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Critique of Public Finance –

The Fiscal Crisis of the State Revisited

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1. Critique of Political Economy – Critique of Public Finance

Marx' critique of political economy was an ambitious and huge project. Its author left it largely unfinished at his untimely death in 1883. Despite many efforts by his followers, notably Hilferding, Luxemburg, Otto Bauer, Bucharin and some others, many of its crucial parts are unfinished until this very day. Regarding the scope and range of the original double project of a systematic "critique of politics" and "critique of political economy" as Marx conceived it in the 1840s, only small parts of it have ever been realized. A critique of finance, of the world of financial capital and financial markets was meant to be part and parcel of this project – as well as the outline of a critique of public credit and public finance at large. The topic has been most prominent among the classical economists: Not only James Steuart and Adam Smith dealt at length with the intricacies of public finance, establishing rules and laws for financial – that is macroeconomic – policy. About two thirds of Ricardo's *Principles of Political Economy and Taxation* were actually devoted to public finance, to a discussion of the sources, the main types of taxation and their various impacts upon the economic magnitudes involved, upon prices, wages, profits, rents and the accumulation of capital. Ricardo put it bluntly (in a private letter, written in 1819): "Political economy, when the simple Principles of it are once understood, is only useful, as it directs Government to right measures in taxation" (Ricardo 1951, p. 132f).

In his first draft of his critique of political economy, penned down in a hurry in a few months from August 1857 to May 1858 (better known as the *Grundrisse*), Marx apparently followed the classical tradition with respect to the range of the topics he intended to deal with: One of the six books of his critique would be devoted to the state. According to the various versions of the six-book plan, the state was to be the subject matter of detailed analyses and public finance was providing the main topics of these exercises in state theory, integrated into the critique of political economy. In the first version, dating from August 1857, Marx planned a book 3 on the state, following book 2 which should provide the analysis of the "categories which make up the inner structure of bourgeois society and upon which the fundamental classes rest". The general topic of

book 3 is described as “Concentration of bourgeois society in the form of the state. Viewed in relation to itself” and explained by invoking some familiar topics from the standard treatises of political economy: “The ‘unproductive classes’. Taxes. State Debt. Public Credit. The population. The colonies. Emigration” (Marx 1993, p. 108). In another version of this plan which is to be found in notebook II, in the first draft of the “chapter on Capital”, Marx again puts the planned book on the state in its right place, following the detailed analysis of the “three classes, as production posited in its three basic forms and presuppositions of circulation”. The content of the planned book on state is indicated by an enumeration of topics, familiar to all political economists: “State and bourgeois society. – Taxes, or the existence of the unproductive classes. – The state debt. – Population. – The state externally: colonies. External trade. Rate of exchange. Money as international coin.” (Marx 1993, p. 264). Marx did not change this broad outline in any of his following plans. In all the following versions of his Six-Book plan which Marx noted in 1857 – 58, the sequence of the last three books remained the same: State - International Relations – World Market.

Eventually, none of these books was ever written. In the various manuscripts for his great project that Marx wrote between 1858 and 1881, and of which he only finished one, the manuscript for Capital, volume I, the state remains present – or comes back to the fore many times. At the end of volume III, in the section / chapter 6, written in 1865, Marx reminds himself of the book on the state that was to follow next in line: It is in the direct relationship of the owners of the conditions of production to the immediate producers that we find the clue to and the “innermost secret, the hidden basis of the entire social edifice, and hence also the political form or the relationship of sovereignty and dependence, in short, the specific form of state in each case”(Marx 1993, p. 927). A reminder that points in the direction of the next step following the analysis of this “hidden basis”. The state, however, in its modern form, is already present in the three preceding volumes of Capital. In Marx’ theory of money and the market, in his analysis of the labour contract and the struggle about labour time and wages, in his analysis of the modern factory system, in his analysis of the circulation process of capital, the state appears again and again: the rule of law, certain state monopolies, the possibility of state legislation are always present in Marx’ presentation of the inner structure of a capitalist economy. Even in his fragmentary analysis of the modern credit system, including the banking system and the circulation of credit money, the state occupies a central place. State debt papers even serve him as the

main illustration for the category of "fictitious capital", crucial for his theory of the financial markets. Although the central bank plays a role in Marx' fragmentary and incomplete exposition of a theory of credit, and although he rightly stresses the double – private and public - nature of central banks, he never deals with public credit. The topic, although necessarily involved in any presentation of central banks and the development of a hierarchical and centralized banking system, is clearly avoided – better to say shifted to some other treatise beyond the scope of Capital. In spite of the many and various appearances of the state in Marx' Capital, there is nothing that would come near a full grown systematic critique of public finance, a theory of the very "economic existence" of the state in modern capitalism.

Quite a lot of Marx' critique of public finance can be found in his journal articles written and published between 1850 and 1866. In particular, he has dealt with public finance in Britain, in Russia, in Germany and in France – even Austria's and Turkey's financial distress have been analyzed and commented upon by Marx, the journalist (cf. in more detail: Krätke 2006). Again and again, Marx criticized budgetary policies in Britain and France, attacking the manipulations of the public debt, the various conversion manoeuvres that governments undertook to shift and ease the burden of the public debt which never disappeared. As Marx has used a lot of the material he gathered for his journalistic work in his manuscripts for the critique of political economy, it may not come as a big surprise that he had demonstrated the revolutionary impact of the system of modern public debt upon a traditional, pre-capitalist economic structure with respect to a peculiar country – Turkey, or the Ottoman Empire (cf. MEW 8, pp. 705ff). From the second edition of Capital, volume I of 1872 onwards, he inserted a section into the chapter on "Primitive Accumulation", dealing with the historical role of the public debt. The system of public debt and the "modern system of taxation" as its "necessary complement" are described there as crucial elements in the historical process of "capitalization of wealth and the expropriation of the masses". Along with public credit in the advanced states of Europe an "international credit system" sprang up which in its turn enabled the making of a system of world trade and world markets (cf. Marx 1976, p. 921, 920). So it is stated clearly enough that public finance has a central role to play in the history of capitalism. Not only in the process of "primitive accumulation" but in the accumulation process of well developed capitalist economies as well.

