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Note from the editor

Taxing inequality and fiscal sociology

Akos Rona-Tas

In recent years, fiscal sociology has grown to become one of the most vibrant subfields in economic sociology. For a long time, its core topic – public finance – was considered to lie beyond the discipline of sociology, despite the contributions of Rudolph Goldscheid, Fritz Karl Mann, and Joseph Schumpeter, the founders of fiscal sociology over a century ago, who established that there is an essential connection between state finances and the wider social order. New fiscal sociology is reclaiming this connection at a time when the role of the state in the economy is becoming increasingly pronounced and visible.

Isaac Martin's article establishes the inseparability of the market and the state. He argues that the stateless, taxless market economy has only ever existed as a fanciful fiction. Redistribution does not displace market forces but provides necessary infrastructure that enables markets to function. He distinguishes between redistribution as a process and as an outcome, making the important point that redistribution can be achieved in many different ways, including by the imposition of price controls or regulations, without necessarily deploying policies aimed directly at altering the distribution of incomes, as taxation does. It is even more absurd to assume that redistribution necessarily increases equality. It can cut both ways. To evaluate the extent and the effects of redistribution, then, one must create a baseline that acts as a counterfactual basis for comparison. This can be constructed in many different ways and as such it is subject to social contestation.

Sarah Quinn offers an example of how the state can redistribute among citizens without using tax policy. Her research highlights the federal credit programs deployed as powerful tools by the US government to mold the economy and change financial outcomes. Mortgage credit in particular has played a central role in building the American middle class, while also having an enormous impact on financial markets and the housing industry. This form of redistribution was politically more palatable than taxes and government spending.

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If Martin and Quinn take the nation-state as their unit of inquiry, Gisela Huerlimann's article reminds us that taxation has also been a global phenomenon. Her study of Switzerland demonstrates that public finance in one state is often strongly influenced by that of another. Huerlimann tells us how Switzerland became one of the world's principal tax havens and how its status evolved as a result of political pressures from other states that were losing income to the Swiss. This global aspect of taxation and public finance is key to understanding the growing inequality in the world and the escalating difficulties of nation-states in their efforts to collect revenue.

Finally, Josh Pacewicz takes us to the subnational levels of public finance. His article calls attention to taxation by municipalities and cities all over the world. He argues convincingly that many inequalities are created predominantly at this level and illustrates his point with the example of the city of Chicago. Then he makes the case for a comparative approach to local tax regimes as developed in different countries.

In her OpEd, Monica Prasad explodes the myth that the American public abhors redistribution. People like tax cuts, but only if they believe they will not result in corresponding cuts in spending or in shifting the tax burden onto states and localities. Republicans, by making the costs of tax cuts invisible, managed to build a political platform that served them well for a while but not anymore. Now that the electoral appeal of tax cuts has faded, Republicans must rely on rank racism and divisive social issues like abortion. Prasad suggests that Republicans must make peace with the idea of a state actively involved in the economy and offers them three policies that, in her view, could be attractive to them because they are all aimed at supporting the market: investment in vocational education, parental leave, and a safety net for workers that makes moving between jobs easier.

The challenges of economic inequality and the growing realization that the market itself is unable to allocate incomes in a way that keeps capitalist economies humming along, that technological change displaces many workers, and that periodic economic meltdowns call for the state as the savior of last resort, are all forcing us to think hard about taxes, redistribution, public finance, and the role of politics in the economy, be it on the subnational, national, or global stage.

Can the invisible welfare state redistribute?

Isaac William Martin

In the past three decades, scholars of welfare policy in the United States have come to recognize tax privileges as an important part of the US social policy regime. A tax privilege is a provision of law or customary practice that grants favorable treatment to particular activities or categories of persons by excusing them from specified tax obligations to which they would normally be subject.[1] Scholars have documented a great number and variety of formal and informal tax privileges provided by federal, state, and local governments. They have attempted to quantify the revenue lost because of these privileges. And they have invoked the metaphors of "insurance" (Anderson 2006), "social security for the rich" (Kopczuk 2003), the "divided welfare state" (Hacker 2002), the "submerged state" (Mettler 2011), the "shadow welfare state" (Gottschalk 2000), the "hidden welfare state" (Howard 1999), and the "invisible welfare state" (Martin 2008: 15) to characterize the aggregation of implicit subsidies that result from tax privileges for childrearing, education, health care, housing, and retirement security.[2]

The invisible welfare state is a useful metaphor inasmuch as it draws attention to "the use of tax policy as social policy" (Martin, Mehrotra and Prasad 2009: 17). The term also has some polemical force in the American context, in which the colloquial term "welfare" connotes direct cash transfers to socially stigmatized people, especially poor African-American adults (see Gilens 1995) – and where many rich, white conservatives flatter themselves with the lie that their fortunes were earned without any such government assistance. To call tax privileges a "welfare state" of any kind is to make the point that rich, white Americans also receive public subsidies. The fact that those subsidies are "invisible" in the sense that they often escape notice does not make them less real.

To call an aggregate of tax privileges an invisible *welfare state*, however, also seems to imply that it involves economic redistribution of some kind. Here, some scholars have balked. Can a tax privilege redistribute? I shall argue that tax privileges can indeed redistribute. To defend this view, however, it will be necessary to clarify the meaning of "redistribution," and the results will prove unsettling, not only to our usual assumptions about tax policy, but also to some of our conventional scholarly assumptions about public policy, the welfare state, and economic inequality in general. When redistribution is understood properly, it refers to something fundamentally unobservable: the difference between an observed distribution of resources and another, counterfactual distribution of resources that would obtain in a different state of the world. In this sense, every welfare state is an invisible welfare state. Where more than one counterfactual distribution is possible, more than one true answer is possible to the question of precisely how much the welfare state redistributes. The invisible welfare state, then, like other such invisible abstractions as states, classes, political parties, power, and culture, may have big effects, but the precise magnitudes of those effects are fundamentally uncertain.

Can an invisible welfare state redistribute?

"The welfare state" entered the English language during the Second World War as a slogan meant to distinguish the post-war social insurance proposals of the British government from the "warfare state" of Nazi Germany (Amenta and Skocpol 1988: 82; Titmuss 1964). The term was taken to refer to a "positive and purposeful commitment by government to concern itself with the general welfare of the *whole* community" (Titmuss 1964: 29, emphasis added), in contrast to the use of social services and transfers "to divide, discriminate and compete" (1964: 34). This usage of the term "welfare state" describes an ideal, rather than any actually existing policy regime. When the term "welfare state" is taken in this comprehensive, normative sense to describe a truly universalistic social policy, it is inapplicable to any set of tax privileges – which, by definition, involve a classification and hierarchical ordering of persons or activities.[3]

The literature on the invisible welfare state takes as its point of departure a more recent, and more neutral, analytical usage of the term "welfare state." The welfare state in this modern sense is shorthand for a

particular set of transfer programs common to most of the wealthy capitalist democracies. By scholarly convention, this set is often taken to include work accident insurance, unemployment insurance, sickness and disability benefits, child benefits, and old age pensions (see, for example, Hicks 1999). These programs are commonly grouped together because it is thought that they redistribute resources (i) among persons, thereby providing members of a group with minimum of economic well-being; and (ii) over time, thereby insuring people against common hazards that might otherwise impoverish them by excluding them from the labor market (see, for example, Marshall 1950; Titmuss 1964; Esping-Andersen 1990). The use of the term "welfare state" to encompass these programs entails no assumption that they were designed to instantiate universal human rights, that they actually achieve social justice, or that they were inspired by "the working-man's ethic of solidarity and mutual aid" (Titmuss 1964: 34). It entails only the assumption that they redistribute.

The concept of the invisible welfare state, then, would seem to imply that tax privileges, too, can redistribute. It is here that we run into trouble, because tax privileges confound our ordinary intuitions about redistribution. Several generations of scholarly critics have appealed to the commonsense idea that the state cannot "redistribute" when it leaves resources in the hands of people who already have them (see, for example, Bittker 1969; Prasad 2011). These critics are mistaken. To see how a tax privilege may redistribute, we will need to clarify what redistribution means, and to distinguish between two common but incoherent conceptions of redistribution that I call redistribution-as-process and redistribution-as-outcome.

Redistribution as an instituted process

The first common conception of redistribution can be traced to the classic works of Karl Polanyi. In both *The Great Transformation* (1944) and *Trade and Market in Early Empires* (1957), Polanyi listed redistribution as one of the major institutional alternatives to the market. In keeping with his conception of the economy as an "instituted process," he defined redistribution in purely procedural terms: "Redistribution obtains within a group to the extent to which the allocation of goods is collected in one hand and takes place by virtue of custom, law or *ad hoc* central decision," he wrote (1957: 253). Redistribution, so defined, consists of two separate and consecutive moments that Polanyi called "appropriation" and "disposition" (1957: 248): the "centripetal movement of many upon one central figure followed by an initiative of that central figure upon the same many" (1957: viii). Redistribution thus contrasts with the decentralized processes of circulation that Polanyi characterized as trade and reciprocity.[4] I will refer to this institutional conception of redistribution as *redistribution-as-process*, and I will refer to any process that is redistributive in this sense as *process-redistributive.*

Whatever else might be said about redistribution-as-process, it is not a distinguishing feature of the welfare state. To be sure, Polanyi suggested that the redistributive type of economy evolved to meet needs for equalization and insurance (1957: 254), which are the functions that comparative social policy scholars today associate with the concept of the welfare state. Polanyi's definition of redistribution, however, describes the circulation of objects, rather than the creation and enforcement of intangible entitlements that is characteristic of a social security program. His paradigmatic examples of process-redistributive institutions – including the potlatch of the nineteenth-century Kwakiutl (1944: 53), the temple storehouse of ancient Babylonia (1944: 53), and "the Greek estate of Aristotle's time" (1957: 254) – were institutions for the centralization and subsequent allocation of physical goods. In *The Great Transformation*, published in 1944, Polanyi wrote that history of redistribution "leads up *almost* to modern times," indicating clearly that he regarded redistribution as an economic principle that belonged in the past (1944: 53, emphasis added). More than a decade later, at the time he completed *Trade and Market in Early Empires*, he reversed himself, noting that redistribution "is actually gaining ground today in some modern industrial states" (1957: 256). Given the timing of this reversal, it is tempting to conclude that it was the post-war British welfare state that changed his mind, but the text offers no direct evidence to support this inference: the only modern industrial state that Polanyi specifically named in connection with the revival of redistributive institutions was the Soviet Union – where the state engaged in the authoritative, centralized appropriation and disposition of physical goods (1957: 256).

Even if Polanyi's conception of redistribution-as-process is generalized to include the authoritative

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appropriation and disposition of intangible rights, this would make it a general description of *all* taxing and spending, rather than a specific description of the sorts of programs that distinguish the modern welfare state. The welfare state serves the functions of equalization and insurance; but these are outcomes, and redistribution-as-process is defined entirely without reference to outcomes. As Walter Neale pointed out in his own contribution to *Trade and Market in Early Empires*, the term "redistribution" in Polanyi's usage involves "no implication of equality of treatment, fair shares, or payment for value" (1957: 223). Indeed, it involves no implication whatsoever concerning the final shares in which resources are held by any portion of the population. Redistribution-as-process assumes only that political authority is unequal: in Polanyi's words, it "presupposes the presence of an allocative center in the community" (1957: 251), and the presence of someone with the authority to determine the disposition of goods from that center, whether that person be "Temple-god, or high priest, or king, or emperor, or even, in republican cases, citizen office-holder in rotation of office …" (1957: viii). Redistribution-as-process need not pool risks or equalize fortunes.

In fact, redistribution-as-process is neither necessary nor sufficient to achieve the purposes of equalization or insurance. The anthropological record includes many examples of decentralized processes that equalize resources and risks without any redistribution-as-process. Consider Elizabeth Cashdan's (1985) example of *de facto* crop-failure insurance arising from the community norm of reciprocity among the Basarwa, who lived on the Nata River in Botswana, in the mid-1970s. Because the people in this community were highly mobile, they did not try to collect food in a storehouse for redistribution, but instead insured themselves against the hazards of highly localized crop failures by making frequent gifts of food that others were obliged to reciprocate. Cashdan showed that the net effect of these reciprocal gifts on the frequency distribution of resources is just what one might expect to see resulting from a conventional insurance contract (with, perhaps, less administrative overhead). The literature also includes examples of other processes that *are* process-redistributive, but that neither bring about greater equality, nor insure people against misfortune. Consider Edmund Leach's analysis of the feasts called *manau* sponsored by Kachin chiefs for their tenant sons-in-law in highland Burma:

> "[O]n balance, the headman's lineage constantly pays wealth to the chief's lineage in the form of bridewealth. The payment can also, from the analytical point of view, be regarded as rent paid to the senior landlord by the tenant. The most important part of this payment is in the form of consumer goods – namely cattle. The chief converts this perishable wealth into imperishable prestige through the medium of spectacular feasting. The ultimate consumers of the goods are in this way the original producers, namely, the commoners who attend the feast" (Leach 1951: 45).

Leach here argues that the *manau* restores a distributional status quo ante that obtained prior to the appropriation of bridewealth by the chief. Indeed, if the commoners consume beef in precisely the proportion in which they contributed cattle, then a *manau* might be process-redistributive without accomplishing any change whatsoever in the shares in which people hold resources.[5]

Polanyi's conception of redistribution, in short, has little to do with what we usually talk about when we talk about welfare states. It should come as no surprise, then, that this conception of redistribution-as-process does not comport very well with the concept of an *invisible* welfare state of tax privileges. Thus, for example, Prasad (2011: 257) has argued against the view that tax privileges are redistributive on the grounds that redistribution requires "collecting taxes and then spending them." The definition of redistribution as a two-part sequence – first hoarding treasure, then distributing it – is an admirably pure restatement of Polanyi's conception of redistribution-as-process. But it is a mistaken description of the fiscal policy of twentieth- and twenty-first century welfare states, which allocate intangible rights more than physical objects, and which provide a social safety net by spending countercyclically *without* first collecting taxes.

In short: it is correct to say that tax privileges do not redistribute in Polanyi's sense. Neither does much of the social policy that we think of as the welfare state.

Redistribution as a change in the distribution of income

When we think of the welfare state as redistributive, we often have in mind a second, functional definition of redistribution. This definition is implicit in much of contemporary public economics, but it comes into explicit focus in the canonical essays of the public finance economist Richard Musgrave. In stark contrast to Polanyi, Musgrave defined redistribution with respect to its outcomes, and entirely *without* reference to process. Redistribution, for Musgrave, referred to the net difference between an initial distribution and an outcome distribution, where a "distribution" is understood to be a mathematical function that associates each value on a scale of resources with the frequency of its occurrence in a population.[6] For clarity of exposition, I will call this concept *redistribution-as-outcome*, and I will refer to a process that redistributes in Musgrave's sense as *outcome-redistributive*.

