers who object to the terms of the social contract, or who are dissatisfied with the inability of state actors to perform their civic obligations, are perfectly willing and able to withdraw their consent.

The new fiscal sociology suggests that social identities and norms affect whether citizens will acquiesce in a tax policy. Acceptance, however, is not necessarily compliance. Indeed, even during wartime taxpayer consent may be contested and ambiguous (Bank, Stark, and Thorndike 2008). In Chapter 8, Naomi Feldman and Joel Slemrod apply insights about social identities and norms to wartime tax compliance: When called upon to share in wartime sacrifice, will people pay or will they evade? Feldman and Slemrod test the conventional wisdom that taxpayers' sense of identification with their polity and their willingness to sacrifice should be greatest during wartime with data on war and attitudes toward tax compliance

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in more than sixty countries since 1970. They find that people in states that have recently undergone wars do report slightly more support for tax compliance, but that war fatalities erode support for tax compliance. Their results suggest that, at least for the post-1970 period, war may indeed affect compliance attitudes, but that this effect is small and may be conditional on the destructiveness of the war. And in contrast to the assumptions of many previous studies (e.g., Rasler and Thompson 1985; Kiser and Linton 2001), their findings suggest that the more limited the war, as measured by fatalities, the greater the support for paying taxes. Feldman and Slemrod's work sheds new light on the "ratchet effect" that tax scholars have identified, in which tax revenue increases during wartime and never entirely returns to prewar levels.

Finally, in Chapter 9 Robin L. Einhorn presents a forceful argument for the thesis that taxpayer consent is cultivated by democracy and liberty. Einhorn asks why the Northern colonies developed more sophisticated tax bureaucracies than the Southern ones in pre-Revolutionary America. This deceptively modest question ends up turning well-established interpretations of American history upside down. Historians who focus on the rhetoric of the period argue that the South was more "democratic" than the North and therefore conclude that democracy was born out of slavery – that, in an echo of Lieberman's argument earlier, the presence of sharp social boundaries between groups functioned to increase within-group solidarity. Einhorn argues that this interpretation of American history mistakes the rhetoric of democracy for the real thing. She shows that in practice, Southern colonies were much less democratic in their governing procedures – and that the absence of democracy and liberty had far-reaching consequences for state capacity. The colonies of the South, despite their integration into world markets, showed little capacity to engage in tax assessment, because slave owners resisted any democratic inquiry into their affairs. By contrast, in Northern colonies where slavery was less prevalent and local democracy more robust, a political tradition of self-governance fostered more sophisticated tax structures and tax administration. Einhorn concludes, "The legitimacy of taxation does not depend on quantitative precision. It depends on the political flexibility that allows taxpayers to think they are being treated fairly." Taxpayer consent, in short, depends on democracy and liberty.

All of these chapters illustrate that consent is rarely secured with coercion alone. Where elite theory treated tax compliance as evidence that taxpayers were duped or coerced, the work of all of these contributors echoes Levi's argument that there is a voluntary element in the payment of taxes. For instance, the implication of Lieberman's work is that white taxpayers consented to being taxed in South Africa because they believed that it would benefit other whites – not only because they were coerced or duped into payment – and that coercion and manipulation were not enough to generate taxpayer compliance in Brazil in the absence of taxpayer consent. Ide and Steinmo's work points to the ability of taxpayers to withdraw their consent if they are not satisfied with the conditions of the social contract when state actors abdicate their obligations of fiscal citizenship, when they fail to live up to the trust and confidence bestowed upon lawmakers by citizens. Feldman and Slemrod's work is part of a tradition that asks whether a sense of

duty is part of taxpayer consent. By examining the links between war and taxpayer compliance, they show how the duration of conflicts, as measured by fatalities, can erode citizens' confidence in the state, and hence their consent to pay taxes. Einhorn's work also implies that taxpayer consent depends on taxpayers' sense that the methods of tax collection are just, which is a function of their liberty and ability to participate in the deliberations of government.

All of these chapters also stress that taxpayer consent – including both political acceptance and compliance with the law – depends on a social rather than an individual contract. Taxpayers think about the collective good. And their calculations are affected by characteristics of the society as a whole. If you want to understand consent to taxation, it is not enough to ask about individual costs or benefits. It is also necessary to ask questions like these: Is the society as a whole ethnically divided or united? Is it at war or at peace? Trusting or untrusting? Democratic or undemocratic? Slave or free? In short, our contributors suggest that taxation in democratic states is not primarily predation; it is the embodiment of a social contract.