2. Elements of a critique of public finance

Already in the 1840s, in his polemics against various brands of contemporary socialists who preferred moral verdicts to economic and political analysis, Marx came up with a shorthand exposé of what might become the program of a radical critique of public finance: Modern public finance, the system of taxation in particular, provide the "existence of the state in economic terms" (MEW 4, p. 348). Follows a shorthand program for a radical analysis of public finance, incorporated into the critique of political economy and following from some basic insights of bourgeois economists, that is Ricardo, Senior and others: "Taxes are the economic existence of the state. Wages are the economic existence of workers. To determine: The relationship between taxes and wages" (ibid.). In this 1847 article, Marx already provides a preliminary answer, very much at odds which was later to become the Marxist orthodoxy in this matter. The bulk of the burden of modern taxation falls upon the shoulders of the working class, taxes are part of the average wages – because "it is the political vocation of workers to pay taxes" (ibid.). For Marx, it seems to be obvious that the forms of taxation and the change of these forms are not a real concern for the working class. That is completely different for the propertied classes, for the bourgeoisie – partly because the lower or higher level of taxation affects the wage rates, hence profits, partly because tax policies are a crucial political handle for a class aspiring political power and opposing the powers that be (cf. MEW 4, p. 348 , 349). Marx has not yet developed any clear analytical concept of exploitation. Hence, he only suggests tax exploitation of the working class as a basic feature of the modern tax state, run and ruled by the modern bourgeoisie, but does not analyze or explain, how it works.

Of course, the shorthand for a treatise on taxes, drawn up in a still very Ricardian way, should not be identified with the program of a systematic critique of public finance as it would result from the framework of the critique of political economy as developed by Marx in later years. In 1847, however, Marx is already aware of the crucial importance of taxes, the major, eventually the only source of revenue for modern states which provide one of the main links between the "public" and the "private" economy. As it was and still is based upon an highly artificial monopoly, the modern state's power to tax provides an excellent link between economic and political theory proper. Taxes are, after all, an economic phenomenon of a thoroughly and predominant political nature, belonging to the

realm of politics. Hence, they have a core role to play in any theory of political economy, linking the state or public economy and the private economy together and taking the state seriously as an economic actor sui generis.

Marx was convinced that the cyclical crises of modern capitalism were beyond the reach of any government, regardless their power. All modern crises, of course, affected (and affect) governments deeply; dealing with crisis became a major concern for governments in the advanced capitalist countries from the 1840s onwards. Although all crises, the general crisis as well as the particular crises (like monetary and credit crises) escaped all government control, "false" and "irrational" legislation – as exemplified by the British Bank Act of 1844 - could largely disturb the course of crisis events, even add an artificial crisis of its own making. Marx took the suspension of the Bank Act of 1844 at the very moment of a monetary crisis as proof that the theories upon which it was grounded, the monetary theories of the currency school, were completely misguided. The Bank Act of 1844 was to be regarded as practical experiment on the highest and largest possible, the national level, and this experiment had on various occasions, in all the great crises (of 1847, 1857, 1866) proven the currency theories wrong (cf. Krätke 2006). However, Marx was no principal opponent of strong regulatory measures and state interventions into the "mechanism" of a capitalist market economy. In the 1840s and 1850s he had, together with Engels, considered plans for a highly centralized banking system with a strong national bank at its core, he had pleaded and argued in favor of strong progressive taxes on income and wealth – as the adequate basis for a "working class budget". While he and Engels had been rather skeptical about British factory legislation still in the 1840s, Marx had defended and advocated strong factory laws ever after. In his manuscript of 1861 – 63, as well as in some journal articles, he explained why factory laws, a legal protection of wage labourers, were quite compatible with and highly beneficial for both capitalists and workers in the factory system. Still in 1870, when working on his second draft for Capital, volume II, he argued against the classical economists and in favor of strong "general measures" , that is state interventions on a large scale, in order to modify and change the "natural mechanism" of the reproduction and accumulation process in capitalist economies (cf. MEGA II / 11.1, p. 503). Marx' view of the state's potential to regulate and control the development of a capitalist market economy was ambiguous, to say the least. At any rate, in his view, the powers of the state – including the power to tax and the monopoly of money – were powers to be reckoned

with. That is why in all modern societies the tremendous and potentially dangerous state powers would always be contested terrain – a matter of intense class struggle.

3. Monetary crises, Credit crises and financial crisis

In his journalistic work, Marx has dealt with fiscal crises or budgetary crises at various occasions. In particular, he has dealt with and commented upon the financial policies of the Second Empire which he regarded as a system of fraud and swindle. Nonetheless, he had some consideration for financial innovations like the Crédit mobilier, the first modern investment bank and a central instrument of the French "developmental state". Whether he liked it or not, Marx had to admit that the Second Empire was able to trigger off the most rapid industrial development in continental Europe, only to be surpassed by the later developed in the German Empire after 1871. But in spite of his many predictions as to imminent financial disaster and overall state bankruptcy in the case of the French Second Empire, nowhere he has tried to develop a general concept for a fiscal crisis or a crisis originating in the realm of public finance. The focus of his theory (or theories) of crisis was the capitalist economy.