Musgrave's concept of redistribution-as-outcome was plainly intended to apply to the welfare states in the mixed market economies of the post-World-War-II era. In the initial statement of his "Multiple Theory of Budget Determination," Musgrave described "the re-distribution function" (1956 : 341) as one of three major purposes of fiscal policy (alongside the provision of public goods and the stabilization of the business cycle). By "redistribution," he meant the state-directed effort to "achieve a certain degree of equalization" (1956: 338). Musgrave had little to say in particular about the process by which this outcome was to be accomplished. His paradigmatic examples included a progressive income tax and a lump-sum tax with means-tested transfers. Indeed, it is symptomatic of his particular conception of redistribution-as-outcome that he did not clearly distinguish between these policy instruments, because from the standpoint of net outcomes they are indistinguishable; instead, he wrote vaguely of "the tax-transfer mechanism of the public budget" (1956: 336). Musgrave also explicitly acknowledged that many other processes besides the tax-transfer mechanism might be outcome-redistributive. Redistribution-as-outcome could result from regulations, price controls, or even a decentralized and uncoordinated system of voluntary gift-giving – none of which, of course, would constitute redistribution-as-process (see Musgrave 1969: 24; Musgrave 1970: 991; Musgrave 1989: 4).

The appeal of Musgrave's conception of redistribution-as-outcome is that it appears to allow a quantitative judgment about *how much* redistribution is accomplished by a given policy instrument. According to Musgrave, this judgment was to be made by comparing the final frequency distribution of resources after redistribution to an initial or "primary" distribution. But what frequency distribution should be taken as primary? Musgrave's answer was that the primary distribution was "a market-determined initial state" (1989: 4). To assess the extent of *re*distribution, he wrote, "we begin with an existing state of *dis*tribution as results from the operation of market forces, including market imperfections, status, inheritance, and so forth" (1989: 4, emphasis in original) – a market economy in which people begin with unequal endowments, in other words, but in which there are no taxes or transfers. The primary distribution is what would have resulted from the operation of market forces in the absence of the tax-transfer mechanism.[7] (It is the assumption of just such a purely market-determined initial state that underlies Musgrave's assumption that "redistribution" means *equalization*.)

The trouble with defining redistribution as the net deviation from such a primary distribution is that this primary distribution is not only unknown, but unknowable, because the pure market society that is imagined to produce it is a sociological impossibility. A market may exist where there is no state; but, as Polanyi argued in *The Great Transformation*, no pure, self-regulating market *society* without a state has ever existed or, to the best of our knowledge, ever could exist. It might be tempting to think that some organizational alternative to a state could prevent catastrophic market failures, protect property rights, and enforce laws of contract, all on the scale required in an industrial market society, even if no such alternative organization has yet been observed in the ethnographic record. Any such organization, however, would seem to require some coercive authority; and compared with other modes by which a coercive organization might mobilize resources, such as forced requisitions, corvée, pillage, or direct management of production, taxation appears to be the most market-liberal means of finance, in the sense that it leaves people the greatest freedom to allocate land, labor, and capital according to prices negotiated with relatively little coercion.[8] In short, if we would derive a market income distribution, we must assume a tax state. The one without the other is logically (and *socio*-logically) incoherent.

It is this incoherent counterfactual that some critics of the "invisible welfare state" concept have in mind when they insist that tax privileges cannot redistribute. According to Wilterdink (2011), for example, "When someone deducts something from their tax liability, less of their money goes to the government. The key here, that should be obvious, is that they have just kept more of their own money." The "obvious" intuition to which Wilterdink appeals is that the distribution that arises from market exchange has some sort of metaphysical priority. Murphy and Nagel (2002) refer to this intuition as "everyday libertarianism." Our income, to this way of thinking, is ours *before* tax liability is computed, and income tax withheld from our paychecks therefore is income that has been, in some metaphysical sense, taken from us, even if, in a literal, physical sense, it never passed through our hands or our bank accounts, or existed at all, except as a notional accounting device or "false number" (Lampland 2010). The intuition rests on the incoherent assumption that my property right in my so-called pre-tax income is, in some sense, temporally or ontologically prior to the tax law.[9]

It is true that tax privileges are not outcome-redistributive in Musgrave's sense, but only because *no* policy is meaningfully outcome-redistributive in Musgrave's sense; if "redistribution" designates the difference between an existing distribution and an unintelligible absurdity, then everything redistributes and nothing does.

Redistribution as a socially constructed counterfactual

How, then, *should* we decide whether a given policy – be it a tax deduction or an old-age pension – redistributes? In practice, social scientists make such judgments all the time. We typically combine a Musgravean functional definition of redistribution as the net difference between two distributions of resources, with a Polanyian realism about the preconditions of markets. In practice, this means that we assess whether a policy instrument redistributes by comparing the observed distribution that obtains in the presence of the policy instrument to a plausible counterfactual distribution that would obtain in its absence, but we reject the assumption that the counterfactual distribution can be derived as the equilibrium of an imaginary stateless market economy. This pragmatic approach to the measurement of redistribution need not entail the assumption that the baseline against which we measure redistribution is necessarily primary, original, initial, or in any sense logically or temporally prior to the outcome that we observe. The baseline is merely an alternative that would exist in the absence of the policy measure in question. We may call this conception *redistribution-as-counterfactual*, because it is the specification of the counterfactual baseline that determines whether redistribution has taken place, and if so, how much.

The measurement of redistribution-as-counterfactual is equivalent to a problem of causal inference. To say that a policy instrument redistributes in this sense is to say that it causes a distribution to differ from what it would be in the absence of the policy. As with any problem of causal inference, analysts confront the uncomfortable fact that the counterfactual distribution is unobserved and unobservable, so we must make untestable assumptions in order to identify what the distribution would be if the policy did not exist (Morgan and Winship 2007; see also Hall and Paul 2013). Those assumptions are not wholly arbitrary, but neither are they anchored directly in observation; if there is any scholarly agreement upon them, it is because analysts share some conventions about how to specify what other states of the world are possible. Our knowledge of whether and how much redistribution has occurred is, in this sense, socially constructed.

A rigorous approach to redistribution as a socially constructed counterfactual is exemplified in the work of economist Carl Shoup. who opened his treatise on public finance with this observation: "To state the effect of a public finance measure is to make a comparison between what is and what would have been if the measure had not been in force" (2007 [1969]: 7). Shoup argued explicitly for a pragmatic approach to specifying the relevant counterfactual. Instead of simulating a tax-free market equilibrium, he assumed that the analyst who wished to quantify redistributive impact of a given tax policy should take as the baseline some alternative tax policy that was administratively feasible and sociologically tenable. His textbook instructed readers in how to measure the incidence of a tax by estimating the change in distribution that would result from substituting it for some other tax. In most cases, he illustrated the approach by comparing each tax to a value-added tax that raised the same amount of revenue, while leaving the mix of taxes and public expenditures otherwise unchanged. The value added tax was not a pure or originary baseline; Shoup emphasized that value added tax actually came late in the evolution of consumption taxes, and that an approach that evaluated earlier sales taxes as "deviants from this archetype" therefore would lack historical and sociological realism (2007 [1969]: 207). When it came to evaluating contemporary policy options, however, it was both computationally convenient and sociologically plausible to evaluate many other policies against the value added tax, and that was good enough reason to take it as the baseline. [10] Instead of positing a fanciful model of an impossible toy economy, he grounded the analysis of redistribution in the data of comparative and historical experience.

This pragmatic conception of redistribution has many virtues. In contrast to redistribution-as-process, it permits us to say that different policies achieve the same redistributive goal. We may even say that different ways of structuring market competition themselves have redistributive effects. In contrast to Musgrave's redistribution-as-outcome, it permits us to speak of redistribution where there is no equalization: sometimes states redistribute upwards.

The conception of redistribution as a socially constructed counterfactual also has unsettling implications, however, because the reliance on comparative history implies that there may be *many different but equally correct answers* to the question of how much a given policy redistributes. Tax privileges illustrate this point with particular clarity: there are, in fact, infinitely many logically possible and sociologically tenable ways to distribute the revenues that might accrue in the absence of a given tax privilege. Consider, say, the US federal personal income tax deduction for interest paid on a mortgage loan for an owner-occupied house. If this tax privilege did not exist, do we assume that more revenue would be collected, that tax rates would be lower, that another housing subsidy of equivalent budgetary magnitude would be substituted, or some combination of these (see, for example, Follain and Ling 1991; Poterba and Sinai 2008, 2011; Stansel and Randazzo 2011; Toder et al. 2010)? Analyses of the so-called home mortgage interest deduction make many different as-

sumptions about what would exist in its absence, with correspondingly different implications for our understanding of how it redistributes among people and over the life course. Every plausible approach yields the conclusion that this tax privilege has *some* redistributive effect, but no two analyses agree on precisely how – from whom, to whom, in what quantity – it redistributes income.

The sheer variety of possible counterfactuals itself is an important social fact. It is this variety that makes it possible to frame the policy differently. By making different assumptions about what scenario would obtain in the absence of a given tax privilege, interested parties can frame the costs and benefits of that tax privilege differently. There may even be reasonable disagreement over whether it is a tax privilege at all, because there may be disputes about the underlying norm to which it is an exception. A policy that is a tax privilege under one plausible set of assumptions might be reckoned part of the normal tax structure under another, equally plausible set of assumptions (Bittker 1969; Altshuler and Dietz 2011). Such alternative framings can yield different attitudes toward the same policy, and can thereby shape political alignments (McCaffery and Baron 2004). We should therefore expect the redistributive effect of any tax privilege to be the object of symbolic and political struggle.[11]

Moreover, it is possible for more than one framing of the same policy to be potentially correct – if more than one alternative actually has some chance of being realized. The redistributive effect of a policy always depends as much on the context as on the provisions of the policy itself, because the net costs and benefits of a particular policy depend on what feasible alternatives are on the table. The dispute over how much a given tax privilege redistributes is thus not just a symbolic struggle over which alternative to imagine. It is also a fight to make some of these imagined alternatives real. Framing does not just affect how the true cost of a policy is perceived. It affects which alternatives attract supporters, and thus which alternatives are politically possible, and thereby what the true cost of a policy *is*.

None of these conclusions about redistribution applies only to the tax privileges that constitute the invisible welfare state. But the debate over the invisible welfare state illustrates them with particular clarity.

How to make a welfare state invisible

Although "the state" describes a set of relationships among humans, we often imagine it as an entity with substance, and invoke physical metaphors to describe its power (as in such phrases as "big government," "state-building," "the growth of the state," or "the size of the welfare state"). Small wonder that we have difficulty talking about state provision that takes the form of intangible privileges. Yet such state provision is real, it does provide many people with insurance against risk and protection against poverty that they would otherwise experience, and the quantities of resources involved can be substantial indeed, even if they are impossible to quantify with certainty.

The invisible welfare state *can* redistribute, if redistribution means causing the distribution of resources to be different than it would otherwise be. This conception of redistribution as a socially constructed counterfactual differs from Karl Polanyi's redistribution as an instituted process, and it differs from Richard Musgrave's conception of redistribution as a deviation from the outcome of a fictitious market society. It is, however, the concept of redistribution that we should care about if we are concerned with normative analysis of distributive justice in the real world. It is also the conception of redistribution that we should use if we are simply concerned with ascertaining descriptively whether a given political authority is achieving the purposes of income equalization and insurance that are associated with the concept of the welfare state.

How much any particular tax privilege redistributes may be represented quantitatively, but the redistributive effect of a tax privilege cannot be represented unambiguously with a *single* quantity, because how much a tax privilege redistributes depends on comparison of an existing distribution to the distribution in an assumed counterfactual state of the world that is not uniquely identified. In every case, there is more than one logically and sociologically tenable alternative distribution of resources that might obtain if a particular tax expenditure did not exist. The resolution of this fundamental uncertainty is the object of symbolic and political struggle. Because there is no pure, original, natural or primary "distribution" against which redistribution can be measured, there is no escape from participation in this symbolic struggle. The redistributive effects of these policies themselves may depend partly on the inferences that people make about how substantial those effects are. It is nevertheless possible to participate in this struggle reflexively. By attending to the symbolic struggle itself, we may reveal how a redistributive state can be hidden, submerged, shadowed, or rendered invisible.

Endnotes

This paper has benefited from critical feedback from Monica Prasad and from the participants in the "Tax Matters" workshop held at Emory University, April 4–6, 2013.

1 I refer to "tax privileges" as a more general category than "tax expenditures" or "tax preferences." The definition offered here is more general than Monica Prasad's definition of a "tax preference" (2011) in three respects. First, I define a "tax privilege" as a deviation from a socially effective norm (cf. Altshuler and Dietz 2011). The question of how many exceptions to a norm you can establish before the norm itself is eroded is empirically difficult – of obvious importance for scholarship on tax compliance – but it is perfectly reasonable in principle, if sometimes difficult in practice, to distinguish between tax policies that redefine the norm and tax policies that establish exceptions to the norm. Not every tax cut, in other words, is a tax privilege. Second, a tax privilege may favor categories of persons rather than activities. A common example in the United States would be property tax rebates for elderly, blind, or disabled people. Third, a tax privilege may be enshrined in customary practice even if it is not enshrined in black-letter law.

2 My usage of "invisible welfare state" to refer to implicit subsidies is unrelated to Campbell's (2004) use of the term to describe veterans' benefits in the United States. It bears more resemblance to the earlier feminist literature that uses the terms "invisible welfare state" (Wærness 1978) and "hidden welfare state" (Wærness and Ringen 1987: 161) to highlight the blurring of public and private in the implicit reliance of social policy on women's unpaid caring labor in the home. As I use the term in this essay, however, the invisible welfare state includes unpaid caring labor only insofar as that labor is subsidized by various implicit and explicit tax privileges, including tax advantages for single-earner married couples (McCaffery 2009) and the exclusion of household services from the income tax base (Staudt 1996).

3 I offer this clarification to meet some of the forceful objections made to me in personal communications by Monica Prasad and Sebastien Guex. I would add, however, that the term "welfare state," if it is used in a normative sense to describe the material realization of universal human solidarity, seems to me to be inapplicable to any actually existing social service or transfer program. Esping-Andersen (1990) posited that every actually existing "welfare state" was a system of stratification, and I think he was right.

4 At the time he wrote *The Great Transformation*, Polanyi treated "householding" – basically, autarchic household production for use – as a separate economic system. By the time of *Trade and Market in Early Empires*, he had come to recognize that the circulation of goods within the household was itself a problem worth considering, and had revised his scheme to recognize householding as a special case of redistribution on a small scale.

5 *Do* commoners consume beef in precisely the proportion in which they contributed cattle? This is surely a strange question to ask about the *manau*; it might even seem to miss the whole point, if that is to create a spectacle of abundance beyond reckoning. But of course this strange question is exactly the sort we want to answer when we are inquiring into whether a policy equalizes fortunes or insures people against hazards.

6 In *Fiscal Systems*, Musgrave refers to redistribution as "adjustment in the distribution of income" (1969: 24).

7 In conventional economic analysis of tax incidence, this initial state is often assumed to be a Walrasian economy at equilibrium with no taxation. Today's leading textbook on the economics of taxation, for example, introduces the general equilibrium analysis of tax incidence thus: "First assume all taxes away" (Salanié 2003: 23). Musgrave's approach was more realistic, inasmuch as he allowed that markets need not be perfectly competitive; but it was not very much more realistic, inasmuch as he also assumed all taxes away.

8 This is the thesis of Gabriel Ardant's classic treatise on the sociology of taxation: "Si l'on cherche la nature profonde de l'impôt, dans une seconde approximation, on serai tenté de dire que c'est une *technique libérale*, un moyen offert à l'Etat (ou à tout pouvoir de domination) pour réaliser ses objectifs, en laissant aux individus le maximum de liberté" (1965: 23). The polemical title of his first chapter is "*Impôt, technique libérale*."