Part III. The Social Consequences of Taxation

Militarist theory demonstrated that taxation shaped state capacity to wage war; our contributors extend fiscal sociology in new directions by exploring the consequences of taxation for other social and cultural outcomes. Of course, the investigation of the economic consequences of taxation itself is not new or distinctive. Public finance economists have long been preoccupied with measuring the incidence of taxes and how they “distort” economic decision-making. What is different about the new fiscal sociology is its focus on broader social, political, and institutional outcomes, such as family structure, state capacity, or ideals of justice. Even when our contributors turn their attention to inequality – a classic subject of the economics of taxation – they tend to take a sociological approach, reviving the Tocquevillian hypothesis that tax policy may not only affect the gradational distribution of income and wealth, but may also create and reinforce categorical social distinctions.¹¹

The frontiers of research on social and cultural consequences of taxation are wide open. Recent research points in a wide variety of directions. Tax policy may shape the life course by shaping possibilities for marriage (McCaffery, Chapter 13), or pensions for retirement (Scott 2007; Zelinsky 2007). Tax policy affects the organization of health care markets (Hacker 2002), and may thereby have important consequences for public health. Social movement scholars have hypothesized that tax exemptions for not-for-profit corporations are an important factor channeling protest into particular organizational forms (McCarthy, Britt, and Wolfson 1991). American historians have noted how Southern segregationists during the late 1960s attempted to use tax exemptions and tax benefits for charitable contributions to create private “segregation academies” (Crespinio 2007: 228). Comparative scholars of

¹¹ In Tocqueville's words: “Of all the various ways of making men [sic] conscious of their differences and of stressing class distinctions unequal taxation is the most pernicious, since it creates a permanent estrangement between those who benefit and those who suffer by it” ([1856] 1955: 88).

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religion have pointed out that tax discrimination has been a crucial device for either restricting or encouraging the creation of religious institutions independent of the state – and they have hypothesized that tax policy may thereby affect the vitality of religion, in all its varied forms from collective worship to private belief (see Finke and Iannaccone 1993). Art historians and sociologists have argued that tax policies affect the possibilities for careers in artistic production, and have hypothesized that tax policy choices may even affect the content of art – for example, a tax that affects the international trade in artworks selectively may thereby channel patronage toward particular artistic styles in particular periods (Becker 1982: 172). Historical studies of American suburbs have shown how federal tax policy literally has shaped the physical landscape, for instance, facilitating the post-WWII expansion of suburban shopping centers (Hanchett 1996). Scholars of economic development cite a state's failure to implement a social contract of taxation as one of the key reasons for underdevelopment (Kohli 2004: 8; Moore, 2004). And the ability to raise revenue through taxation underpins a state's ability to borrow at low interest on credit markets (Bräutigam, Fjeldstad, and Moore 2008), foreshadowing long-term consequences for the American state's recent commitment to tax reduction.

It is not surprising that scholars in so many disparate fields have noticed the potential relevance of taxation. As we argued earlier, taxation is central to modernity. The very centrality of taxation suggests that it will put its stamp on many elements of modern social life: in tax policy, the state codifies central cultural categories of a society and imbues them with the force of law and the power of economic incentives.

In Part III, our contributors pursue several new directions in the social and cultural impact of taxation. Charles Tilly's magisterial contribution sums up the case for seeing democracy itself as one of the consequences of taxation. In so doing, Tilly is reaching back to Tocqueville while showing us the future of fiscal sociology. The import of Tocqueville's argument about the French Revolution was not only that tax policy may create invidious social distinctions, but that tax policy may also create and reproduce the very category of political citizenship – the social boundary between those who are full political citizens and those who are not. Tilly's contribution to this book pursues this insight with a sweeping historical argument that state extraction of resources from society (of which taxation is a special case) is a necessary but not sufficient condition for democratization. States that acquire their resources by production in state enterprises or sale of natural resources do not need to secure the active consent of their subjects. Yet states that acquire their resources by directly extracting resources from their subjects do. This type of direct extraction initiates a cycle of resistance, repression, and bargaining that may ultimately result in the creation of an institutionalized forum for negotiation between the state and its citizenry – the first step on the road toward full-fledged democracy. Taxpayer consent, for Tilly, is the contemporary manifestation of a grand historical bargain, and comes only with an extension of political powers to taxpayers.