In the long and confused debate on Marx' theory of money, it has been remarked that the state pops up again and again. What is more, Marx is neither a metallist nor a chartalist (a votary of the nominalist "state theory of money"). His theory of money covers the full range of all the forms of money which have developed in advanced capitalist countries. Capital, volume II, is the crucial link in the development of Marx theory of money – starting with commodity money and ending with the modern form of the central bank note. In this volume, Marx demonstrates how monetary functions become intertwined with capital functions. In his manuscripts for volume II, he even reflects upon the peculiar role that the state plays in the general circulation of money and commodities: Because of its power to tax the state is the only economic agent in bourgeois society who can continuously buy and has never to sell anything (cf. MEGA II / 11.1, p.). An ever growing part of the money in circulation is actually functioning as money capital involved in the circuits of one or more individual capitals. Money capital, not money, is the basis of the modern credit

system. Credit money in all its different forms is eventually derived from the form and function of interesting bearing money capital – bank capital, financial capital.
In the end, credit in all its forms is going to substitute money – in the general circulation of commodities as well as on peculiar markets like the stock markets where a variety of forms of fictitious capital assumes some monetary functions in the inner circulation between banks and financial capitals.

Marx is, of course, well aware of the double character of money in modern capitalism, where all forms of money assume a public – private character as long as they are effectively defined and guaranteed by the state. In fact, the state takes over many forms of private money which originally used to circulate only in relatively small and closed circles of capitalists – like the banknotes which originally were nothing but a banker's money. In order to assume the character of money in general and for all possible transactions, such private money has to be promoted to "legal tender". The standard way to make all market actors accept the public money is plain: As in the case of paper money, issued by the state, the state commits itself to accepting the legal tender as a regular means to pay one's taxes.

The financial markets that the classical economists knew were actually dominated by public debt in various forms. Not shares, but public, that is treasury bonds and all other sorts of state papers (consols etc.) were the first and most important stock in trade. In Marx' times, railway shares had already caught up, but state papers were still predominant. There is only one way in which Marx himself ever conceived an actual fiscal crisis: As a crisis on the financial markets which affected the prices of a vast amount of government bonds in circulation. In 1859, in a newspaper article he described and analyzed the moment of an actual financial panic - the moment when the prices of the vast majority of government or treasury bonds of many states alike are rapidly falling and keep falling until they become virtually worthless. The scene of that panic was the financial market in London (cf. Marx, MEW 13, pp. 316 e.s.). Such a moment of panic could, of course, come as a relief for a state heavily in debt if and in so far as it would be able to buy back its own debt papers at the lowest market price level possible. It would be a nuisance though, as no bank, no financial capitalist would be willing to buy additional or new bonds issued by the same government. Such a panic, once started, could easily spread and would eventually bring the whole system of the permanent

public debt, which is built upon the continuous refinancing – repaying older debts by issuing new debt papers on the financial markets -, to a standstill. In Marx' times that would have been tantamount to a complete crash of the financial markets, because the only other major assets present – railway shares – were also highly dependent upon government credit. As far as the banks as the main holders and beneficiaries of the public debt are concerned, a credit crisis would inevitably follow from any such financial panic – as the banks would all lose, in terms of assets as well as in terms of profitable transactions. For the central banks, concentrating foreign and domestic state papers as parts of their reserve in their vaults, disaster would strike as well. In the article mentioned above as well as in some other articles, Marx was perfectly aware of the crucial role that the public credit, the issuing, selling, trading and holding of government bonds of all sorts, plays in the international monetary system. Accepting public money, backed and guaranteed by the state, all market actors put their trust in nothing else but the present and future credit of their government, that is its chance to finance its debts by selling more and more bonds on a regular base in the months and years to come. Accordingly, one might expect that the book or treatise on the state, as conceived by Marx in 1857, would have provided the final words on his theory of money – with a possible extension in the next books or chapters on international monetary relations or world money.

4. The Fiscal Crisis of the Tax State

At the end of World War I, it became obvious that the public finances of the States involved in the War were haunted by all sorts of economic troubles – inflation, a towering war debt, shrinking tax revenues. As financial powers, they were hopelessly indebted, ruined, close to bankruptcy or virtually bankrupt. Some states, Germany in particular, just survived by issuing ever growing amounts of paper money, triggering off a postwar inflation that would wreck havoc on their economies and societies for many years.

States had gone bankrupt before, in particular those states that had had the bad luck to lose a long and costly war. But state bankruptcies used to be a means of sovereign states to deal with their private creditors once in a while. As long as no private

creditor was able to force their royal, imperial or republican debtors to pay according to the original agreement, states were actually free to reconsider the conditions of their outstanding debts and to force their creditors to accept lower interest rates, longer periods of repayment or temporary defaults at their own discretion (cf. Manes 1932).

At the end of World War I, the situation was completely different. Both the winners and the losers of the war were actually at the mercy of their biggest creditor – and besides their own citizens these were other states, among them the powerful USA. The war debts were largely foreign debts, the parties involved were states. Nonetheless, the old fiscal wisdom held: When facing bankruptcy, all the might of the realm comes to its end. It is pointless to tax the have-nots. The largest creditor nation in the capitalist world, the USA, had to help the debtor nations in order to rebuild their economies wrecked by the war and to regain their ability to pay.

Rudolf Goldscheid, a complete outsider who did not in any way belong to the Marxist or Austromarxist school, opened up new vista's by theorizing the actual postwar crisis. Proclaiming a new discipline, dubbed "fiscal sociology", he started a project that could be understood as a critique of the established academic discipline of public finance. This new discipline should occupy a central place in the social sciences and provide much more than the traditional discipline of public finance which had itself restricted to purely technical knowledge of the details of actual fiscal policies. In two small booklets, published in 1917 and 1918, and widely debated at the time, he gave an outline of that new science – and presented a plan to deal with the problem of the public debt once and for all (cf. Goldscheid 1917, 1918).