9 It seems to me that Prasad (2011) appeals to precisely the same commonsense intuition when she likens market income to a bicycle, and taxation to theft: "If I steal your bicycle, and you complain to the police, I cannot reply that I did not take your car, which is equivalent to giving you a car, and having taken a measly bicycle in return is small recompense" (2011: 254).

10 Shoup's emphasis on sociological plausibility may have been influenced by his experience as an advisor on the development of tax administration in contexts as diverse as France, Cuba, and Japan. Shoup was also an important figure in the interdisciplinary reception of fiscal sociology in the United States: he was a student of E. R. A. Seligman, the economist who first translated *Finanzsoziologie* by the English term "fiscal sociology," and he was the dissertation supervisor to James O'Connor, whose *Fiscal Crisis of the State* (1973) contributed to a revival of fiscal sociology in the late twentieth century. For more on Shoup, see the essays in Brownlee, Ide, and Fukagai (2013).

11 Nor is this struggle merely academic. It is an important struggle in the party politics of the United States, because many Republican office holders have signed a pledge not to increase income taxes. Does eliminating a tax expenditure count as increasing income taxes? Or should it count as getting rid of a welfare program? This very question has been the subject of vigorous debate within the Republican Party and its allied para-party organizations (cf. Cannon 2010; Barro 2010; Wilterdink 2011; Americans for Tax Reform 2011). For an excellent overview of partisan debates over the social construction of tax privileges as "welfare," see McCabe (2018).

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On the sociological approach to public finance

Sarah Quinn

The sociological study of credit in political economies is useful entry point for understanding what economic sociology can bring to the study of public finance. In this research note, I want to highlight one aspect of this, namely how a sociological focus on the political economy of credit enables an approach to public finance that is both critical and expansive.

In the wake of the 2008 economic crisis, research on the circulation of credit in political economies has flourished. Scholars such as Crouch (2011), Streeck (2014), and Soederberg (2014) have shown that in an era of global financialization and neoliberalism, easy credit has shifted the costs of consumption from governments to families. As this process has unfolded, family debts have expanded and the financial sector has reaped a windfall. In a similar vein is Krippner's (2011) work on the origins of financialization in the United States. Krippner found that policies crucial for the financial turn, such as market deregulation, were an attempt by lawmakers to avoid openly rationing resources at time of economic contraction and mounting fiscal pressure.

In all of these works, matters of public finance, such as fiscal crises and balanced budgets, are addressed as part of a larger story of the transformation of capitalism itself. As such, they contain lessons for what it means to think about public finance sociologically. Sociologists do not start with strong assumptions about markets as efficient resource allocators, or with any pristine definition of the nature of public goods. Instead, sociological engagements with public finance reflect a broader set of commitments at the heart of economic sociology. This includes a recognition of markets as sites of exploitation, domination, and extraction. It also includes a recognition of public goods not merely as collective action problems, but rather as the stakes in an ongoing political battle over the very nature of citizenship, solidarity, and social obligation. The task of the sociologist is not to elaborate a formalized model of efficiency in the public or private sectors, but rather to explicate how various groups adjudicate who gets what and how.

We can extend this further with a closer look at the case of credit in the US political economy. Scholars such as Logemann (2012), Trumbull (2014), and Prasad (2012) have shown that in the United States access to credit has long served the functions of social policy, insofar as families have relied on credit to smooth consumption, ride out hard times, provide economic resources in old age, or secure core goods such as health care and education. This is consistent with the finding of comparative housing scholars such as Kemeny (2001), Castles (1998), and Schwartz and Seabrooke (2009), who observe that government support for home loans – mortgage interest deductions and mortgage insurance and guarantees – are a form of social policy. For many Americans, credit-fueled homeownership is a primary mode of savings over the life course.

In *American Bonds: How Credit Markets Shaped a Nation,* I built on this work by looking at the rise of federal credit programs. These programs direct the flow of credit to specific groups and industries by issuing, buying, selling, insuring, and guaranteeing loans. Tracing these programs from the founding era through the 1960s, I found that credit programs have been a widely used and highly consequential tool of American statecraft, especially since the New Deal. Credit programs supported the growth of powerful industries, from railroads and farms to housing and finance. They have been used for disaster relief, foreign policy, and military efforts. And they have been essential institution builders, leading the way in the promotion of amortized mortgages, consumer lending, business lending abroad, venture capital investment, and mortgage securitization. Today the US government owns or guarantees $8.5 trillion in loans.

How does this relate to questions of public finance? Researching these programs, I found that the US government has repeatedly turned to federal credit

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programs to avoid the open redistribution of wealth through taxing and spending. Lawmakers have also used credit programs to circumvent a veto-ridden, highly contested budgeting process. American lawmakers have long understood that credit programs could yield big results while having a relatively small impact on budget totals. Guarantees of loans, for example, were popular in part because, before 1992, they showed up as a major expense on the budget only once there was a default in the underlying loan. Public–private partnerships (such as mortgage giant Fannie Mae, which was partially privatized as early as 1955) could even be removed from the budgeting process altogether. Why was mortgage giant Fannie Mae "spun off" in 1968, its stock sold to private firms? Because of a fight over the debt limit in the midst of a Vietnam war era fiscal crisis.

When I looked closely at why the US government authorized the newly spun-off Fannie Mae to issue mortgage-backed securities in 1968 – setting in motion what would become a revolution in global financial markets – I found a particular political logic in play. The underlying assumption of the policy was that the right kind of financial engineering or risk management could improve general wellbeing with minimal economic redistribution. This was not the government leaving the middle class to suffer the whims of an unchecked market. This was government officials actively trying to reshape the mortgage market to achieve desired ends. My point here is not to deny the importance of financial interests and social groups in setting financial policies, but rather to call attention to part of the story that has to do with public finance that is too often overlooked: that when, why, and how credit allocation is used is structured around core fiscal and institutional concerns.

Interestingly, researchers examining the European Central Bank's recent promotion of securitization found a similar pattern: The ECB turned to securitization in search of an economic jolt large enough to obviate the need for more costly and divisive political solutions (Braun 2018; Engelen and Glasmacher 2018; Braun and Hübner 2018). This suggests that what I found in the United States is relevant to other nations, albeit in very different ways.

The approach I took to public finance was shaped by my training as an economic sociologist. In the tradition of Block (2008), I saw the government as an essential, active participant in markets. In the tradition of Padgett (1981, p. 76), I approach the budget as a place where researchers can examine "the articulation between state and society." And in a tradition that goes back to Durkheim, I see social rules not as constraints but as something profoundly generative. Fiscal pressures and budget crunches do not necessarily stop government officials from exercising power. Sometimes limitations inspire alternative forms of governance, such as public–private partnerships, tax expenditure, "nudges," and credit programs. We should not confuse an absence of government spending with an absence of government action.

There are many facets of a sociological approach to public finance that this reflection does not touch on. There are more lessons to be learned from work in other arenas, especially work on participatory budgeting and fiscal sociology. But even a brief overview such as this one can speak to the expansive and critical perspective on public finance that comes with a sociological perspective. Sustained attention to social dynamics, to power asymmetries, to institutions and accounts, all of these and more come into focus with a sociological lens.

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Switzerland as a laboratory for fiscal federalism and global fiscal governance

Gisela Huerlimann

In the twenty-first century, taxation has become a major object of contestation in international political and economic relations and has given rise to attempts to establish global fiscal governance. In this way, the international community is trying to harness the power of multinational enterprises (MNE), which can be seen, among other things, in their ability to shift profits, investments, and branch offices to the places with the most beneficial tax conditions. After the United States and other major industrial nations had "freed" international business and capital from certain currency, trade, and investment restrictions in the aftermath of the 1970s recession multinationals turned from being vehicles of higher growth and prosperity into the dubious face of globalization and hyper-capitalism. Once hailed by some as being at the "forefront" of modern capitalism – and thus also preventing socialism – investment companies today are well integrated into the economies of post-communist autocracies such as Russia and socialist market economies such as China. At the same time, holding and investment companies had been cherished by small states or special regions such as Luxembourg, Singapore or Hong Kong, whose economic policies include indulging financial services and modest taxation.[1] Switzerland, although it has a diverse economy and a full-fledged democracy, has typically been perceived as a tax haven of this kind and an offshore financial center as well.

In fact, the alpine nation has been a privileged refuge for multinational branches and head offices for decades, recently mainly for international commodity and tech firms. Transnational and global fiscal governance has altered the rules of the game, however. Since 2009, Swiss bank secrecy for foreign asset holders has come under pressure and finally ended. In 2019, Swiss voters decided to abolish the era of general tax privileges for holding, investment, and other "base companies."[2] In doing so, the Swiss Government and its citizens complied with demands from the European Union (EU), the OECD, and the G20 states. That the outside world could actively influence Swiss decision-making and get the federal state to encroach on the tax jurisdiction of the Swiss cantons is a spectacular recent development and sheds new light on Switzerland as a kind of "laboratory" as a small nation previously strongly inclined towards in tax competition. Switzerland's status as a formal outsider to the EU, but closely integrated with its economy and some of its legislation, has made the small country a suitable testing ground for the international community's efforts to implement (and enforce) solutions to the economic pressures and challenges of hyper-globalization. This article takes a non-nostalgic look back at earlier episodes of the international conflicts and disputes created by the Swiss "worlds of taxation." This term is an attempt to capture the multi-dimensionality of Swiss tax policy, shared and negotiated between municipalities, cantons, and the federal state – fiscal federalism – and linked to the wider world. The inclusion of these intra- and interstate dimensions of tax policy hopefully also allows for a plausible extension of social contract theory as advanced by New Fiscal Sociology.[3]

Fiscal federalism and its "laboratories"

In 2000, economist Lars P. Feld suggested that Switzerland could be considered a "laboratory" for fiscal federalism. Feld was hardly the first to use the "laboratory" metaphor in the context of a federal system's political economy.[4] But he chose to apply it at a time when the European Union and its unified market were expanding and the Swiss position vis-à-vis the EU had been settled with bilateral treaties. After considerable economic hardship during the structural adjustment process of the early and mid-1990s, the Swiss economy was on the rise again and preparing to be on the winning side of globalization. Fiscal federalism was no obstacle to such zeal, on the contrary. With its 26 cantonal tax authorities, the federal tax state and the 2,000 plus municipal taxing authorities, Switzerland seemed a good example of the beneficial effects of both tax competition and fiscal equalization. Historically, *verti-*

cal fiscal equalization in the Swiss context included cash transfers (subsidies) from the federal government to the cantons, the shifting of public tasks and expenses from the cantons to the federal state, but also the cantonal governments' participation in the collection of the federal income and gains tax and in a share of its yield. By contrast, the current OECD definition of fiscal equalization as "a transfer of fiscal resources across jurisdictions with the aim of offsetting differences in revenue raising capacity or public service cost" [5] corresponds more to *horizontal* fiscal equalization among the cantons. Swiss political myth holds that this multi-dimensional equalization scheme was the price for limiting nationwide tax harmonization to formal requirements – the obligation to raise income and wealth taxes in all cantons and to do so according to standardized procedures – while forgoing an adjustment of tax rates and tax burdens. In reality, however, the fiscal equalization scheme has further legitimized tax competition, as it helped to redistribute the yields of attracting foreign capital and companies (and their tax monies) among and within the cantons. If such an arrangement worked in a country considered in the late nineteenth century to be a showcase for nation-building based on a common will instead of homogeneity in culture, religion, or language[6], why should it not inspire a larger union of friendly states in the new millennium?

Twenty years later, however, the Swiss laboratory is undergoing reverse engineering. In May 2019, Swiss voters decided to abolish general tax privileges for Swiss and international holdings, domiciliary and mixed companies.[7] Domiciliary companies are foreign-controlled stock corporations with a registered but only symbolic presence in Switzerland ("letterbox companies"), while mixed companies have their main business activities outside, but a minor part also within Switzerland. These legal forms had allowed for considerable tax deferral and tax saving. With its pronounced federalist structure and its system of direct democratic codetermination, Switzerland has a significant number of veto points when it comes to tax and financial issues, often to the chagrin of government authorities (the value added tax failed three times at the ballot box before voters finally gave the green light to its introduction in 1993). Even in the case of the third Corporate Tax Reform Act, as the legislation to abolish the "holding privilege" was originally named, an initial rejection by the voters in 2017[8] compelled Parliament and the Government to have another go. The revised act omitted some of the previously suggested, highly controversial compensatory new tax benefits proposed to prevent an exodus of multinationals. But the essence of the reform was retained, the abolition of corporate tax codes that were "internationally no longer accepted."[9]

The focal point of a dispute that had been intensifying since the late 1990s and reached its peak during the international financial and debt crisis of 2007–10 was the allegation that Switzerland was practicing unfair and even harmful tax and economic competition. Although this was a longstanding accusation, the dynamics of globalization gave it a new impetus, as did the global fiscal governance initiatives instituted by the G20, the OECD, and the EU. Such initiatives were also intended to make up for the legal omissions in the 1980s and 1990s liberalization euphoria.[10] The same fate awaited Swiss banking secrecy, which had bolstered the Swiss financial industry's rise as the global center for offshore wealth management. The fact that many private assets managed by Swiss banks remained untaxed in their country of origin was hardly news in 2008. What was new, however, was that the main Swiss banks – and the Swiss authorities – began to provide foreign governments with tax-relevant asset information. Between 2009 and 2017, bank secrecy for foreign customers was replaced by a de facto – later also de jure – administrative exchange of information, first with the United States, then expanded to various multilateral agreements.[11] In the same period, the cantonal tax privileges for holding companies and mixed companies came under increasing pressure and were then doomed for expiration by the May 2019 referendum vote. This coincidence aptly demonstrates the intertwined nature of cantonal tax regimes, federal taxation policy, the Swiss financial industry, and the international environment. Within the context of G20 and OECD global tax governance initiatives, these interconnections between national tax policies have been brought into focus in a way unseen since the end of World War II.

The European Union, for example, has used the OECD's Initiative against Base Erosion and Profit Shifting (BEPS) to create a common consolidated corporate tax base that links together the old dream of a European fiscal union and the restriction of highly mobile capital against the background of hyper-globalization.[12] In this context, the idea of Switzerland as a "laboratory" takes on fresh nuance: tax policy deal-

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ings with Switzerland can be viewed as a test site for the enforcement of a new macro tax policy that is now increasingly being directed against EU member states such as "Belgium, Cyprus, Hungary, Ireland, Luxembourg, Malta and the Netherlands," a group of smaller countries that are all suspected of infringing the laws of fair economic competition by offering corporate tax benefits or tax shelters, which is interpreted as "aggressive tax planning" by the European Parliament.[13] The twenty-first century project of a EU fiscal union is thus probably motivated by the fallout of the post-2008 financial and debt crises, by a profound sense of having lost control over the financialization and digitalization of global capitalism, and by the fact that small EU member countries, like other small, but aspiring nations around the globe, are using taxation as an economic policy instrument. At the same time, the EU fiscal union measures are reminiscent of the ambitious European tax harmonization plans of the 1960s, which were sparked by concerns about market justice and the facilitation of transnational trade and consumption, for example by means of a harmonized value added tax.[14] At the time, intergovernmental double taxation agreements (DTAs) were expected to ensure that economic prosperity and integration were not hampered by multiple tax burdens. But DTAs also became a gateway for tax privileges that violated the fiction of fair competition and sparked a debate in which questions of economic *winners and losers* and arguments for tax justice came to the fore. In order to understand this, we need to back to the post World War I era, when war debt, political and societal changes favored high taxation in many war-ridden European nations, and when Switzerland's flourishing as a site for international organizations and companies began. It was a time when holding companies came into vogue: firms that were formally separate from the production entities and operations they owned and created to control other businesses, at home or overseas.