In Chapter 11, Edgar Kiser and Audrey Sacks investigate the consequences of forms of tax collection for state capacity. This is one of the most promising areas of the new fiscal sociology (see Lieberman 2002a), and surely one of the

most urgent. States that are unable to raise revenues may be unable to provide the most basic conditions for peace and prosperity. Kiser and Sacks show that bureaucratic tax administration in many states of sub-Saharan Africa are a poor fit for economies where the scarcity of resources and poor means of transportation and communication make it difficult for states to monitor and sanction tax collectors. Kiser and Sacks attribute the uncritical adoption of bureaucratic forms of tax administration to normative pressures for the adoption of the most “modern” tax administration.¹² They proceed to argue that under specifiable conditions, developing countries in the twenty-first century may actually benefit from tax-farming arrangements similar to those that served some rulers well in early modern Europe.

In Chapter 12, Beverly Moran asks what tax system would best realize the ideals that Adam Smith identified several centuries ago. She argues that Smith’s ideals were crafted in response to the tax policies that were possible in his time – and that applying his first principles in a different context, we should therefore draw very different conclusions about what policy Smith would recommend. In making this argument about how tax policy may shape tax ideals, she too makes a normative prescription: that a tax structure dependent on wealth taxes would be more equitable in America than the current income-tax-driven tax structure. Inheritance laws ensure that past historical oppressions continue to contribute to the contemporary inequities in the distribution of wealth. Taxing wealth would therefore realize a substantive conception of equality and of justice.

Edward McCaffery’s chapter presents new comparative data on the consequences of tax policy for the intimate sphere of the family. His chapter builds on work by many legal scholars that has shown how tax laws may help reproduce gender inequalities, and may contribute to political conflicts between dual-income couples and single-earner couples (Blumberg 1971; Jones 1988; Staudt 1996; Brown and Fellows 1996; McCaffery 1997; Alstott 2001).¹³ McCaffery argues that several features of U.S. tax law favor unmarried couples or “traditional,” single-earner families over dual-income, married couples with children. He documents that this bias was deliberately written into the law at a critical juncture after World War II. And he argues that once in place, this structural bias reproduced itself – and ensured ongoing conflict between “traditional,” single-earner families that are advantaged under the law, and two-earner families that are not.

The final chapter written by W. Elliot Brownlee sounds a cautionary note. Although tax policy may affect society in many ways, it does not mean that tax experts are free to manipulate society as they wish. As Brownlee’s chapter demonstrates, post-WWII Japan seemed to present a perfect laboratory for testing policy prescriptions that were designed to achieve goals of equity and economic

¹² Some of the modernization theorists explicitly warned that this might occur, cautioning experts against the risks of promoting “modern” tax policies in societies where the ambient economy would make them impossible to administer fairly (Ardant 1965; Musgrave 1969). Their theories generally implied, however, that such mismatched tax policies would result in negative feedback processes – chiefly tax resistance and evasion – that would tend to steer tax policies toward conformity with the capacities of the ambient economy.

¹³ For an introduction to the Critical Tax Law literature, see Infanti and Crawford (2009).

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growth. In the aftermath of the war, the U.S. government invited a group of American tax experts, led by economist Carl S. Shoup, to redesign Japan's tax system from the ground up. If ever social science had a hand in shaping the world, it should have done so here: These reforms were imposed by a victorious power on an unambiguously defeated rival; they followed a war that had made unprecedented fiscal demands and led to perhaps the most dramatic tax policy changes in history; the defeat had been a crisis of catastrophic proportions for the Japanese state; and Shoup and his team of economists were unusually prepared with analysis and prescription. Yet, Brownlee shows that the Shoup reforms did not endure. Although the occupation did force the Japanese government to adopt the reforms, business and other interest groups persuaded a subsequent government to roll them back. All the hard work of Shoup and his economists was unraveled. This case thus presents clear evidence that the exogenous shock of military defeat is not sufficient to remake a tax system wholesale. Tax policy writers may shape society – but not always as they wish nor under conditions of their choosing.

As the chapters in Part III illustrate, the study of the social and cultural consequences of taxation opens up new normative questions for social theory and the policy sciences. The traditional concern of “optimal taxation theory” with efficiency and vertical equity does not exhaust the goods that tax policy may secure. The tax policy that is optimal for economic growth or to maintain progressivity may not be optimal for military success, social solidarity, or democracy. As Beverly Moran points out, these concerns of the new fiscal sociology are in many respects a return to the broader normative concerns of the founders of public finance.