Goldscheid regarded the postwar fiscal crisis as a direct manifestation of a structural crisis – the crisis of the overall structure of the "tax state" which had been brought forth by a long term historical process – the expropriation of the state. Not only workers were separated from all means of production and subsistence, the state itself was expropriated of the main resources and conditions of production as well. Hence, its economic role and its position in society were profoundly changed. Only an expropriated state which had no resources of its own, hence had become unable to reproduce itself by means of any productive activity of its own, had become completely dependent upon taxation – as its one and only instrument to participate in the wealth

created by others, by the private owners of all the conditions of production. As the state had been made poor and penniless, it had become dependent upon the sources of wealth and income, now under private control. The only way out of the postwar distress was another economic and political revolution: the "reappropriation" of major productive assets by the states, leading towards some sort of "state capitalism". A broadly assessed, heavy wealth tax would be the formal instrument both to pay off the towering war debts and to build up a new economy.

Schumpeter, for one, responded to this challenge: His analysis of the "Crisis of the Tax State", published in 1918, was both a response to and a critique of Goldscheid. The tax state could collapse, probably would, but not for the reasons Goldscheid had in mind. Schumpeter was fascinated by the idea that the study of finance, and of public finance in particular, would provide a key to the interrelationships between the economy and the state and he wholeheartedly embrace the notion that government budgets, the hard facts of fiscal policy would provide the basis for an understanding of actual state actions devoid of any ideological enchantments. In Schumpeter's view, the limits of the tax state were tantamount to the limits of what the modal taxpayer would be willing to endure as a regular tax burden. Rising tax burdens would meet ever stronger tax resistance which would eventually reduce the efficiency of the tax state as a money-raising machine. Inevitably and in the longer run, the tax state would become unable to meet the ever-rising demands for more public expenditures. In the end, the tax state would collapse – under the double assault of rebellious taxpayers and frustrated beneficiaries (cf. Schumpeter 1918 / 1954).

In Germany and Italy two schools of "fiscal sociology" flourished for a short time until the 1930s. They were strongly influenced by Max Weber on the German, by Vilfredo Pareto on the Italian side. Although the Italian votaries of a fiscal sociology in particular rewrote fiscal history and fiscal theory in terms of an enduring class struggle between different groups of tax payers and beneficiaries, the only remaining votaries of a political economy as opposed to the "pure" economics of the emerging neo-classical orthodoxy, the Marxists, were not impressed and stayed away from this field. With very few exceptions, most of the practitioners of "fiscal sociology" did never try to consider the use value of Marx' theory of capitalism for their research program.

A German scholar, who had spent some years studying the Marxian theory about state and modern bourgeois society, Herbert Sultan, presented what might be called a "form-analysis" of public finance. He was the first to ask some systematic question that clearly belonged in the Marxist tradition although they were not easy to ask and even more difficult to answer in terms of the Marxian theory of value: What exactly is a "tax", what sort of economic relationship, what sort of transaction is involved when taxes are levied and paid and with what effects. Taxes were no prices at all – as the votaries of neoclassical public finance asserted – but a very peculiar sort of value transfer; they were, however, part and parcel of the "price system", affecting all sorts of "costs" and "income" and changing the whole fabric of economic transactions within a market economy (cf. Sultan 1932; for a comment: Krätke 1984). But Sultan's book was the only serious effort to build a systematic theory in the new field.

5. The Debate in the 1970s

The Marxist tradition is haunted by a series of debates that have petered out or were broken off without result. Generations of Marxists have repeated more or less the same debates all over again. Once in a while, a new debate starts – normally following the same pattern: After a short wave of enthusiasm, when the real work of rethinking and research should start, the arena is abandoned by most of the participants, the discussants fall silent and move on to new and greener pastures.

If there was one contribution to political economy that conquered the minds of the rebellious generation of social and political scientists and largely impressed even the mainstream during the 1970s, it was James O'Connor's *Fiscal Crisis of the State*, first published in 1973. Against the prevailing perspective in the academic field of public finance, in this path-breaking contribution by an American radical discovering the Marxist tradition, fiscal crises were not just identical with rising budget deficits. Fiscal crises according to O'Connor were not to be regarded as mere epiphenomena caused by general economic crises. They were a crisis phenomenon sui generis, very peculiar to the contemporary stage of development of advanced capitalist countries. In order to come to grips with this peculiar phenomenon, O'Connor rediscovered the

nearly forgotten "fiscal sociology" and he took issue with the prevailing, orthodox view in the Marxist tradition. As far as Marxist economists had ever paid any attention to public finance, they easily accepted a rather bold view, very much in the tradition of classical political economy. Paul Mattick's view of the economic role of the state in capitalism and of public finance, as expounded in his highly influential book on "Marx and Keynes" (Mattick 1969), could be regarded as representative for the general concept of public finance that most Marxists shared. Whatever the state did, in whatever way state actions were paid for, the whole of the state belonged for ever to the category of the "unproductive" agents and was doomed to remain there. At any rate, the state was an economic burden, to the detriment of private capital accumulation, and to be financed only by a constant drain from surplus value. Hence the main thrust of Mattick's argument against Keynesianism in all its guises: Increasing state expenditures in times of crisis could never lead to a restoration of sufficiently high rates of profit and sufficiently high rates of accumulation. On the contrary, it can only make things worse – reducing profits and impeding accumulation. In this view, increasing budgetary deficits were just a symptom of the vain efforts of the state to "manage" and overcome cyclical crises.

O'Connor denied that, but by the same token asserted that "the fiscal crisis can be understood only in terms of the basic Marxist economic categories" (1973, p. 6). He went beyond the range of traditional Marxist theories of crisis because he saw the fiscal crisis as a new and "relatively autonomous" type of crisis which developed "in accordance with its own logic" (O'Connor 1982, p. 42). It was at least implicitly directed against the Keynesian assertion that the form of state expenditure was unimportant and that any state expenditure could promote the accumulation of private capital. By the same token, it was at least implicitly directed against the orthodox Marxist view that whatever happened in the public sector was but a drain on surplus value and a fetter to capital accumulation. Obviously, the fiscal crisis, as conceived by O'Connor, was not the same as a collapse of capitalism or a collapse of the tax state. A fiscal crisis did neither entail a collapse of capitalism nor did it endanger the basic institutions of capitalism or the tax state.