Post-WWI internationalism: the League of Nations, and holding companies

The era of tax privileges for holding and investment companies had begun in 1903 in two Swiss cantons. Originally, they offered tax-saving opportunities to local industries through legal reforms with the aim of keeping them from moving. Those reforms were inspired by models in some US states and the Netherlands, which privileged certain types of investment companies. World War I brought about a breakthrough in the use of this economic and tax policy instrument and in 1919 the term "holding company" entered the Swiss Code of Obligations to describe companies "whose purpose consists mainly in holding shares in other enterprises."[15] The privileged taxation of such companies was just one of the advantages and arrangements that turned Switzerland into a safe haven for foreign capital. A lively exchange of knowledge and experience between cantonal administrations, business lawyers, and politicians allowed for the spread of such practices throughout the 1920s. In 1924, the internationally-connected Zurich lawyer Georg Wettstein wrote an appraisal of the success of the holding company, in which he compared the practices in Switzerland with those in other countries. For Wettstein, such companies embodied the "power" of free-market enterprises and stood "at the forefront of capitalist development" and would therefore provide "to a certain extent, a counterbalance" to socialist tendencies that had gained considerable momentum during and after World War I. The urbane lawyer, who also wrote for the *London Stock Exchange Gazette* and *The Times*, noted that those who were fearful of possible economic "Überfremdung" [foreign infiltration] through such international holdings, should consider the fact that Switzerland's hotels and export industry were heavily "dependent on foreigners." In addition, "internationalism" was celebrating "a major success" at the League of Nations. The "capitalist concentration in the form of trust investment companies" was for Wettstein a "healthy economic factor of international progress." It would allow enterprises to balance their risks and at the same time increase public revenue.[16] From the fact that the second extraordinary federal war tax from 1919 entailed privileges for holding companies Wettstein concluded that such tax privileges were not so much aimed at tax competition among Swiss cantons as an "invitation to foreign capital" to "at least relocate its administrative headquarters to the security of Switzerland." Public companies might have enjoyed greater privileges in the Netherlands (which attracted German business on a large scale) and, to a certain extent, in Great Britain. But nowhere did non-operative holding companies enjoy more tax favors than in Switzerland. Wettstein's piece was published in the Swiss *Journal for Cantonal and Municipal Administrations*, and he encouraged his readers from government bodies to cherish the Swiss lead in such tax matters and not to allow their country to be overtaken.

And indeed, by 1928, 16 cantons had special tax and exemption regulations for holding and/or domiciliary companies. At the federal level, the privileging of holding companies and investment companies was integrated into federal tax legislation in the 1930s and 1940s. Measures against arbitrary cantonal tax agreements further paved the way for preferential treatment

of such companies by law. During World War II, some cantons had rescinded these legal advantages, but from the late 1950s onward, there was a stark revival of tax privileges for holding companies. Together with the abolition of capital controls and the return to currency convertibility around 1958, such tax privileges promoted the massive inflow of foreign companies into Switzerland. In just nine years, between 1955 and 1964, the number of registered joint stock companies grew by 80 percent. Between 1964 and 1975, their absolute number almost doubled.[17] Alongside the number of stock companies, the share of federal tax receipts from legal entities grew, and by 1961/62 already amounted to 42 percent of the total income from the federal income and gains tax (called originally "federal defense tax").[18] Part of the boom was the result of the establishment of companies, originating from the United States, Germany or elsewhere, within a holding or trust structure.

By 1966, all Swiss cantons had introduced special tax rates for holding companies. In most cantons, holdings did not pay cantonal taxes on net profits, and were subject only to a dramatically reduced tax rate on capital. The majority of cantons also offered similar privileges for domiciliary companies. Due to the entanglement of the cantonal tax worlds with the federal tax state, such arrangements would prove financially worthwhile because the companies paid the regular federal income and gains tax, a share of which was reserved for the cantons. Normal stock corporations could also enjoy certain tax privileges, if they were set up as a "mixed company" with only a limited share of their business activities in Switzerland. In the central Swiss canton of Zug, which had specialized in this type of tax privileges, such companies were required to generate at least 80 percent of their revenue abroad. Of this amount earned abroad, only one quarter was taxed. Revenues generated in Switzerland were taxed normally, which in the case of Zug was also at a low rate. This preferential treatment of mixed companies was based on administrative practices introduced in the late 1950s. It was no coincidence that, during this time, Philipp Brothers opened an office in Zug, the first of many large international commodity-trading firms to do so.

The economic boom and its shadows: capital outflows and twisted DTAs

Shortly after taking office, US President John F. Kennedy sought, in the context of the negative American balance of payments, to tackle the problem of capital flight from the United States.[19] In April 1961, President Kennedy announced a tax reform plan that included various tax cuts, which the Democrat President justified by pointing to the more favorable taxation of American companies and direct investment abroad. While the Kennedy administration was wary of directly attacking US investors for "outflows" of capital and corporate activity, it did publicly direct its outrage at "tax havens such as Switzerland," whose financial centers attracted "dirty money" and encouraged "tax deferral."[20] Kennedy was not the only foreign politician to register concerns about the fiscal consequences of capital and corporate mobility. In 1962, the Bundestag commissioned the German government to draw up a report "on the distortions of competition resulting from relocations and the inter-state tax differences."[21] Such international criticism and the 1961/62 debates on a possible Swiss associate membership of the European Economic Community prompted the Swiss Federal Council to introduce an anti-tax avoidance regulation for double taxation agreements (DTAs) in December 1962. This decision provided that the countries of origin of foreign investors and investment companies were entitled to withhold taxes on unjustified tax relief. The German federal government report, published in 1964, calculated the exodus of German capital, both private and corporate, to Switzerland, linking it directly to instruments such as the lump-sum taxation of wealthy foreigners – a taxation based on taxpayers' annual living expenditure and not on their income and assets – special regulations for holding and domiciliary companies, and generally lower taxation rates. The report criticized states such as Switzerland that guaranteed absolute tax secrecy – even when legal tax avoidance became illegal tax evasion – and refused to "conclude mutual legal assistance agreements or provide tax information to foreign states." [22] The German government did, however, acknowledge the Swiss government's efforts to combat abuses of DTA, while nonetheless stating that changes to the Switzerland–Germany DTA were imperative because the tax differential between Germany and Switzerland continued to be upheld by the existing agreement. In December 1964, the Erhard administration asked Switzerland for a revision of the double taxation treaty that had been concluded in 1931 and renewed in 1957 and 1959.

In the mid-1960s, Switzerland was faced with several states making similar demands, as well as calling for mutual assistance in cases of suspected tax evasion.[23] The exchange of experiences within committees of the European Community or the OECD encouraged countries such as Germany and France to defend themselves against the proliferation of Swiss tax competition by demanding the revision of double

taxation treaties. In addition to the DTA with Germany, between 1965 and 1967 Switzerland revised or newly instituted seven other DTAs with France, Sweden, the Netherlands, Great Britain, Spain, Ireland, and South Africa. In April 1966, the Swiss Federal Tax Administration advised colleagues in the Federal Office for Commerce that it would be preferable not to address a desirable double taxation agreement with Italy on the occasion of an Italian ministerial visit, as the Swiss bargaining position was at that moment "embattled" and Switzerland was, "under heavy 'shelling'" from the European Economic Community (EEC) regarding DTAs.[24] But how did double taxation agreements become the basis for siphoning water from the Swiss tax oasis at all?

At the end of the nineteenth century, the parallel evolution of modern taxation, simplified mobility, and increasing transnational commerce had initially created the problem of multiple taxation of income or profits from activities in several countries. Before World War I, bilateral agreements were supposed to solve this problem. After the war, the International Chamber of Commerce and the League of Nations became the main arenas for promoting and coordinating agreements to avoid double taxation: both to restore peaceful economic exchange and to get transnational tax evasion under control. The fact that the League of Nations produced differing model-agreements and variants for bilateral DTAs points to the diverging interests of the participating national delegations. French delegates insisted from the outset that the avoidance of double taxation for corporate activities needed to be linked to the obligation to exchange information in cases of suspected tax evasion. This linkage is also present in the 1946 London Model Treaty for the Prevention of International Double Taxation and Fiscal Evasion.[25] France also became increasingly active in taxing the capital gains of foreign companies. Since the 1930s, Swiss industrial companies active in France had attempted to counter these tendencies with their own proposal for a DTA between Switzerland and France. Their efforts were supported by Swiss asset management interests, which resisted any initiative to impose an official disclosure obligation or to soften Swiss banking secrecy. In autumn 1937, years of tough negotiations finally ended in an agreement: the DTA issue was linked to a Swiss National Bank loan favorable to France and a mere temporary duty of disclosure for tax-related information was accorded.

After World War II, the DTA model-agreements dossier was passed on to the Organization for European Economic Cooperation (OEEC) and its successor organization, the OECD, which led to the establishment of an OECD Committee on Fiscal Affairs (CFA) in the second half of the 1950s. Between 1956 and 1961, the CFA prepared several interim reports, as well as a final report in 1963 (published in 1977) containing the first OECD model-agreement for intergovernmental avoidance of double taxation. As early as the 1960s, CFA experts already envisioned the ideal of a single, multilateral agreement, the obstacles to which included both differing tax definitions and divergent fiscal policy interests. The United States found it difficult to accept a provision whereby "residents" would receive tax breaks to mitigate a situation in which they were taxed twice, both in their country of origin and in their country of residence. According to US tax law, US citizens must declare their worldwide income, regardless of any other foreign residences.[26] Inasmuch as economically prosperous Europe was able to modify trade and payment flows with the United States, it became increasingly untenable for the US government to allow American companies to be able to divide their corporate structures into parent and subsidiary companies in order to accumulate profits in European tax havens and thus exploit the "multiplicity of foreign tax systems and international agreements," as President Kennedy had stated in his Congress Message on Taxation from April 20, 1961. With this formulation, President Kennedy's April 1961 Special Message to Congress addressed not only Swiss and other tax optimization locales, but also the double-taxation treaties themselves. These agreements threatened to degenerate from a trade facilitation instrument to a tax avoidance gimmick. The US delegates fought against such tendencies in the CFA and other bodies, an endeavor that partially overlapped with the EEC's objectives and roadmap for tax harmonization. For the EEC Reports on Tax Harmonization, published in 1962/63, also recommended the revision of such double-taxation agreements, which were no (longer) conducive to an undisturbed flow of economic activity.

Switzerland responded to this constellation of conflicts with the already mentioned resolution of the Federal Council against the "unjustified or improper use" of double-taxation agreements. The Swiss financial industry welcomed this step as an attempt to counter the "danger" of DTA revisions by individual states.[27] From the Federal Tax Administration's point of view, the OECD's 1963 model-agreement had sparked the myriad DTA appeal requests and dashed the hopes of Swiss finance. The OECD and the EEC were thus not just bodies that generated model agreements and harmonization schedules. Their working committees also created multilateral channels of communication that enabled the exchange of experiences, also with regard to negotiations with Switzerland: "The Germans know that we have accepted the introduction of administrative assistance proceedings with three states, there is thus no point in resisting the Ger-

man demand any longer," was the fatalistic interpretation of one lawyer in the Swiss Ministry of Foreign Affairs (EPD) in April 1965.[28] And a year and a half later, the liberal chairman of a Swiss Senate Committee remarked that it was well known that French and German fiscal experts had met in Brussels and that their exchange of views had without any doubt informed the German side about the tenor of confidential letters exchanged within the context of the French–Swiss convention.[29]

When the French government announced its request for a DTA revision, Switzerland was already in the process of renegotiating its agreements with the Netherlands and Germany. With new DTAs in the pipeline with Ireland and Spain, the OECD's CFA and the European Free Trade Association's (EFTA) Double Taxation Working Group also began to make demands on Switzerland. Behind closed doors, representatives of the Swiss federal administration did not hide their frustration with certain cantonal tax practices. It was "unpleasant" that people now came to Switzerland, not intending to settle there as wealthy rentiers, as before, but "as industrial magnates," who only came for the purposes of "misusing [the DTA] and escaping fair taxation," said one annoyed Vice-Director of the Federal Tax Administration in April 1965.[30] Nevertheless, business associations and representatives of the Swiss financial world continued to support the holding and domicile tax privileges and to prevent external and internal criticism of Swiss tax specialties and banking secrecy from fueling each other. Nonetheless, the revised double taxation agreement with France, concluded in September 1966, led to certain concessions by the Swiss, including a provision that interest and license income declared by French domiciled companies residing in Switzerland would now be taxed by the country of origin and would no longer fall under the protections of the DTA. This worried business tax lawyers. For Peter Böckli, who worked for a US commercial law firm in New York and Paris, the DTA with France represented a "turning point in Swiss double taxation law" because France had practically "snubbed" the OECD model-agreement. The revised agreement limited the right of taxation of the state of residence, which hurt Switzerland as a destination for wealthy French citizens and firms. Only with "great difficulty" had the Swiss side been able to avert far-reaching concessions in terms of information exchange and administrative assistance proceedings.[31] Another author writing in the *Archives de droit fiscal suisse* warned in 1969 that the notion of restricting cantonal tax privileges by means of a DTA could catch on.

The Swiss "battle plan" to accelerate the DTA negotiations with Germany in order to avoid negative spillover from the French negotiations encouraging similar German demands failed. Instead, the Swiss delegation, in which representatives from the banking and business sectors also participated, witnessed how the German side extended their "claws," using the French–Swiss DTA as leverage.[32] In addition to higher withholding taxes on royalties and bank interest income, the catalog of German revision demands included the exclusion of German companies that mainly carried out tax saving activities on behalf of related corporations in their home country from the DTA and from mutual assistance in tax matters. The latter was not a new demand, but the concrete follow-up to an issue that had been pursued since the Weimar Era. The Swiss counter-attack was to at least delay ratification of the agreement with France. Simultaneously, the Swiss government had to calm the domestic political waves triggered by the agreement with France.