In concentrating on the consequences of taxation, this strand of the new fiscal sociology thus showcases a normative impulse that is increasingly present in the social sciences: the attempt to marshal the insights of historical work to the explicit aim of improving public policy. In imitation of the normative prescriptions of economics, but in disagreement with some of the assumptions and methods that characterize that field, many scholars wish to explore the potential of a historically oriented social science to contribute to public debates.¹⁴ This approach has also met with fierce criticism and resistance. Critics worry that a preoccupation with current political relevance could obscure the attempt to understand social phenomena on their own terms, and could damage the ability of the social sciences to serve as sites where partisan debates may be transcended (see Monroe 2005, for the debates in political science; Clawson et al. 2007, for the debates in sociology; and Novick 1988 for the long-standing debates in history, particularly with regards to public history). The contributors to this section of the book present all points of the spectrum on that debate: Kiser and Sacks, and Moran draw out normative prescriptions explicitly, while McCaffery implicitly advocates gender-neutral tax policy. Brownlee, on the other hand, implies that experts who wish to influence policy have to reckon with obdurate political realities.

¹⁴ This wish for real-world relevance has been so strong in political science, history, and sociology that it has led in recent years to the founding of new flagship journals devoted to the publication and dissemination of research that speaks to pressing public issues (e.g., *Perspectives on Politics*, *Journal of Policy History*, and *Contexts*).

Together, the chapters in this book illustrate the ambition of the new fiscal sociology. Mainstream economics has taught us a great deal about how taxation affects relationships between buyers and sellers – and thereby affects economic growth and the distribution of income. The new fiscal sociology aims to shed light on how taxation affects nonmarket relationships, including kin relationships, symbolic relationships between in-groups and out-groups, and political relationships between rulers and ruled. And the new fiscal sociology asks us to both undertake historical research that is engaged in the important debates of the day, and cautions us against the belief that scholars alone can remake the world.

THE FUTURE OF THE NEW FISCAL SOCIOLOGY

Fiscal sociology is growing rapidly and it will continue to do so. Consider, as a point of comparison, the political sociology of public spending on welfare. This field was small in 1975. Today it supports a large, growing, and lively interdisciplinary research community, and rightly so – social spending is a big deal. Scholars of social policy routinely explain the interest and importance of their subject by pointing out that spending money on social provision is “the principal domestic undertaking of states in the West” (Orloff 2005: 190), comprising a greater share of economic activity in the affluent countries than anything else that government does. Yet this claim is only true if one ignores the revenue side of the budget. If we follow the convention of welfare state research and measure the size of an activity by the sheer volume of cash transferred between state and society, then the principal domestic undertaking of states in the west is not spending money on social provision or on anything else. It is collecting taxes.¹⁵ Outside of the most developed welfare states, the imbalance is even more striking. Taxation is one of the main things that most states do. The puzzle is that so many sociologists, historians, legal scholars, and political scientists have neglected it for this long.

Scholars will continue to study tax policy as an index of social, political, and economic change. But the future of fiscal sociology points beyond the study of taxation as an index or symptom of other changes, and toward an understanding of taxation as the central element in the social, political, and economic development of the modern world: the actually existing social contract, the renegotiation of which transforms the relationship between state and society.

Schumpeter’s high hopes for fiscal sociology reflected his conviction that tax policy enjoyed a special theoretical status, because tax policy more than any other

¹⁵ We focus here on all taxation, not just taxation earmarked or intended for social spending, because taxation as a social activity of states has a great deal in common regardless of its intended or imputed purpose – and because taxation as such has formal and sociological similarities to government social spending. Both social transfers and taxes are legally obligatory, unremunerated economic transfers across the state-society boundary; indeed, from a certain point of view, social transfers are simply negative taxes. Yet they are dwarfed by positive taxes. In 2001, direct public spending on social provision in fifteen affluent European countries averaged 23 percent of Gross Domestic Product, or GDP. Tax revenues averaged 40 percent of GDP; taxes on income plus taxes on sales together account for a greater proportion of GDP than social spending. These statistics are from (OECD (2007). They represent the countries that the OECD calls the “EU 15.”

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policy might shape the direction of social change. It might even be one of the great motor forces of history. For this reason, the study of public budgets was not just a specialized subfield of policy history; it was the key to the whole. In his essay on the tax state, Schumpeter did not shy away from the strongest version of this claim:

In some historical periods the immediate formative influence of the fiscal needs and policy of the state on the development of the economy and with it on all forms of life and all aspects of culture explains practically all the major features of events; in most periods it explains a great deal and there are but a few periods when it explains nothing. ([1918] 1991: 100)

Schumpeter was surely overreaching, but how far was he overreaching? We will not know until scholars have explored the limits of what can be explained by fiscal policy. Tax policy does not explain everything that social scientists and historians are interested in. But we suspect that tax policy has shaped more of the theoretically important facts about social life and social change than scholars have guessed hitherto.