Any theory of fiscal crisis would have to explain not only why state expenditures kept rising but also why tax receipts were systematically lagging behind. Why did a

"structural gap between state expenditures and state revenues" occur, as O'Connor put it (1973, p. 221)? Why was there a tendency "for government expenditures to outrace revenues" (ibid.)? And, last but not least, why did public debt not provide a temporary solution to the predicaments of the state? Public debt, of course, has its own limits and restrictions which should be reconsidered in the same time frame and perspective: Was there a reason why the potential of the modern permanent public debt to anticipate and stretch out tax receipts in time would diminish? Why would it make sense to assume an ever rising burden of the public debt if there was a tendency towards overaccumulation and abundance of capital roaming the financial markets in the longer run?

In the Marxist tradition, the matter is more complicated if one tries to show that a fiscal crisis is not just a by-product of a general economic crisis and a "derived phenomenon" but a peculiar crisis phenomenon in its own right. In other words, one would have to explain why and how the "does the state grow" (O'Connor 1982, p. 46) and to do this within the framework of a "general theory of the state budget" (ibid) closely linked to the theory of reproduction and accumulation of capital. Ever since Engels has published Capital, volume II, based upon the various unfinished manuscripts that Marx had left, it is clear that Marx never provided a complete and coherent solution for the problems involved in an analysis of the accumulation process. Hence anyone trying to integrate the state "sector" into the framework of multisectoral "reproduction schemes" would have first to complete them in their original form. The next step would be an analysis of the main categories of states expenditures and state revenues in value terms, a rather tricky operation indeed. Still, the enterprise would not come to an end here. In order to explain the long term "growth of the state", we would have to analyze both the effects of all kinds of state expenditure on the reproduction and accumulation of capital – some might be able to promote and support, even increase capital accumulation, although not always at the same rate. As the state is affecting the very basis of its own wealth, the different sources of taxation in various ways, we would have to find out what the impact of various sorts of state activities on its own tax revenues actually is. To buttress the assertion that any state would in the long run arrive in a fiscal crisis situation, we would have to analyze and explain the changes of these various and different impacts in time. The outcome of many tendencies and countertendencies in the development of state economic activity linked to the development of a capitalist economy might be a lasting fiscal crisis.

This is actually what O'Connor tried to do, although he did not follow a research program as outlined above. The main part of his book is devoted to an analysis of the main categories of states expenditure, providing the basis for this theory of expenditure (budgetary) growth. All kinds of state expenditure are not "essentially" the same, that is an unproductive waste and drain on surplus value and capital accumulation as the traditional Marxist view holds (cf. Mattick 1969, p. 153 a.e.), but very different indeed. Nonetheless, they are closely linked together. Hence, the "state budget grows because it grows" as O'Connor put it bluntly (1979, p. 65). The different categories of state expenditure are interdependent, one is the prerequisite of the other, growth of one category requires and inevitably ensues the growth of other categories of state expenditure.

The bulk of modern state expenditure, that is O'Connor's rather heterodox message, has a rather positive – indirectly productive – impact upon private economic activities. Both capitalists and workers, in fact all sorts of private economic actors, benefit from state expenditures – not only those who happen to sell goods and services to the government on a regular base. The modern state does not only socialize risks, it also socializes costs and reduces them for everybody. So, state expenditures can be differentiated according to the kind of cost of capitalist production they affect (and maybe "socialize"). There are two main categories of such "indirectly productive" state expenditures in O'Connor's account: First, social investment. These are state expenditures which support, enable, even stimulate and enhance private capital accumulation – normally by socializing some or all of the costs of constant capital (or its components) for the private entrepreneurs. Social investment covers a large variety of state expenditures or state financed economic activity. Together, they will, at least they can increase labour productivity and raise private profits. Second, social consumption. Such state expenditures boost private accumulation by "socializing" the reproduction costs of human labour power (or parts of it). Some of these expenditures will reduce the reproduction costs of labour power, some of them (like health, housing and education expenditures) will even increase the overall productivity of labour. But not all of them. Some will remain completely unproductive. The demarcation line between those two sorts of social consumption expenditures rest blurred and ill-defined in O'Connor's

account. Social expenses are the third category – comprising all state expenditures that are "unproductive" and belong to the faux frais of capitalist production.

In order to create an even bigger effect for private accumulation, the costs should not only be "socialized" by the states but completely shifted away from capitalists upon the shoulders of another class of taxpayers. That is where tax exploitation, the distribution of tax burdens and the shifting of it between the economic classes of a capitalist society enters the argument. If capitalists and / or their political representatives manage to shift the bulk of the costs of "social investment" expenditures upon the shoulders of the working class, they enjoy a double advantage. As long as the working class tax payers manage to pay for no more than for "social consumption" expenditures, they are first and foremost participating in a joint effort to "socialize" and reduce the reproduction costs of human labour power, hence a large part of the cost of living of their own class. No tax exploitation occurs as long as each class of tax payers is socializing its own costs within its own class. Of course, as taxation is systematically biased in all advanced capitalist countries and the chances for effective tax resistance are rather unequally distributed between the large economic classes, tax exploitation will be the rule, not the exception. But its rate may vary in time, depending upon the more or less organized efforts of capitalists to escape the burden of taxation altogether.