The vain zeal for ending tax competition, and the continuing adaption of the Swiss worlds of taxation

First social-democratic, but then also independent or center-right parliamentarians appealed to these transnational tensions and disruptions when they demanded the abolition of unjustified tax privileges and/or a far-reaching harmonization of the Swiss tax system in the late 1960s and early 1970s. At the height of these demands for harmonization, which were accompanied by vehement criticisms of inter-cantonal tax competition, negotiations with Germany on revisions to the DTA came to a close in the summer of 1971. In the end, Switzerland had to make similar concessions to those made to France. Meanwhile, the Swiss authorities were also engaged in difficult negotiations with Italy and with the United States. Using the Swiss case, the latter tried to establish an exemplary bilateral mutual assistance agreement, which would also apply to economic offenses and tax criminal cases. Like the German negotiators before them, the US authorities under the Nixon government were inspired by the success of French negotiating tactics. The long-term goal of the Americans remained the cracking of Swiss banking secrecy for American criminal (tax) proceedings.[33] OECD model-agreements and negotiation channels that leaked information to the outside gave the Swiss players the impression of an increasing "interdependence." Not only were the demands of the various states quite similar, but the scandal of international tax refugees in Switzerland echoed way beyond

the country's borders and strengthened the alpine nation's reputation as a place light on tax justice. For the Swiss Ministry of Finance, it became obvious that Switzerland was at odds with the trend of "harmonizing international tax structures." [34] However, a financial industry "superpower" such as Switzerland simply could not afford to sidestep such trends anymore.[35] In the early 1970s, some politicians, political parties, and the federal administration attempted to use this international constellation to gain momentum for its project to fundamentally reform not only the tax system, but also the federal constitution and thus fiscal federalism, against the wishes of certain economic and financial interests and many Swiss cantons. Ideas for a more encompassing harmonization of Swiss taxation that included similar tax rates and the abolition of the holding company and other tax privileges would eventually end in failure due to varying interests within government, administration and parliament, the veto power of the Swiss referendum system, and the turn of the tide in the late 1970s. This new context of economic crisis and public debt brought about a revival of a competitive logic, which could be combined with new international tax and economic policy principles, such as the Laffer curve in US tax reform projects or the "great moderation" in monetary policy and public spending. The radical dreams of some to approach cantonal tax rates or even substituting a part of cantonal taxing rights with an expansion of federal tax authority (and thus end or significantly reduce tax competition) had already been shattered in the late 1970s. But those who had finally given in to a mere formal tax harmonization might not have foreseen that the federal law on the harmonization of the cantonal and communal taxes that was enacted in late 1990, together with the federal law on the federal income and gains tax, would encourage the generalization of the competitive paradigm throughout Switzerland. And not only this. The 1990s and 2000s saw a spillover of the cantonal "laboratories" of tax competition policy to the level of the federal state. This resulted in a series of federal corporate tax reforms between 1997 and 2008. The federal state, which played the role of regulator, profiteer and mediator in the intra- and transnationally intertwined Swiss tax and economic worlds, now became the pacemaker of tax competition. The generalization of the competitive paradigm was not only a formal consequence of legal harmonization procedure, but was also justified as a way to tackle globalization and the accelerated international economic competition. From the perspective of a small state, tax policy appeared as an equivalent to the trade and customs policies enacted by other, larger, states in their economic zeal.

But the empires struck back. In the late 1990s, the debates, decisions and reports of the OECD and the Council of Europe that had criticized banking secrecy and harmful tax competition and recommended their abolition for years, were provided with fresh support through their juncture with the powerful states of the G7 and the G20. The experience of the global financial, fiscal and economic crises around 2007-2010 fueled the search for coordinated measures to at least partially recapture the earlier unleashed market forces. The earlier schemes of the Swiss fiscal and banking institutions were now more than an annoyance (to be compensated by other valuable financial or diplomatic services, as before). The transformation of the Swiss business model described at the beginning of this essay, was conducted in unison with Switzerland's attempt to re-configure its economic policy beyond tax-venue competition, for example through free trade agreements with the new big players such as China. Furthermore, the erosion of the old business happened simultaneously to Switzerland's rise to an international FinTech center and Crypto Valley and initially has not hindered this recent development. But the corollary of Switzerland´s role as one of the World´s most important international commodity hubs is an ever mounting pressure to comply with initiatives by OECD and the mighty G7 and G20 groups to thwart the power of corporate finance and hyper-globalized MNEs. Since 2010, the Swiss authorities had, step by step, indulged the international community´s demands for accepting the automatic exchange of tax information and for cooperating with the BEPS project. The current OECD plans[36] to reallocate taxing rights over and profits from "highly digitalized MNEs" go far beyond the initial model treaties and standardization of tax information. These plans trigger grim fears among the Swiss elites that the balancing act practiced so aptly by the Swiss worlds of taxation for decades will come to a final end. The great powers have taken a firm grip on the tax policy tightrope.[37] Against the specter of a worldwide "homogenization of taxation", the Swiss Minister of Finance is searching for an alliance of "resistance" in countries as diverse as Luxembourg, Ireland, and Sweden, but also Canada, Singapore and Saudi Arabia.[38] It remains to be seen whether the Swiss will manage a way out of this new situation as they always did in difficult times: by adopting the role of the obliging, but not disinterested, middlemen.

Endnotes

This text draws on, but also expands the author´s writing on the "Swiss Worlds of Taxation" in various book sections and journal essays, namely Huerlimann 2016, 2017, 2018, 2019 (see references). These findings and reflections are currently brought into a monograph. My thanks go to Julia Sittmann, Berlin, for her support in translating the first German draft of this text, and to Akos Rona-Tas for his very careful reading and highly valuable comments The responsibility for all shortcomings rests entirely with the author.

1 Buckley 2018; Martinus et al. 2019 (see references); on Hong Kong´s corporate tax policy see various articles in the Bulletin for International Taxation from the early 1980s.

2 The OECD in its tax terminology defines a base company quite trenchantly as a "company situated in a low-tax or non-tax country (i.e. tax haven), which is used to shelter income and reduce taxes in the taxpayer's home country» and which carries "certain activities on behalf of related companies in high-tax countries", see https://www.oecd.org/ctp/glossaryoftaxterms.htm.

3 I am indebted here to the immense and highly fruitful influence of scholars like Isaac W. Martin, Ajay Mehrotra, Monica Prasad, but also W. Elliot Brownlee, who had been a historian of the political economy of taxation "avant la nouvelle vague".

4 The origin of the laboratory metaphor is ascribed to Justice Louis Brandeis, and was made prominent by David Osborne in his 1988 book. Wallace Oates in 2008 ´reviewed´ the development of scholarship on fiscal federalism that he had encouraged in 1972.

5 Quoted from the OECD Network on Fiscal Relations Across Levels of Government, see reference section.

6 I refer to French Historian and Philosopher Ernest Renan and his reflections on "What is a Nation" (1882).

7 Information on this referendum vote in English can be found here: https://www.efd.admin.ch/efd/en/home/dokumentation/legislation/abstimmungen/staf.html

8 See for the referendum vote on the Corporate Tax Reform Act III in February 2017: https://www.efd.admin.ch/efd/en/home/dokumentation/legislation/abstimmungen/third-series-of-corporate-tax-reforms--ctr-iii-.html.

9 I am quoting from the Swiss Federal Council´s Message on the Federal Law on the Tax Reform Bill 17, from March 21, 2018, p. 2548 (see the reference section for the whole document).

10 This omission was recently also alluded by Thomas Piketty in his "Capital et inégalité" (see reference section).

11 I am referring (1) to the Swiss adoption of the US-Foreign Account Tax Compliance Act (FATCA), in vigor since June 2014; (2) to a series of revised or new double taxation agreements (DTAs) containing art. 26 on the «exchange of information upon request» of the OECD Model Agreement. The Swiss Federal Council´s principal decision to embark on OECD standards was taken in March 2009, also as a reaction of OECD´s announcement to potentially list Switzerland on its black or grey lists of uncooperative tax havens. (3) On a multilateral level, Switzerland has adopted the now global standard on the automatic exchange of financial account information (AEOI), in force in Switzerland since 2017, and joined the action plan for OECD's base erosion and profit shifting (BEPS) project. BEPS measures are being implemented by the Swiss since 2018.

12 See: Common Consolidated Corporate Tax Base (CCCTB) (IP/11/319), Brussels, March 16, 2011. Online: https://ec.europa.eu/commission/presscorner/detail/en/IP_11_319 (last accessed: Nov 15, 2019).

13 See : European Parliament (March 13, 2018): Tax avoidance: multinationals to pay taxes where profits are made (https://www.europarl.europa.eu/news/en/headlines/economy/20180308STO99329/tax-avoidance-multinationals-to-pay-taxes-where-profits-are-made) (last accessed: Nov 15, 2019).

14 I am here referring to the EEC Fiscal and Financial Committee of the early 1960s, chaired by economist and tax scholar Fritz Neumark and with the participation of such eminent scholars and tax reform advisers as Alain Barrère or Carl S. Shoup (see reference section).

15 Swiss Code of Obligation (as of 1968), art. 671, cl. 4; Art. 711, cl. 2, quoted by the Swiss Federal Tax Administration collaborator Heinz Masshardt in 1968 (p. 354f, see reference section).

16 I am referring to Georg Wettstein´s 1924 journal article "On the Taxation of the Holding Company", published in the Swiss Journal for State and Municipal Administration, pp. 177-181 (see reference section).

17 For more details and the data source see Huerlimann 2019.

18 As reported by Walter Stäuber in 1966 (p. 116), see reference section.

19 In his Special Message to the Congress on Gold and the Balance of Payments Deficit, February 6, 1961.

20 See: Special Message to the Congress on Taxation, April 20, 1961, part III on the tax treatment of foreign income. The term *dirty money* was used by the US national security adviser McGeorge Bundy in a talk with the Swiss ambassador August R. Lindt, see Lindt´s cable to the Swiss Foreign Minister from March 3, 1962 (accessible through the database "Diplomatic Documents of Switzerland", see: https://dodis.ch/18897).

21 Such was the wording in a parliamentary bill from April 12, 1962 by the Bundestag factions of CDU/CSU and FDP. The bill entailed the demand that the German Federal Government produce a report on "the distortion of economic competition as a consequence of business relocations and the tax differences between nation states".

22 Report of the German federal government on the distortion of economic competition as a consequence of business relocations and the tax differences between nation states (1964), p. 8 (see reference section).

23 The archival sources for the following text sections were consulted at the Swiss Federal Archives (SFA), within the records of the Swiss Federal Tax Administration and the Swiss Federal Finance Administration. Some SFA documents relevant for Swiss foreign (trade) policy also had been digitized and published within the Diplomatic Documents of Switzerland (database and books).

24 Letter by the Federal Tax Administration´s vice director to the Federal Office for Commerce concerning a double taxation agreement with Italy, April 7, 1966 (see: https://dodis.ch/31280).

25 See the Model Bilateral Conventions for the Prevention of International Double Taxation and Fiscal Evasion, Report of the

Second Regional Tax Conference, League of Nations Doc. C.2.M.2. 1945 II A (1945).

26 US tax expert Adrian Kragen showed in 1964 both understanding for the US government position and for a multilateral agreement: "Although United States policy and treaty makers might be reluctant, due to the present concern with the "flight" of the dollar and with the tax haven problem, to include any definition which might encourage residence in a foreign country while retaining some ties with the United States, this should not be a substantial obstacle to use of the definition for purposes other than determining tax liability of citizens." (Kragen 1964, p. 311, see in the reference section).

27 Wording used by the Swiss Banking Association in a confidential letter from July 7, 1962, to the directorates of their member banks regarding "foreign criticism towards the Swiss banking business", see: https://dodis.ch/30737.

28 Confidential minutes of the debate with representatives of the cantons and economic associations concerning the Swiss DTA negotiations with the Netherlands, Germany, Ireland and Spain as well as the work of the OECD Committee on Fiscal Affairs and the EFTA Working Group on double taxation, April 7, 1965, see: http://dodis.ch/31446.

29 Paul Torche in the meeting of the Senate Committee on Tax Reform, November 23, 1966 (file: Swiss Federal Archives BAR#E6300B#2000/144#2).

30 Confidential minutes of April 7, 1965 (op. cit.).

31 Peter Böckli in a journal article on the French-Swiss double taxation agreement from September 9, 1966 (see reference section).

32 Minutes of the meeting of the Senate Committee on Tax Reform, November 23, 1966 (op. cit.).

33 See the minutes of the study group for assessing the draft for a Swiss-US-agreement on legal assistance in penal cases, March 22, 1971, see: https://dodis.ch/35394; the Swiss Banking Association´s delegate declared that more than 700 investigation cases had been prepared by the US authorities.

34 Note from the Federal Finance Administration to Federal Councilor Pierre Graber concerning the case of the German department store owner and tax evader Helmut Horten, February 26, 1971, see: https://dodis.ch/35292.

35 The expression "Grossmacht" was used by the Swiss Foreign Minister Pierre Graber, the study group for assessing the draft for a Swiss-US-agreement on legal assistance in penal cases, March 22, 1971 (op. cit.).

36 See for a critical assessment : Tax Justice Network (October 7, 2019): OECD reform weak on corporate tax havens, harsh on poorer countries (https://www.taxjustice.net/2019/10/07/oecd-reform-weak-on-corporate-tax-havens-harsh-on-poorer-countries/).

37 See the OECD documents from 2019 listed in the reference section.

38 Words used by the Swiss Minister of Finance Ueli Mauer in an interview with the newspaper Neue Zuercher Zeitung (NZZ), November 5, 2019.

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The politics of subnational taxation in comparative perspective

Josh Pacewicz

Students of contemporary statecraft have long argued that welfare states shape societies. Social programs do not merely provide benefits to individuals. They reinforce or undermine social hierarchies and shape citizens' views about natural bases of political solidarity (Esping-Anderson 1990). In southern Europe, for instance, corporatist welfare regimes tied social protections to the male breadwinner and other traditional social institutions, while means-tested programs in Anglo-Saxon nations reinforce the social stigma of direct public benefits.

And what is true of social welfare expenditures is equally true of regimes of revenue extraction, which also shape people's lived experience of national political economies. In Scandinavian nations, cradle-to-grave social programs are supported by relatively regressive consumption taxes – a funding mechanism that blunts opposition from the rich while reinforcing the notion of public programs as a good equally maintained and beneficial to all (Steinmo 1993). Likewise, the New Deal social compact in the United States was built upon the world's most progressive income tax system, which allowed even middle income Americans to build wealth and participate in an orgy of everyday consumption (Prasad 2012).

What is true of national welfare states ought to apply equally to systems of revenue, expenditure, and governance at subnational scales. In this essay, I will argue that subnational governance regimes do not merely extract revenues and deliver services. They heighten or reduce inequities, inscribe them in space, create political subjects, and shape citizens' commonsense views about conditions of political possibility. My specific interest is in how subnational governments extract revenue – on subnational taxation in comparative perspective. In contrast to the large body of empirical and theoretical work on national welfare regimes, we know little about the comparative politics of subnational taxation. No frameworks on par with those of Esping-Anderson (1990) or Hall and Soskice (2001) exist to guide comparative inquiry into subnational governance. This is a missed opportunity because, as I will argue here, regimes of subnational taxation are every bit as varied as national welfare regimes – and, arguably, just as consequential. The essay argues for comparative research about subnational taxation by identifying related findings from fiscal and financial sociology, critical urban geography, urban sociology, and urban and regional economics that could sustain a conversation about the topic.

Expenditure and revenue levels alone point to extreme international variation in subnational taxation and governance. Consider the size and funding sources of governance at the lowest scale: local, urban, or municipal governments. As with national welfare regimes, the clearest contrast exists between Scandinavian and Anglo-Saxon nations.

Local taxes comprise a large portion of taxation in Scandinavia – as much as 16 % of GDP in Denmark and Sweden – and consist almost entirely of income taxes (Kitchens 2004). By contrast, the UK and its former colonies have historically maintained smaller local states and funded them largely through property taxes – still the norm in Canada, Australia, and New Zealand, where municipal governments collect only property taxes (Kitchens 2004).