Within this analytical framework, one can easily determine the conditions under which a fiscal crisis will eventually occur: First, the growth of social expenses and the "unproductive" part of social consumption should outpace the growth of its "productive part" and the growth of social investment. Second, the rate of tax exploitation should fall. In other words, a fiscal crisis will occur because of a shift from one sort of state expenditures towards another – an increase in "social investment" finally requires more and more social expenses - or a successful resistance of mainly the working class against any reallocation of the states' financial means involving a reduction of social (consumption) expenditures and because of an increasingly successful tax resistance from the working class. To avoid a fiscal crisis, the powers that be should be able to keep up a high rate of tax exploitation of the working class and to deal effectively with all sorts of proletarian tax resistance. Moreover, they should be able to stop the rise of social consumption expenditure or to shift the bulk of cuts on to this category.

In order to buttress his fiscal crisis thesis, O'Connor had to reinterpret the wave of tax revolts that occurred in many capitalist countries from the early 1970s onwards as proletarian tax revolt. The analysis of the various forms of taxes, of the development of tax systems and of the distribution of tax burdens between social classes in advanced capitalist countries is one of the great weaknesses of his approach. His whole regard on the taxation side of the matter is deeply influence by his view, strongly opposed to any Marxist orthodoxy, that taxes in bourgeois states will never harm profits, but fall upon the shoulders of non-capitalists. Accordingly, the only tax struggles of any importance can occur between workers or between workers and the middle classes. Leaving the middle class aside, the only tax struggle left is one opposing workers and workers, employed against unemployed, active against retired, healthy against sick and so on. Or, as O'Connor put it regarding the fights about social insurance in the US, "employed workers" revolting against their ever increasing tax burden, defending their direct real wages, "are in effect fighting against themselves" (1982, p. 55). Paradoxically enough, if they succeeded in their fight against rising "unproductive" social consumption for the inactive, they would actually increase their rate of tax exploitation – even if their effective tax burden would become a little bit lighter.

The most important gap in the theory of fiscal crisis was, of course, the complete lack of any serious analysis of the forms and structures and development of public debt. The void is difficult to understand and even more difficult to accept. Public debt would provide the perfect solution to the combined problem of an increasing volume of social consumption expenditure and a falling rate of tax exploitation. Moreover, all sorts of state expenditure could be financed by public debt, even enhanced, and a rise of taxes avoided, at least for the time being. In order to prove the inevitability of a fiscal crisis, one would have to theorize the limits of public debt as well. In technical financial terms, that is easily done: Any state is heavily in debt, whenever it has to borrow regularly in order to pay the raising cost of his outstanding debts. Any state is in big trouble who finds his credit doubted and his bonds refused or devalued by the financial markets. In the line of argument that O'Connor has proposed, it would make a lot of sense to look for some good reasons for a growing resistance to public debt among the different classes of bourgeois society. Why would workers be opposed to higher budget deficits and rising public debts? Why would capitalists be opposed to it – and why should and would those capitalists and those members of the propertied classes who own public

debt papers and are profiting from it resist an increase of budget deficits? The financial markets, according to logic and experience, would rather panic at the prospect of a state actually reducing or repaying the public debt than at the prospect of another issue of government or treasury bonds. Obviously, the whole matter depends upon the various ways in which the present and future "burden" of the public debt is conceived. Who is to bear the bulk of this burden? Capitalists are not. For workers, depending on how, for what kind of public expenditures the loans are actually used, a rising or falling rate of tax exploitation would be possible. So where does the nearly universal rejection of and resistance to public debts come from?

We can, of course, restate the case and explain the necessity of fiscal crisis in terms of broader class-coalitions engaged in political economic struggles about public finance: Fiscal crises will occur when ever there is no "fiscal illusion" and

- there is or there are sufficiently broad "negative coalitions" against all (or most) possible forms of increasing the tax burden (in whatever form);
- there is a sufficiently broad "negative coalition" against any increase of public debt, so that the room for debt finance - which might hide or substitute an increasing share in the tax burden for capitalists – will shrink;
- and finally there is a sufficiently broad "negative coalition" against all or most expenditure cuts – or at least against cuts in "welfare" spending (in the broadest possible sense).

Under those conditions, any government will be stuck.

Actually, O'Connors rudimentary and incomplete analysis touched a phenomenon that came to the forefront in all advanced capitalist countries during the 1970s. Since 1971, budget deficits became perpetual. From the early seventies onwards, public expenditure and public revenues grew more rapidly than the national income in most OECD-countries, the size of the public sector increased both in absolute and relative terms. Social expenditure, growing at a much faster pace than all other public expenditures, quickly became the biggest part of all public budgets; the growth of social expenditure alone already accounted for almost all the growth of public expenditure. During the crisis period of 1973 – 1975 and again during the crisis of 1979 – 1980, public expenditure continued to rise while the growth of public revenues (from taxes and

contributions) fell behind, leading to sizeable and growing budget deficits in most OECD-countries. Public revenues continued to grow relative to national income as “effective tax rates” continued to rise and the “fiscal drag” built into progressive tax schedules led to rising “inflation dividends” for the governments. In the second half of the 1970s, most governments switched to anti-deficit policies, mostly expenditure cuts. But without much effect until the mid-1980s. Around 1985, the OECD-countries show a lot of divergence – the UK for one boasting of a rapid decrease of its official budget deficit while the USA lived with a rapid increase of budget deficits. There were two obvious reasons why budget deficits became a major, even the major concern of fiscal policy: Budget deficits in the 1970s and 1980s were much larger, exceptionally large in comparison with the postwar period; they were extraordinary for countries that were – unlike the USA and some others – not waging outright war. Until the early 1970s, budget deficits in OECD-countries used to be on average not higher than 1 % of GNP, in the mid-1970s, they had risen to 3 – 4% on average, in the early 1980s they rose to an average level of 4 – 5 %. Hence, the presumption that budget deficits and the ensuing government borrowing on such a scale might have adverse effects. What is more, these seemed to be more and more “structural” deficits for the longer term which would not disappear in due time or during the next period of prosperity. No war, no major catastrophe, no postwar reconstruction, no reparation payments, no world crisis of extraordinary scale and scope could be blamed for the permanent necessity for all major states in the advanced capitalist world to borrow regularly on an unprecedented scale.

So, the public debt became a major, even predominating concern of government politics. The treaty of Maastricht and the Stability Pact between the EU – member countries just confirmed this concern, it did not create it. Considerable and increasing parts of the states’ resources became tied up in servicing the public debt burden. Up to 4% of the national income was spent for interest payments to the holders of state bonds, up to 15%, in some cases around 20% of total public expenditure was devoted to servicing the debt. As interest payments grew quicker than budget deficits, governments were now – in the second half of the 1980s already – borrowing for a large and growing part just in order to cover the increasing cost of their accumulated debt. Accordingly, one could easily imagine the scope and range of financial discretion to shrink. The discretionary power of governments in financial policy was reduced and became dependent upon the ups and downs of financial markets – larger, more internationalized and much more out of

government control than ever before. Governments themselves became dependent upon big and ever bigger lenders. But for them, there never was and there still is no "lender of last resort" unless governments would dare to mess with the "independence" of central banks. In the longer view, budget deficits are not alarming at all since most capitalist countries have lived since the early 1800s with permanent public debt and the techniques of financing and serving a permanent public debt are well known and have been developed a long time ago. Public debt still is not alarmingly high, provided it is regarded in the right relations – in relation to national wealth, in relation to private wealth (which includes government bonds), in relation to private savings or in relation to the assets actually owned by the states. Rising public debts can still be financed and refinanced – more easily than ever before if we take the scope and scale of today's financial markets into account. But there were and still are two major reasons for a growing concern: Budget deficits were not the result of a deliberate policy of deficit-spending, they were unintended and governments were forced to accept them because they had no choice. Or so they believed. Second, rising budget deficits seem to be inexorably linked to rising social expenditure. Traditionally, within the field of public finance, such expenditures are regarded as a mere cost and burden, they characterized as primarily "consumption" and nothing but consumption. What is worse, they are consumption by non-actives. Accordingly, the rising debts and deficits are regarded as a burden and a loss, money borrowed in order to finance present consumption by an increasing non-active part of the population. Taken together, these popular views lead to the perception of budget deficits and public debt as highly problematic. Paradoxically enough, the rise of the welfare state has brought forth a situation where nearly everybody, not only the relatively small group of people holding government bonds, has a financial stake in the state and has a legitimate interest in the financial stability and the future ability to pay of that very state. Everything that seems to undermine that financial stability in the future is regarded as a threat by everyone who has any future financial claims towards the state. Members of the political class are worried about the "loss" or "lack of control" which an automatically growing deficit indicates.

6. Fiscal Crises in contemporary capitalism

The paradox should jump to the eyes: During the 1970s, when there was hardly anything resembling an actual fiscal crisis in the advanced capitalist countries, the Marxist debate was full of them. Most left economists were easily convinced that the welfare state was doomed because of the inevitable fiscal crisis of the state lurking in the very near future. Many asserted that the fiscal crisis had already begun and was at the heart of the so called crisis of the welfare state. Today, when all advanced capitalist countries are actually deeply embroiled in an ongoing fiscal crisis, there is hardly any debate about the phenomenon. It seems to be self-evident, even to left economists that increasing budgetary deficits present a core problem to contemporary politics. All governments in all the advanced capitalist states have to struggle in order to escape from the debt trap in which they have been caught. Today as back in the 1970s, the resemblance between the crisis stories from the left and from the right are striking. Both focus upon budget deficits and public debt, both regard the "crisis of the welfare state" first and foremost as a fiscal crisis.

However, some revisiting of the original concepts, incomplete and deficient as they were, would be worth our while. If most major capitalist states are struggling to avoid or to survive a fiscal crisis that crisis could hardly be of the same type as the fiscal crisis O'Connor conceived more than 30 years ago. Rhetoric aside, tax exploitation has risen continuously since the 1970s and in particular during the 1990s. Today, the worker's share in total taxation is in most advanced capitalist countries far higher than ever before, the burdens of taxation have been very successfully shifted away from the capital owners to the working class at large. From the early 1980s onwards, it was constantly rising – quite contrary to O'Connor's assertions. The structure of the tax has been thoroughly changed in recent years, leaving large parts of the capital owners and the big corporations virtually tax-free. For the average wage-earner, all form of legal resistance to and avoidance of taxation have harshly restricted or altogether abolished, increasing his effective tax burden more than ever before. Between 1980 and 2005, the marginal rate of tax and the average effective rate of tax for the corporations and firms has been reduced many times – regarding the whole period by 13 % at minimum (in the USA) and by 50% at maximum (in Sweden). The same is true with respect to the marginal and average rates of the income tax which has, moreover, been deprived of much of its progressiveness by the same token. Income tax rates were reduced by 10% at minimum (in France) and 60% at maximum (in the UK).

While the effective rate of wealth and property taxes have been reduced by 10%, on average, in the EU-countries, the effective rate of direct taxation of wages and salaries has increased by at least 7%. Indirect taxation of mass consumption – like the tax on value added applied in more or less the same form throughout the EU – has been increased considerably.

With respect to the changing structure of state expenditure, the state has not retreated at all from promoting and supporting private capital accumulation. What O'Connor has regarded as "unproductive" social expenses (including military spending) has not prevailed. On the contrary, the social consumption (including social security) has displayed the most dynamic growth of all categories of public expenditure. Neither the changing overall structure of state expenditure nor the changing tax structure in all advanced capitalist states point in the direction of a fiscal crisis as envisaged by O'Connor. In both respects, the rapid rise of social security contributions and social security expenditures are the prevailing tendencies in almost all the OECD-countries, all the official rhetoric of welfare state retrenchment or dismantling notwithstanding. The crucial question remains whether the bulk of social security spending – largely financed by the working class itself – is to be regarded as a rise of "unproductive" state expenditure which increasingly impedes the states' efforts to promote and support private capital accumulation. A long term rise of social security expenditure, although at a diminishing rate throughout the 1990s, and largely financed by contributions from wage-earners themselves, however, does suggest a reduction of tax exploitation. On the other hand, social investment expenditures have continued to rise, although a clearly slower pace, during the same period, while the redistribution of the overall tax burden towards working class taxpayers has been propelled by a never ending series of "tax reforms" in all the major capitalist countries.