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But, beyond this, there is startling international variation in the size, activities, and funding sources of local governments. At one extreme, municipal governments in nations like the United States assume responsibility for social services, policing, fire protection, and primary and secondary education. At the other extreme, municipal governments are virtually nonexistent – as in India and Mexico, where provinces

assume most of the functions of urban governments and municipalities account for only a fraction of one percent of public expenditures (Kitchens 2004). In nations like Germany, the Czech Republic, and Nigeria, municipal governments are funded primarily with intergovernmental transfers, while municipalities in the United States benefit from no federal revenue sharing and are largely "self-financing" (Bird 2012). Sales taxes comprise a small portion of municipal revenues in most nations, but over 40 % in Hungary, Greece, and the Netherlands. Italian, Greek, and French municipalities rely heavily on corporate taxes, while Indian municipalities derive their revenue mostly from an arcane local import duty – the octroi.

Such variation in subnational taxation regimes has received comparative attention only from regional and urban economists, who are principally concerned with technical efficiency and perverse incentives for public sector overspending. But, on the contrary, a growing body of work documents that subnational taxation is central to distinct forms of distributional politics and therefore social stratification. In what follows, I argue that systems of subnational taxation do this in two ways. They transfer resources between citizens and firms and other corporate bodies and thereby define the bounds of social rights and obligations – a dynamic that has received considerable attention from critical urban geographers and other students of local political economy. And regimes of subnational taxation can also effect transfers of resources between citizens, establishing some as worthier than others of social rights and obligations – a form of redistributive politics that has received less attention from scholars.

The essay proceeds in three parts. The first section illustrates the proposition that systems of subnational taxation underlie unique forms of distributional politics by drawing upon an extreme case: the racialized fiscal politics of the Chicago metropolitan region undertaken by myself and John Robinson (forthcoming). The case illustrates how seemingly neutral and technical fiscal arrangements actually motivate transfer of resources, both between different types of citizens and between citizens and private sector developers. I argue that these patterns depend on two factors: the degree to which municipalities are self-financing and political fragmentation, or the sorting of different types of citizens into different political jurisdictions. The next two sections then examine, respectively, municipal finance and political fragmentation in the United States and other nations. This analysis leads to tentative conclusion and speculative framework for future investigation: that citizen-capital redistribution is more pronounced where municipalities are more self-financing and redistribution between citizens is more pronounced where political fragmentation is higher.

Throughout, I rely heavily on my knowledge of the United States, where significant reforms to intergovernmental finance in the 1980s illustrates important effects of such policies. This is largely due to the dearth of scholarship that both locates subnational taxation regimes in comparative perspective and illustrates how they actually function at street-level – though I cite examples of such work where I encountered it, and those willing to wade through economic and regional development journals would likely find case studies of reforms in other nations that illustrate the arguments that follow.

An illustrative extreme case: the racialization of municipal taxation in the Chicago region

The Chicago region is an extreme exemplar of common features of American metropolitan regions: the sorting of different types of Americans into different municipal jurisdictions, which are largely fiscally self-financing. As elsewhere in the United States, residential segregation is pronounced, especially along black-white lines. The black-white dissimilarity index for the region is 83.4, meaning that 83.4 % of African Americans would need to move to a different census tract to achieve a uniform distribution across all census tracts. Historically, these segregation patterns were contained within Chicago city limits, and then – later – evinced a common mid-20th Century pattern with African Americans concentrated in the city of Chicago and white Americans moving to the suburbs (Logan 1976; Denton and Massey 1993). But, as the metropolitan population has grown, segregation spilled over municipal boundaries into the hundreds of independent suburban municipalities that ring Chicago. Currently, over 70 % of municipal residents, including a majority of poor and nonwhite residents, live in suburbs outside of city limits (Hendricks 2011).

As is also common in the United States, the Chicago region's demographic patterns map onto economic divides. White suburbs are concentrated to the north of the city and include some of the richest municipalities in the United States. And even middle-class white suburbs evince high and steadily rising property values that recovered quickly after the Great Recession – a key determinant of material wellbeing, given that the capacity to build and transmit wealth via the home is central to America's privatized welfare regime (Hacker 2002; Quinn 2010; Prasad 2012). But the economic-racial overlap is not perfect. Though fully a third of black-majority suburbs are poorer than any white suburb, many white suburbs are nevertheless

decidedly middle income, evincing median household incomes in the $40,000s. And the Chicago region also contains some of the most affluent African American suburbs in the United States, with median household incomes above $100,000 – meaning that these nonwhite suburbs, if embedded elsewhere, would be the richest municipality in roughly half of American states.

My co-author and I were surprised to discover that municipal fiscal conditions tracked racial, rather than economic, patterns. We discovered this when investigating patterns in policing for profit. In the United States, municipalities maintain their own police departments and sometimes look to them to collect revenues via police fines, fees, and seizures of assets (Harris 2016). Public discourse about this phenomenon typically centers on policing for profit in white municipalities undergoing demographic change – as occurred in Ferguson, Missouri a predominantly white suburb where aggressive policing and violence against African Americans moving into the area resulted in street protests and a police riot (Hendricks and Harvey 2017). But, in the Chicago region, we found some of the highest and rapidly rising rates of policing for profit in demographically stable nonwhite suburbs, particularly affluent black suburbs.

After conducting interviews with municipal officials through the region, we found that rates of policing for profit belied racialized inequities in accessing municipal revenue. Officials throughout the region, in white and nonwhite suburbs alike, espoused a similar metric of more to less desirable revenues: all reported preferring taxes assessed on nonresidents, especially sales taxes, and trying to avoid visible taxes that fall on residents. They saw property taxes and punitive fines and fees as especially unattractive. But suburbs' capacities for accessing revenues were uneven. Officials in white suburbs reported an ability to attract the sorts of commercial investments that generate sales taxes, and these reports were reflected in solvent budgets, low tax rates, shiny municipal buildings, and sundry amenities. One middle class suburb of only 8,000 residents had such a surplus of revenues that they consistently hosted the state's second largest fire work's display for the 4th of July Celebration (behind only Chicago itself).

Conversely, officials in black suburbs reported an inability to attract commercial investment and looked to less desirable revenues. The reason is rooted in spatial patterns of concentrated economic advantage and disadvantage. Chicago's white suburbs cluster in areas of concentrated economic advantage. Not all of them are affluent, but middle income suburbs are geographically proximate to ultra-wealthy areas, which include some of the wealthiest municipalities in the United States. Black suburbs, even when affluent, are embedded in areas of concentrated economic disadvantage. For instance, Olympia Fields is one of the richest black municipalities in the United States, but just five kilometers away from Ford Heights, which perennially makes lists of the poorest municipality in the United States.

This spatial arrangement benefits especially lower income white suburbs, because developers use area economic profiles to make investment decisions. In lower income white suburbs, rents are low but area income profiles are high, and they experience a windfall of investment. For black suburbs, the situation is reversed: even if they are affluent, they are embedded in a sea of poverty, and unable to attract investment. Therefore, when residents of the Chicago area – whether white or black – shop, they tend to do so in white areas, where the sales taxes that they generate remain.

What sales taxes black suburbs were able to collect were additionally lost in the form of economic incentives to commercial retailers, which municipalities throughout the region routinely grant – but disproportionately so in black suburbia. Commercial developers know that officials in black suburbia are desperate for investment and barging hard for incentives; officials often agree to onerous arrangements like a 50 % rebate of all taxes paid by incoming businesses. Given these shortfalls in commercial taxes, black suburbs raised property taxes to double or triple the rates in white suburbs (Hendricks 2011), but – as is common in the United States – were eventually prevented from doing so by property tax limitations (Martin 2008). Only police revenues were left as a funding stream of last resort.

The results of this system are at once economic, social and political. The situation in white suburbia intersects with American welfare policies, which Hacker (2002) describes as the hidden welfare state – a system of tax privileges that rewards wealth building, particularly via home ownership. Therein, the experience of steadily rising personal assets is the norm and generally understood as simply natural, as is the expectation that local government provides excellent services at low cost. In African American areas, by contrast, this suburban ideal is an uncertain economic and social proposition. Taxes are high, benefits meager, and residents risk an escalating cycle of economically motivated criminal justice involvement (Harris 2016). And, in political terms, it is likely that experiences with local government engender attitudes of enfranchisement and entitlement in white suburbia, whereas relations with police and government breed tense relations and disenfranchisement in black suburbia (see Epp, Maynard-Moody and Haider-Markel 2014).

I will argue in the next two sections that unpacking the politics of redistribution in the case of Chicago requires greater attention to two dynamics, which existing to greater or lesser degrees in municipalities in other nations. The first is the changing federal system of the United States, which once maintained a robust system of revenue sharing that disproportionately benefited poor and nonwhite communities (Logan and Schneider 1981), but has left municipalities self-financing and dependent on own source revenues since the 1980s. The second is the political fragmentation of municipal boundaries and residential segregation, which combine to segregate different types of citizens into distinct municipal jurisdictions.

How "self-financing" are local governments?

There is considerable global variation in subnational taxation: what municipalities are required to finance, whether they benefit from revenue sharing, and – if not – what own source revenues they are empowered to collect.

Nations vary, first, in the services and functions performed by municipal governments. At one extreme, American municipalities perform many functions and deliver a wide range of public services. The United States did not develop a conventional welfare and administrative state until well into the middle 20th Century (Skocpol 1995), which left many functions to municipal governments. American municipal governments provide fire and police protection, sanitation, public transportation, and primary, secondary and sometimes even courthouses and city colleges (Tabb 1982). And such services are especially expensive in the United States, because the nation lacks universal healthcare coverage and municipal employees are not covered by social security, the federal retirement program, which means that municipalities must finance employee and retiree healthcare and pensions.

Conversely, in nations like India and Mexico, the role of municipal governments is restricted. Large Mexican cities, for instance, are divided into many municipalities, and comprehensive municipal planning and administration is frequently a provincial affair. Mexico City, for example, consists of sixteen municipalities, but is administered by a single province that overlaps with municipal boundaries. Similarly, many of the functions performed by municipalities in the United States are a federal or provincial responsibility elsewhere. Most nations, for example, maintain a national police force, which fully or partially supersedes public safety officials at subnational levels (the Federal Bureau of Investigation is nominally a national police force in the United States, but it employs just 20,000 and performs only special investigations). Similarly, primary and secondary education in many nations is financed and administered by the central government, or less frequently by provinces or cantons (as in Switzerland). Conversely, some municipal governments perform additional services not covered in the United States. In some Scandinavian nations, municipalities not only deliver childcare and primary and secondary schooling, but also staff a robust system of social services and elder care. At one extreme, the Swedish Association of Local Authorities and Regions (SALAR) claims to speak on behalf of one million employees, one in ten Swedes.

Nations also vary in the degree of revenue sharing between municipalities and governments at other scales. Most nations in the global north and south maintain systems of "cascading federalism" wherein federal governments assume responsibility for the fiscal functions of states or provinces and municipalities – or just municipalities in the case of non-federated states. In nations as varied as Germany, Poland, Brazil, and Nigeria, the majority of municipal functions are financed by intergovernmental transfers (Bird 2012). Nations, like the Scandinavian countries, wherein municipalities rely overwhelmingly on income taxes are often functionally similar. Though nominally self-financing, Scandinavian municipalities typically receive a portion of income taxes collected by the federal government; since central governments apportion these funds via equalization formulas that benefits lower-income municipalities, this revenue system can be functionally equivalent to intergovernmental transfers.

Conversely, municipalities in other nations self-finance their operations to a greater or lesser extent. Chief among these are Anglo-Saxon nations, wherein municipalities have historically relied on property taxes, though here generalization is difficult as many of these nations have since reformed their systems of local taxation. Municipalities in The United Kingdom, for instance, no longer collect property taxes proper – they collect council rates assessed on long-term residents and business rates that apply to commercial enterprises, meaning that unoccupied residential properties or land are effectively untaxed (Christophers 2018).

Municipal finance in the United States, which has varied over time and continues to show large variation between states, illustrates the consequences of different means of financing local governments. Though the United States lacked a comprehensive system of municipal finance during its early history, a

wave of municipal bankruptcies during the Great Depression made reforms to urban finance a priority for New Dealers (Monkonnen 1995). Additionally, most mid-20th Century elected officials came from urban districts, and both parties competed actively for the urban vote (Mollenkopf 1984; Weir, Walman, and Swanstrom 1985). This resulted in a series of ever-more generous federal urban programs, like urban renewal and the Great Society's Model Program. The most ambitious urban policy came under Richard Nixon, who proposed replacing property taxes with intergovernmental revenue sharing as a funding source for municipal governments (Martin 2008). Though the phase out of property taxes never occurred, Nixon's revenue sharing plan passed Congress. Over roughly fifteen years, federal transfers to municipalities rose and, in this respect, the American system of municipal finance began to look more like the global norm. As elsewhere, revenue sharing and other federal urban programs redistributed tax revenue to poorer municipalities, such that scholars identified middle-income municipalities as most fiscally disadvantaged (Schneider and Logan 1981).

In the late 1970s, American subnational taxation changed again. Throughout the 1960 and 1970s, popular discontent with property taxes led to conservative, progressive, and centrist visions of reforming municipal finance. But by the late 1970s property tax limitations, the preferred conservative solution, was becoming policy makers go-to policy reform (Martin 2008). Concurrently, Americans – and white Americans in particular – increasingly moved to tax-averse suburban districts, and state legislatures and Congress gradually adopted an anti-statist orientation (Weir et al. 1985), which was reinforced by the global neoliberal among parties of the left (Mudge 2018). First Democrat Jimmy Carter, then Ronald Reagan proposed altering the fiscal relationship between municipalities and the federal government, and Reagan eventually succeeded with bills that eliminated the direct fiscal relationship almost entirely (Biles 2001). Though some state governments initiated their own revenue sharing systems with cities to make up for federal shortfalls, such initiatives were uneven and uncertain since revenue sharing is expensive and states are subject to their own budget limitations. For example, Detroit was pushed over the brink of bankruptcy immediately after Michigan scaled back revenue sharing (Kirkpatrick 2015), and municipal budget woes in Illinois are a direct consequence of lagging state transfers to cities in the wake of the state's decade-long budget crisis (Hendricks 2011).

Currently in the United States, the norm is municipal governments that are largely self-financing, but required by federal and state regulations to deliver many goods and services – for instance, particular standards of primary and secondary education.[1] And how municipalities collect such revenues varies by state. As in other Anglo Saxon nations, American municipalities rely mostly on property taxes, but with significant exceptions. Oklahoma municipalities, for example, are empowered to collect property taxes only to service bonds and fund most services with various administrative fees. Municipalities in Ohio, Maryland, Michigan, and a few other states levy income taxes – in fact, Columbus, OH relies entirely on income taxes and levies no property tax. And in large metropolitan regions, the trend has been to empower municipalities to collect a broader range of revenues, especially sales taxes (Schafran 2013; Pacewicz 2016a) – as is the case in the Chicago region.

Much scholarship documents the consequence of declining intergovernmental revenues in the United States: an entrepreneurial turn in local governance that redistributes resources from citizens to capital. The dominant theoretical frameworks in contemporary urban scholarship emphasize the ideological and political dominance of moneyed interest (Logan and Molotch 1987), an investment of political resources in cultivating investment at the urban scale (Brenner and Theodore 2002), and a shift in urban governance from managerialism to an entrepreneurial effort to attract outside investment (Harvey 1989). Students of American municipal government overwhelmingly agree that attracting outside investment has become the superordinate concern of urban politicians, which has resulted in an escalating, incentive-fueled competition over corporate investments (Logan and Molotch 1987), a reorganization of urban governance around place-marketing partnerships (Harvey 1989; Brenner and Theodore 2002; Peck and Tickel 2002; Jessop 2002), and a de-legitimation of redistributive claims in local politics (Pacewicz 2016b). At the same time, many municipalities are now subject to periodic crises and everyday austerity measures, which scholars also tend to see as, following Peck and Whiteside (2016, 18), a way to "push costs, risks, and burdens of economic failures onto subordinate classes, social groups, and other branches of government."

Theorists of entrepreneurial urban governance are primarily focused on the United States, but their frameworks are commonly applied to other nations. The premise that municipal governments have made a global shift towards entrepreneurial governance is not without basis, because neoliberal ideologies of statecraft – which privilege private sector investment and a public sector organized along competitive, market-like principles – have diffused globally via networks of policy experts and party entrepreneurs (Mudge 2018). The related reliance of public sector institutions on

markets and financial logics has likewise promoted a speculative mindset in urban and regional planning in many nations (see, e.g., Guironnet, Attuyer and Halbert 2016; Savini and Aalbers 2016). But, as should be evident from this section's discussion, there is reason to think that the extent and consequences of these trends varies widely by national context.

Consider one juxtaposition, which illustrates both international commonalities in municipal finance and the need for systematic comparative inquiry: the Great Recession in Norway and the United States. Though Norwegian municipalities are largely financed by the central state and not compelled into entrepreneurial statecraft, they have historically controlled revenues from municipal hydroelectric utilities. Officials in some Norwegian municipalities were influenced by a financial logic of diversification (Fligstein and Goldstein 2015) to privatize these utilities or invest their profits in financial products – like, for instance, American subprime mortgages, which soured and threw some Norwegian cities into fiscal crisis (Loding 2018). The parallel story of American municipalities during the Great Recession is well known. Many were in poor fiscal condition before the crisis, and some leveraged a significant portion of their property tax base into speculative schemes to attract outside investment (Weber 2013; Pacewicz 2016a). In the wake of the Recession, some American municipalities declared bankruptcy outright, many cut services or raised taxes, and still others sold their public assets.

On one level, there is a family resemblance in the trajectory of municipalities in the two nations: municipal officials engaged in speculative and entrepreneurial strategies involving or influenced by the financial sector. In both cases too, the risk of these strategies was socialized in ways that ultimately effected a transfer of resources from citizens to private capital (particularly after the speculative schemes went bust). But the extent of these consequences were uneven. In the United States, municipalities not only invested discretionary revenues, but frequently used mechanisms like tax increment financing and traditional municipal bonds to leverage their current property tax base or future increases in tax revenue (Weber 2013). American municipal crises were therefore deeper: cities were unable to deliver basic goods and services and were taken over by financial managers who circumvented democratic control, cut basic services, raised taxes, laid off employees, and violated healthcare and pension contracts (Peck and Whiteside 2016). In Norway, by contrast, municipal functions were largely the responsibility of the central state, and the crisis did not endanger many of the day-to-day operations of municipal governments. The worst hit Norwegian municipalities, for instance, faced a period of annual budget shortfalls of 10 % (Fouche 2008). By contrast, the worst hit American municipalities laid off 40 % of their employees or leased the rights to public goods and revenues – like city streets, airports, and collections from parking meters – to for-profit corporations (Kirkpatrick 2015; Peck and Whiteside 2016).

As illustrated by this juxtaposition, there is reason to think that a general relationship exists between the responsibilities of municipalities, the degree to which they are self-financing, and the tendency of their municipal finance systems to redistribute economic, social, and political resources from citizens to capital. For instance, case studies suggest that subnational governments' propensity to compete over investment is notably high in cases where these governments perform many functions but their reliance on intergovernmental revenue is low: Russia, where municipalities are dependent upon enterprise revenues, China where governments derive much revenue from land speculation, and the United States (see Bird 2012, Wang 2015). A comparative investigation into subnational taxation and governance could further document this relationship and reveal further exemplars.

Political fragmentation and racial segregation

The politics of subnational taxation is further shaped by political fragmentation and residential segregation: the degree to which municipal boundaries match native understandings of community boundaries and, if not, the identity of citizens who fall inside and outside municipal boundaries. As in the case of the Chicago region, there is reason to think that a high degree of political fragmentation and residential segregation engenders a politics of redistribution that shifts economic, social, and political resources between different categories of citizens.

The United States provides an extreme example of political fragmentation and residential segregation. Both trends are of relatively recent historical origin, and a closer examination illustrates the effects of these trends and invites comparison with other nations.

Prior to the 20th Century, American cities grew by annexing their suburbs (Jackson 1985). In the 19th Century, affluent Americans sought residence near the center of cities because outlying areas lacked transportation and public services. Those who settled at the urban periphery were generally poor and frequently immigrants. In this historical context, annexation was desirable to urban elites and those annexed alike. For the urban elite, annexation meant more population in an era when American cities competed

to become the preeminent center of industry and commerce in the nation. And for those annexed, it meant access to city services. For this reason, 19th Century American cities rapidly expanded their boundaries, which were generally contiguous with the extent of the build environment. New York City, for example, grew by annexing Brooklyn, the Bronx, Queens, and Stanton Island.

However, technological improvements eventually allowed affluent urbanites to move to outlying areas and self-finance education and other municipal services (Jackson 1985). These affluent settlements then began challenging and resisting annexation in court. A key turning point occurred in 1873, when Brookline won a suit blocking annexation by the city of Boston, which provided a model for other cities seeking annexation (Jackson 1985). Since the early 20th Century, American cities have generally stopped annexing their suburbs, such that much of the metropolitan population growth during the last century has occurred outside the limits of the central city.

Today, there is much variation in how much land within American metropolitan regions is under the jurisdiction of central cities. Older American cities, which tend to be in the eastern half of the United States, are geographically and demographically smaller. Boston, for instance, is ringed by suburbs that resisted annexation early in its history, and contains only 14 % of the population of the Boston metropolitan region.

By contrast, newer cities, which predominate in the western part of the United States, often preemptively annexed uninhabited or largely uninhabited land early in their development and contain a greater portion of metropolitan residents. Houston, Los Angeles, and Las Vegas, for instance, incorporate, respectively 33 %, 30 %, and 47 % of their metropolitan areas. Western cities are also geographically larger vis-à-vis eastern cities. Phoenix and Oklahoma City have a similar population to, respectively, Philadelphia and Baltimore. But the former are about, respectively, four and seven times as large as the latter. At the extreme end, Anchorage, Alaska covers over 4,000 square kilometers – about one seventh the land area of Belgium.

The political fragmentation of American metropolitan regions is especially consequential due to extreme levels of residential segregation, especially black-white segregation. Contrary to popular discourse about race relations in the United States, which posits a slow but consistent historical shift towards racial equality (Ray 2019), American residential segregation became more pronounced during the 20th Century.

During the 19th Century, black populations in northern states were small and encountered segregation patterns comparable to those faced by white immigrants from southern and eastern Europe (Denton and Massey 1993). And in the American south, black populations were deliberately desegregated by a Jim Crow system that sought to divide and disenfranchise African Americans. Although a full accounting of the historical segregation process is outside the scope of this piece, segregation was not primarily the result of individual location decision. It was created by collective action by voluntary associations, municipal governments, professional associations of realtors, and the federal government rather than individual initiative (Denton and Massey 1993). During the 20th Century, African Americans in the south and those migrating to the north were pressured to move to segregated neighborhoods by informal pressure, mob violence, arson, and bombings. The color line was additionally maintained by neighborhood associations that placed deed restrictions on the sale of houses to nonwhite buyers, who minority buyers were additionally prevented from securing loans by unwilling bankers and find real estate agents willing to show homes in white neighborhoods (Denton and Massey 1993). Later in the twentieth century, discriminatory lending standards were institutionalized in federal lending guidelines, and municipalities additionally used federal highway funds and urban renewal dollars to displace communities of color into high-rise public housing projects (Sampson 2012).

These processes resulted in patterns of residential segregation that peaked in the 1940s and 50s, but remain more pronounced than 19th Century segregation patterns. The dissimilarity index in most American metropolitan regions today remains between 50 and 85, meaning that 50 to 85 % of African Americans would need to move census tracts to achieve a racially homogenous metropolis. And, in this respect, African Americans are more segregated in American society than was historically the case for any other minority group. For example, American cities have long contained ethnic areas like "Chinatowns" and Little Italies, but these neighborhoods were never populated by a majority of these ethnic groups nor did the majority of relevant ethnics live within their boundaries. That is, even at the heyday of Italian migration to the United States, most Italian immigrants lived outside of Little Italy, and Little Italies were only about 30 % Italian, with the majority or residents belonging to other immigrant groups (Denton and Massey 1993). And today, Asian and Hispanic Americans, also the historic and contemporary targets of discrimination, encounter lower levels of segregation than African Americans as evidenced by indexes of dissimilarity between .35 and .45 (Iceland, Weinberg, and Hughes 2014).

The political fragmentation of American metropolitan regions has heightened the effects of residen-

tial segregation. This process began in the mid-20th Century as white Americans, who took advantage of cheap credit policies (Prasad 2012), moved to suburbs. The effect on the fiscal health of central cities was immediate. Many white Americans continued to work and play in cities, consuming municipal services, but now lived and paid property taxes in suburbs. New York City's 1976 bankruptcy, for instance, occurred largely due to this "white flight" phenomenon (Tabb 1982). Similarly, Detroit has lost over 1 million residents since the mid-20th Century, is currently 80 % African American, and has a median household income of just $26,000. But the population of the metropolitan region has remained stable, and many of the city's overwhelmingly white suburbs are among the most affluent in the United States. Grosse Pointe, for instance, borders Detroit, is 92 % white, and has a median household income of $95,000.

But, on the flip side, some American metropolitan regions are now subject to the opposing dynamic: the return of affluent, primarily white Americans to central cities and the segregation of impoverished Americans to suburbs (Smith, Caris, and Wyly 2001; Murphy 2007; Sampson 2012; Sharkey 2014; Allard 2017). This occurs especially in metropolitan regions that have experienced a boom in tech or the financial industry. In San Francisco, for instance, the property values of the city have multiplied, while non-affluent metropolitan residents have moved to "slumburbs," located hours from the central city, which were also ground zero for many of the municipal fiscal crises that followed the Great Recession (Schafer 2013). As evidenced by the case of the Chicago region, systems of municipal finance in such metropolitan areas effectively work to confer economic and social privileges to some, while channeling revenues and privileges away from others.

Whether systems of municipal finance in other national contexts produce analogous redistributive processes is an open question, but one worth investigating comparatively. I have argued here that there are two preconditions to this redistributive process in the United States – political fragmentation and residential segregation – which also exist in other nations.

Trends in metropolitan political fragmentation are too varied to allow for a straightforward international typology. At one extreme, municipal fragmentation in some nations is more pronounced than in the United States, albeit for different reasons. In Brazil, for instance, federal revenue sharing policies incentivize the formation of new municipalities, which have risen in number by roughly 50 % in the last two decades (Bird 2012). Conversely, many European nations evince an apparent willingness to incorporate outlying areas, though not without limits.

Likewise, trends in residential segregation outside the United States have received less comparative attention. However, recent studies demonstrate large increases in residential segregation in Europe. Immigrants of non-European extraction live in the suburbs of many major European cities, and evince patterns of segregation on par with those of African Americans in the United States. In Nordic countries, for instance, dissimilarity index for non-European immigrants is above .5 for many cities (Malmberg et al. 2018) – more pronounced than segregation of Latino or Asian immigrants in the US. I have argued that the economic, social, and political consequences of such segregation will depend in part upon the foundations of municipal finance and governance within host countries.

Towards a typology of the politics of subnational taxation

Given the documented importance of subnational taxation regimes, more comparative work is needed. Students of the city are generally aware that systems of municipal finance do more than fund city services. They also shape societies, and the relative balance of power between citizens and capital has received considerable attention within urban studies.

Nevertheless, more comparative focus on subnational taxation can advance the debate in two ways. First, it can produce greater insight into the scope and consequences of global trends in municipal governance. In Norway and the United States alike, municipal leaders were inspired by the financial sector to adopt more speculative modes of governance. But the way that they pursued these strategies and the consequences once speculative schemes went bust, was radically different in the two contexts. Only by understanding systematic differences in the constitution of local governance can one gain analytical insight into why this was the case.

Second, comparative attention to subnational taxation can yield insight into a form of redistributive politics that has received less attention from students of subnational political economy: a redistribution or resources, social status, and political voice between different categories of citizens. Students of contemporary urban governance are often inspired by the Marxist tradition, and portray the winners of municipal politics as a narrow subset of the capitalist class – a growth coalition, for instance, – consisting of those with an economic stake in land values and their immediate allies (Logan and Molotch 1987). But case studies of the United States and potentially other nations show that the category of winners is much larger. In the Chicago

region, for instance, middle income white municipalities and their residents effectively receive an invisible wealth transfer from nonwhite metropolitan residents via commercial taxes. Such redistribute dynamics are both interesting in their own rite and present an opportunity for scholars of urban governance to engage bigger questions about national political economies. The politics of racialized redistribution in American suburbs, for example, is surely central to patterns of electoral support for market-driven and entrepreneurial public policies, which appear to benefit not just capital but also white suburbanites.

Endnote

1 Because many state constitutions contain provisions mandating equality of education, this is one area wherein school districts or other overseeing municipal governments commonly receive intergovernmental transfers – though from states, rather than the federal government, which established many educational mandates.

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OpEd

Republicans play dirty because Republican policies are unpopular

Monica Prasad

Monica Prasad's areas of interest are political sociology, economic sociology, and comparative historical sociology. Her new book Starving the beast *asks why Republican politicians have focused so relentlessly on cutting taxes over the last several decades – whether the economy is booming or in recession, whether the federal budget is in surplus or deficit, and even though total taxes in the U.S. are already lower than in other developed countries. Drawing on archival documents that have never before been seen, Prasad traces the history of the famous 1981 "supply side" tax cut which became the cornerstone for the next several decades of Republican domestic economic policy. She argues that the main forces behind tax cuts are not business group pressure, racial animus, or a belief that tax cuts will pay for themselves. Rather, the tax cut movement arose because in America – unlike in the rest of the advanced industrial world – progressive policies are not embedded within a larger political economy that is favorable to business, a situation whose origins she explored in a prior book* (The Land of Too Much). *Prasad's scholarship has won several grants and awards, including the Fulbright award, the National Science Foundation Early Career Development Grant, The Guggenheim Fellowship, and several book and article awards.* m-prasad@northwestern.edu

For some years now Republicans at state and national level have been playing what some scholars have called "constitutional hardball," implementing strategies that, while technically legal, undermine the spirit of the laws: stealing a Supreme Court seat, tricking Democrats into being absent for crucial votes, suppressing votes. Harvard scholars Steven Levitsky and Daniel Ziblatt (2019) suggest that this is because the Republican Party's base of white voters is shrinking, and Republicans would lose in a fair electoral contest. The long-term solution, they argue, is for the party to diversify.

But the problem is deeper than that. The real problem for the Republicans is that their basic creed, that government should not intervene in the economy, is unpopular with Americans. For all that they complain about government, Americans love every *specific* thing that government does. This has been true as far back as we have consistent polling data. In April, the Pew Research Center asked Americans, as it does periodically, which programs should see increases or decreases in government spending. As usual, 90 percent wanted to keep spending the same, or increase it, on education, 94 percent on veterans' benefits, 89 percent on rebuilding highways and bridges, 89 percent on Medicare, 85 percent on environmental protection, 80 percent on health care, and on down a long list. Not a single policy saw more than one-third of Americans wanting a cut. The least popular program was "assistance to needy in the world," with 28 percent wanting to decrease spending on it – and this may be because Americans vastly overstate the amount of the budget devoted to foreign aid (Rutsch 2015).