In the end, we are confronted with two well known problems again. Both are conceptual as well as theoretical problems. The first is the problem of the political economy of the welfare state – and its critique. The second is the problem of the political economy of public debt. Both have been tackled many times in the Marxist tradition, but never treated in a sufficient way. Curiously enough, the present constellation brings both together in one fiscal crisis scenario which is largely in accordance with the perception of a crisis or an imminent threat of stagnation and decay shared by many people in the

advanced capitalist countries of the world. With respect to the welfare state – or social security as its core – as well as with respect to the public debt, not everybody shares the alarmist view prevailing in today's fiscal and budgetary policy. More than 80% of the total of the outstanding public debt are normally concentrated in the hands of relatively few banks and institutional investors like pension funds and insurance companies plus some of the rich and superrich members of the propertied classes. They sleep well and do not worry about their credit relationship with the state. As professionals, they know that the market for public bonds is the most active and most internationalized department of all bond markets, all over the world (in Paris, in London, in Frankfurt and elsewhere). As long as they know that they will be able to resell the public debt papers they hold on a highly active market at reasonable prices, they don't hesitate to buy such papers again and add them to their portfolio's. For them, the public debt is no burden at all but a reasonably profitable investment without the slightest risk. The average tax payer, including the working class tax payer, caught by some reverse "fiscal illusion", is worried about the burden of the public debt. The political class, governments, members of parliaments, civil servants are worried because they fear the power of the creditors. Both are wrong, but act according to their beliefs. The concern with public debt in general and the increasing burden of an ever growing public debt in particular is both an effect and a symptom of fiscal crisis, not its real cause. Speaking in political terms, a fiscal crisis has arrived, when the state and growth of public debt and the problems of managing it has become the overwhelming concern of public policy.

Social expenditure growth, the rising cost of the welfare state is regarded as one of the main causes for the rise of budget deficits and public debt. There is and there never was a "legitimation crisis" of the welfare state. It is today as widely supported by the large majority of the population in all advanced capitalist countries. For them the uncertainty, even unreliability of social security is the problem, the continuing threat of further cuts and setbacks which were and will be as many expropriations of earned rights and claims that have been paid for in the past. But that increasing uncertainty for both tax payers and beneficiaries is a symptom and an effect, not the cause of the so called "crisis of the welfare state". For political economy, the crucial question remains whether social security expenditure has any impact upon the cost of living of the working class and does affect the overall levels of labour productivity. If it does, or at least partially so, it cannot be regarded as merely "unproductive" or a burden. Especially, when it is auto-

financed by wage earners who pay their contributions – while employers normally shift theirs – and who also bear the bulk of the taxes financing state subsidies to social security. But a crisis can spring up – and it already has made its entrance, once important groups of tax payers and contributors become convinced that they will never be able to reap benefits similar to those they are actually financing for others by means of their taxes and contributions. But again, this perception and the ensuing resistance against any increase of contributions or taxes in the ranks of the working class, is rather a symptom and an effect than the cause of the so called fiscal crisis.

The neoliberal counterrevolution has imbued both its supporters and its opponents with an idea of a fiscal crisis or emergency which nobody can escape. It can be described in terms of a magic quadrangle of imperatives that all "sound" politicians have to obey in the actual situation. The quadrangle lies behind the social-democratic "Agenda 2010" as proclaimed in Germany in 2003 as well as behind a lot of very similar political plans to cope with the crisis. The four corners of the quadrangle are: First, the idea that social security contributions are far too high, rendering wage labour "too expensive" and hence cause unemployment. Second, the idea that budget deficits are too high and dangerous and the public debt has become or will become an intolerable burden in the near future. Third, the idea that taxes on capital and on middle class income and wealth are far too high, impeding investment and driving capital out of the country. Fourth, the idea that public investment has been reduced to a dangerously low level and more of it is urgently needed. Taken together, following the obvious course action in all four directions, you get an impressively difficult agenda for fiscal policy: Cut social security contributions, reduce budgetary deficits, that is cut expenditure, cut taxes on corporations and enterprises and increase public investment. All at the same time, please.

Of all four ideas, highly popular and even regarded as self-evident at present, only the fourth is right. Expenditure cuts in the recent past and redistributions within government budgets have reduced public investment to unprecedented low level in most advanced capitalist countries. Again, this is an effect, not the cause of a policy responding to an alleged fiscal crisis. The other three ideas are completely wrong. There are no such urgent necessities. Wage earners can live with higher levels of taxes and contributions, as long as labour productivity is still rising and real net wages are protected; budget deficits can be financed in a sustainable way – including ways which reduce its burden

considerably (like an effective tax on interest); taxes for corporations and firms are not too high and international tax competition is not a "law of nature" but a political mistake which can be corrected. Anyway, political economy and the critique of it were once invented in order to set men free from ignorance, ideologies, and delusions. Today, it is in the field of public finance that the battle against obscurantism and delusion has still to be fought and won. It was not Marx who coined the phrase, it is still true today: Tax struggles are class struggles, although in disguise. They are, as the protagonists of fiscal sociology stressed, among the oldest forms of class struggle (cf. Goldscheid 1958, p. 202). Marx actually asserted that in all bourgeois states the struggle about taxation would be the main battle (cf. Marx, MEW 7, 285). He was right. He also thought, that taxes and state expenditure could modify the class relations in capitalist societies marginally, in minor and relatively unimportant respects (cf. ibid.). He was wrong.

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