Republican Party history over the past century can be read as a struggle with this basic fact, that Americans love government. This structure of opinion means that when Franklin Roosevelt refounded the Democratic Party on the basis of a muscular role for government, he sidelined Republicans for a generation. Between 1933 and 1974 Republicans controlled Congress for only four years. The situation was so extreme that many thought Democrats were the "natural" party of government. A popular pollster's formulation was that the Democrats were the "sun party," around which the entire political system revolved, and the Republicans were the "moon party," a small forgotten satellite. For those 40 years Republicans desperately tried to figure out how to get back into power – move to the middle, or move to the extreme? Emphasize anti-communism, or boost

organizational efforts? Better leaders, or better communication strategies?

Eventually, the Republicans discovered two major exceptions to the unpopularity of Republican policies. The first is tax cuts. In the 1970s Republicans discovered that everyone loves tax cuts, as long as you can convince them that those tax cuts aren't going to lead to spending cuts. Deficit spending was born, and the discovery that deficits could be financed with foreign money reoriented American political economy. Republicans made an art of fomenting the belief that taxes could be cut without cutting spending, by getting rid of "government waste." Public estimates of how much money government wastes skyrocketed, without really any basis for it. Even those stories you hear of hundred-dollar hammers at the Pentagon are wild myths (Freedberg 1998), a result of accounting procedures that distribute the cost of overhead to individual items. Factually based or not, these stories helped to raise cynicism about government waste, and to raise support for tax cuts.

The problem for Republicans is that of late, the tax-cut magic has been weakening. Republicans have cut taxes so much that opposition to taxes is at its lowest levels since polling on this question began.

This has led them to the second major exception about the unpopularity of Republican policies: racism. In retrospect, the past forty years can be seen as Republicans flirting with – as Democrats slowly moved away from – the dangerous appeal of inciting xenophobia for votes. Tax cuts have often stood in opposition to xenophobia as a Republican electoral strategy. Ronald Reagan talked about a welfare queen when he ran in 1976, but by the time he campaigned in 1980 the welfare queen had been left behind and he was focused on the sunny, optimistic promise of tax cuts. It was George H.W. Bush, who had called tax cuts voodoo economics, who felt it necessary to play the race card in 1992. Richard Nixon did not have a tax cut strategy, focusing instead on racial appeals, vice versa for George W. Bush.

This is another way the arrival of Donald Trump signals something different: Trump was elected partly based on racist appeals, and then implemented tax cuts. Because tax cuts alone cannot sustain an electoral strategy any longer, the new strategy is to knit together racist appeals to the base with tax cuts for business, and add in abortion restrictions for social conservatives. It's a perilous strategy, because it offends as many people as it attracts. And thus the Republicans find themselves needing to do things such as steal Supreme Court seats in order to keep that fractious coalition together.

If the underlying problem is that the Republican approach to government has been proven an electoral failure over a century, the solution is not just for Republicans to become more ethnically diverse. Rather, a new Republican party needs to be founded on the truth that government intervention is necessary to a growing economy, and on a strategy of discovering *which interventions* are helpful and which are harmful (Lindsey 2018; Hammond 2018).

A Republican, investment-oriented program of government intervention is not implausible. There are three policies Republicans could adopt today that would adhere to Republican principles of focusing on economic growth as the best solution to poverty, and that would actually help economic growth: a much stronger commitment to vocational training, which would outfit workers who don't go to college with the skills needed to survive the transformation of the global economy; paid parental leave, which can help to increase both male and female labor force participation rates because parents do not lose their jobs when they need to care for a child; and "flexicurity," a policy of allowing firms to hire and fire at will, but stepping in with intensive retraining efforts for fired workers, which brings flexibility to firms and yet security to workers. All of these are market-oriented and business-friendly policies. They have been shown to be remarkably successful at generating economic growth and ensuring that all citizens participate in that growth (Prasad 2018). They can be the seeds for a Republican strategy of rebuilding America.

For any Republicans despairing about the state of their party, there is a way out. It does not require abandoning traditional Republican beliefs. It just means redirecting attention onto a new path, a path that can reclaim the soul of the party of Lincoln.

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Book reviews

Arjun Appadurai and Neta Alexander · 2020

Failure.

Cambridge: Polity Press

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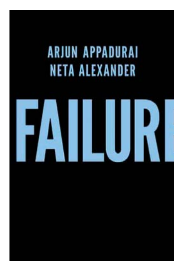

"Failure is growth. Failure is learning. But sometimes failure is just failure," said Gavin Belson, the caricature tech mogul in HBO's *Silicon Valley* – before firing an entire division of workers. "But make no mistake," he added, just because the workers are "the ones leaving, it is I who must remain and bear the heavy burden of their failure." Belson's quote perfectly satirizes the strange bipolarity at the heart of contemporary notions of failure. In today's capitalism, there are those who are celebrated for their failures, and there are those who are punished for them. There are those who benefit from, and there are those who pay the price for their own as well as other people's failures. Failure, in other words, has become both a cause for adulation and the cause of much misery.

Arjun Appadurai and Neta Alexander use the ambiguities and inequities surrounding the concept of failure as a window onto the broader societal trends of digitalization and financialization. Their book is a timely one, and offers valuable insights and observations that can help us think differently and more critically about some of the cultural pathologies of contemporary capitalism. At times, the authors lose themselves in the somewhat turgid and pretentious style of cultural theory, and, as a result of a lack of conceptual clarity, overstretch the concept of failure and dilute some of its analytical value. Given its ambition to be "a critical exercise in understanding the discourse of failure in our times" (1), *Failure* must therefore be judged a partial success (or failure).

On the one hand, it powerfully demonstrates how thinking about failure sheds new light on the economic and cultural logic of capitalism. The discourse of failure, Appadurai and Alexander show in a number of ingenious and often playful acts of social theorizing, is intimately intertwined with the ways of "the bi-coastal worlds of Wall Street and Silicon Valley" (3). On the other hand, *Failure* is not systematic enough in theorizing and not comprehensive enough in describing the connection between the discourse of failure and the workings of capitalism. Given that they have written a short book of fewer than 150 pages, the authors could be forgiven for their lack of comprehensiveness, were it not for the fact that they spend much time discussing fairly unrelated phenomena that distract from the central arguments of the book. But despite this shortcoming, *Failure* is an illuminating analysis of and challenge to the cultural substructure of an increasingly financialized and rapidly digitalizing society. It should be of interest to scholars of contemporary capitalism and culture alike.

Appadurai and Alexander's starting point is to define failure as a "product of judgement" (1). Failure, in other words, is in the eyes of the beholder, or, better still, in the eyes of the behold*ers*. After all, what counts as failure and what is to be done about it is a matter of social contestation in which different groups try to make their interpretation count. Silicon Valley's cultural and economic entrepreneurs, for example, had enough cultural power to successfully transform the stigma of failure into an "ethos of failure" (4). At least for them, failure has become a biographical badge of honor, proudly worn for it signifies the seriousness of one's world-changing ambitions – after all, only those who dream big can fail big. Unfortunately, one learns precious little about how this redefinition of failure took place – from a stumbling block to a stepping stone on the way to success – and how this might contribute to a theory of cultural power, understood here as the ability to intersubjectively establish judgments of failure.

This is regrettable as the book's most interesting observation is that the ability to make societies forget, ignore, or redefine failure is one of the great drivers of financial as well as digital capitalism. Jens Beckert has recently argued that the ability to conjure convincing imaginaries of an uncertain future is crucial for both the dynamism and the legitimacy of capitalism (Beckert, 2016, 2019). But for digital and financial capitalists to ensure the plausibility of their promises of a better future, they often require us to forget their past failures. Capitalism requires "methods of forgetting failure so as to allow its continuous repetition" (16). Only thus can it sustain its "machine of broken promises" (21).

For example, despite the ubiquity of technological failures such as buffering, dead batteries, and frozen screens, tech companies continue to get away with their ever-delayed promises of seamless

convenience – a convenience that is always just around the corner. Instead of leading people to question the plausibility of this promise, these quotidian "habitual failures" fail "to make a difference" (9). Instead, people discount them, or blame themselves for their lack of technical expertise ("Maybe I didn't set up the router correctly") or judgment ("Maybe I bought the wrong product?"). What is more, Silicon Valley monetizes these failures, luring people into buying new devices and software with the promise that true convenience is just one release away or requires but an upgrade to the premium version. These observations – on how short-lived the memory of technical failures is – remind us that the circulation of "fictional expectations" (Beckert, 2016) is intimately linked to the creation of fictional recollections.

Appadurai and Alexander's sharp analysis of the economic logic that monetizes these failures by means of "planned obsolescence and the inculcation of the constant need to upgrade" (41) – as well as their thick phenomenology of the "perpetual anxiety" that the constant possibility of technical failure induces – is among the strongest parts of the book. In my opinion, however, they would have deserved a more thorough treatment that connects them to the theoretical debates in economic sociology and political economy. Beckert's theory of fictional expectations, which is mentioned several times but not discussed in much detail, would have been an obvious candidate.

Instead, the authors venture into different theoretical territory, often losing the thread of their main argument. For example, it remained unclear to me how the long discussion of the increasing quantification of the social (Mau, 2019) – what the authors call "predatory dividuation" (61) (so much for turgid) – is related to the topic at hand. Similarly, the discussion of the logic of derivative markets and their role in the financial crisis is quite unnecessary. Including them in a book on failure seems forced and stretches the concept of failure beyond its usefulness.

I for one would have preferred a more comprehensive account of how the financial industry managed to make societies forget about the often-failed promise of low-risk, high-yield investments, both before and after the crisis. In a critical analysis of discourses of failure, I would have also expected more than a few words on the structural inequalities that make some groups "fail up" and others "fail down." Likewise, I would have liked to get to know more about the neoliberal regime of failure in which CEOs are lavishly compensated for their failures, while the poor cannot afford to make even the smallest mistake for fear of losing their job, home, or freedom.

Nevertheless, *Failure* is an interesting book, one that made me think anew about the cultural economy of (digital) capitalism. It is a good starting point for understanding how capitalism derives its legitimacy and dynamism from making us forget and redefine its failures.

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Christoph Deutschmann · 2019

Disembedded Markets: Economic Theology and Global Capitalism

Abingdon: Routledge

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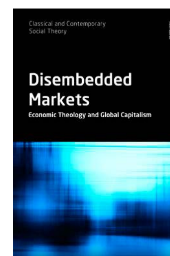

Walter Benjamin famously perceived a religion in capitalism. In this slim, thought-provoking volume, Christoph Deutschmann asks whether the analogy between global capitalism and religion holds today. Deutschmann is the former chair of sociology at the University of Tübingen and an important figure in German economic sociology. He is less well known in the Anglophone world. His new book stands on its own, but it also provides a useful point of entry for readers unfamiliar with his *oeuvre*.

Brushing aside the usual debates about secularization and the ethics of economic thought, Deutschmann poses an unorthodox question: can contemporary global markets be said to possess any of the transcendent, numinous quality of religious experience? Central to the inquiry is the notion of disembedded markets. For Deutschmann, disembeddedness does not denote separation from social ties or social factors, but rather the degree to which one social system extends beyond all others. He links the concept to Karl Polanyi's twin notions of the self-regulating market and fictitious commodities: disembedding can be spatial and social, but it can

also be material and temporal. Today, Deutschmann argues, disembedded markets constitute a global social order, albeit a minimal and precarious one, which must parasitize other social systems and is ever susceptible to counter-movements.

Students of the now almost twenty-year-old debate over the concept of embeddedness in economic sociology will certainly find much of interest here, although some will be rankled by the assertion that Polanyi saw the self-regulating market as disembedded (certainly not Polanyi's choice of words), and by the language of social systems and the strong *a priori* distinctions it implies. But all of this is only the groundwork for what follows.

So how does theology come into it? According to Deutschmann, the potential value of the analogy between disembedded markets and the so-called universal religions rests on two interlocking claims. First, disembedded markets possess a transcendent quality insofar as they offer a degree of apparent control over an otherwise unknowable future. Second, like the universal religions, disembedded markets aim to create "a social nexus that truly includes all of [hu]mankind" (p. 79). By offering a framework within which humans can understand their relationship to one another and to their future, disembedded markets constitute a collective representation of our society in both the Luhmannian and Durkheimian senses, if a highly limited one.

Although each claim may sound implausible at first, Deutschmann argues persuasively that they are worthy of consideration. His first claim – let's call it the transcendent markets thesis – is based on the idea that markets grant control over the future not by divine revelation, but by placing the endlessly creative possibilities of human labor at private command. Capitalist markets, especially those for the fictitious commodities of money and labor, mobilize the collective forces of a society in search of earthly rewards. Under the right historical conditions – strong property rights, material inequality, and real if limited opportunities for social advancement – markets spur innovation and aid entrepreneurs in securing the cooperation of other actors.

The "transcendent markets" thesis represents a serious effort to integrate a neo-pragmatist theory of economic action with a theory of the historical development of capitalism. Like the classical generation of sociologists, Deutschmann sees economic sociology as central to any effort to understand capitalist modernity. Unavoidably, he raises more questions than can be answered within the confines of this book. It is not clear, for example, what room there is for other visions of the future, such as those produced by scientists and social movements. And up until the final pages there is little consideration of whether other social conditions (perhaps less exploitative ones) may give rise to similar dynamics. But if economic sociology is ever to reconnect to the core questions of macro-sociology, then the "transcendent markets" thesis is a step in that direction. One can only hope that readers will be inspired to follow Deutschmann down the same path.

The second claim puts Deutschmann on more familiar ground. This claim we can call the "market universality" thesis, and it derives from the more conventional narrative that free markets can foster spontaneous cooperation among individuals, even in the face of great differences. But while religion can give ethical meaning and coherence to lived experience, disembedded markets exhibit what Deutschmann calls a "moral minimalism" (p. 33): they produce no solidarities or personal obligations beyond the absolute minimum necessary to fulfill a transaction. This qualification is significant because it lends a critical edge to an argument that could otherwise easily be seen as a triumphalist account of capitalism's successes.

While many readers will doubtless agree with the aims of Deutschmann's critique, here the argument rests on two frequently contested premises. First, is the morality of the market inherently minimalist? Beyond the classical liberal perspective that views markets as a civilizing force, much recent work on the culture of markets describes them as explicitly moral projects, saturated with normativity. (Here one might also think of the importance of sophisticated forms of "performativity" in the operation of financial markets.) Second, do families, ethnicities, religions, and so on always provide greater social integration than markets? Deutschmann hews close to Durkheim on this point, but other contemporary theorists with similar ambitions (Bourdieu, Giddens, Latour, and Mann, to name but a few) have challenged this premise or abandoned it entirely, describing each of these domains as contested fields or loose networks.

What if we were instead to approach the relative moral and integrative forces of markets, religions, families, and nations as a question that must be answered empirically? The analogy to religion would still hold, but we would be left with a kind of polytheism. World society would then be a terrain on which many gods still compete for believers, and contemporary global markets would not be a total symbolic universe, but a particular and jealous god, demanding ever more and giving ever less.

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