An Exploration into Fiscal Sociology:
Ibn Khaldun, Schumpeter, and Public Choice

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I. Introduction

Fiscal events, more specifically public revenue and expenditure, and their fluctuations cannot be fully understood unless such fluctuations and changes are examined within their historical content and evolution and are properly placed in their sociological context. They are indeed sociological phenomena, and there is an inherent and unfailing mechanism of interdependence between public finance and the evolution of state and society.

The relationship between the structure of the society and its budgetary system, the systematic encompassing of evolutionary and historical change into the analysis of fiscal systems, and more generally as explanatory variables of the causes, forms, and even retardants of growth appear sporadically in the economic literature of more recent days. Some twenty years ago Hinrichs made a taxonomy of the origins and development of societies and their corresponding tax systems, and Musgrave wrote about how fiscal institutions and functions change with their environment and examined the interaction between fiscal systems and economic development.

Today, the recognition of the relationship between the socio-political organization of the society and the budgetary system has come to be firmly

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2 The authors are professors of economics at the University of Puerto Rico (retired). They are indebted to professors W. J. Baumol, F. Neumark, and R. J. Cao for reading and commenting on an earlier version of the paper and express their appreciation to professors R. A. Musgrave, A. T. Peacock, R. Bowles, G. Terny, and P. Renaud for comments during its presentation.

established within the public finance discipline under the title of public choice, but with a tremendous lag. By one count, the lag is almost five and a half centuries long; by another, it is more than half a century. For the fiscal sociology of the late 19th and early 20th century has ignored its precursor of the 14th century; and the fiscal sociology of the second half of the 20th century has neglected, if not totally ignored, its precursors of the turn of the century. Despite our tendency to think – especially in the West – that the history of ideas is an unbroken chain and that each thinker, while influenced by the ideas of the past in turn influences those of the future, from time to time in fact the links do get disconnected until, with changing circumstances, they resurface, though they may not necessarily experience a strong revival4.

The paper is not an essay in fiscal sociology per se5. Rather it aims to examine two past doctrines in fiscal sociology which form part of their authors’ overall conceptualization of the course of history: that of Ibn Khaldun in the 14th century and that of Joseph A. Schumpeter in the first half of the 20th6. It then seeks to relate them to some aspect of public choice theory in order to draw conclusions as to whether the three are conducive to the formation of a theoretical pillar for policy action.

II. The Fiscal Sociology of Ibn Khaldun7

Ibn Khaldun was a pioneer 14th century social scientist in that he conceived social and economic phenomena as subject to laws which make them follow clear and discernible patterns. He laid down the foundation of a philosophy of history based on objective socio-economic conditions which can be studied, explained, and explored with “empirical” methods of

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6 Precursors like Sax, Mazzola, Pantaleoni, de Viti de Marco, Wicksell, all of whom wrote before the end of the 19th century, are excluded since their approach and preoccupation are in a different vein from the fiscal sociology concept which forms the core of this paper.
7 Ibn Khaldun’s ideas on public finance as an integral element of the rise and fall of civilizations and states are spread into various chapters of his work. They have been pieced together in a systematic fashion from the entire Muqaddimah. The major bulk of the subject matter is to be found in Chapter III, especially Section 32ff. See Ibn Khaldun, *The Muqaddimah*, London, 1958, 3 vols.
"data" gathering, organizing, cause and effect distinction, and reaching universal judgment to predict outcomes.

According to him, social organization is of two types: the "village" (bedouin) and the "city" (sedentary); the distinction between the two lies in the respective modes of production. The village is a community of necessity which functions with the most primitive modes of production. For cooperation and division of labor, combined with a population growth which increases the supply of labor, result in production of larger quantities than the villagers need. The ensuing riches and culture drive it towards "civilization". Production expands into luxury items, crafts, and the pursuit of science and the arts. The village organization makes way for that of the city – the highest stage of development – producing and consuming luxuries, practicing complex arts, embodying refined knowledge of highly sophisticated sciences, and the center of absolute political power.

The city, too, generates the forces which lead it to its ultimate destruction. Increased production strengthens the power of the state, but it also changes the people's attitudes determined as they are by the specific stages of development. People submerge in a life of ease; solidarity breaks down; expenditures begin to exceed incomes; ordinary tax revenue does not suffice to defray the costs of government services; private property is confiscated; citizens are impoverished; civilization disintegrates; and the state itself becomes the principal victim of the sedentary culture.

The state, as an integral element of civilization, is subject to the same law of growth and change in stages, each with its own peculiar conditions. The first is the consolidation of royal authority when the ruler serves as a model to his people in the way he collects taxes, defends property, and provides military protection. The second sees the ruler assuming complete control over his people. Once power is firmly grounded, the third stage of leisure and tranquility follows. People move on to a life of comfort and luxury, and the ruler collects just taxes, regulates income and expenditure, engages in the beautification and the improvement of the cities. But people also become corrupted by luxury. Money is wasted and squandered; public offices are left in the hands of the incompetent; taxes reach unbearable

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levels; the stage of senility sets in with the eventual destruction of the state.

This cycle of growth and dissolution is no accident. Rather, during the entire process all the institutions of the civilization (state, city, economic life, sciences) develop in a causally determined fashion. The state is the supreme political power; but it also builds cities, develops and encourages economic institutions and sciences; is the source of the demand that leads to the development of trade and arts, and is the largest market for goods and services. Civilization flourishes with the state and dies with the state. Hence public finance – public expenditures, their growth and effect on economic life; taxation and its burden – forms an integral part of IBN KHALDUN’s theory of growth and decline of civilizations.

The manifold functions of the state can be grouped under two headings: the sword (the military, intelligence service, border control, law and order) and the pen (all civilian duties). Tax administration and the budget fall under the pen. The importance of each varies with the stage of development. The initial stage of power consolidation requires more of the sword than of the pen; so does the final stage when solidarity breaks down and threats of foreign invasion are on the rise. In the optimum height of the civilization, however, when power and authority have been firmly established, when economic prosperity yields higher tax revenue and allows for the encouragement of the arts and sciences and the embellishment of the cities, the pen, especially the ministry of finance, gains importance over the sword.

The sources of finance consist essentially of tributes from conquered lands, loot obtained in battles, confiscation of private property, the royal domains, and taxation. Now, tax is a revenue obtained through the use of force; the power to tax must be based, therefore, on generally recognized norms; otherwise it would be equivalent to arbitrary confiscation of private property. The norms are fairness, justness, equity, generality, and capacity to pay. Taxes must not exempt anyone because of nobility, wealth, or proximity to the ruler and must not exceed the individual’s capacity to pay. The breakdown of these norms is one of the fundamental reasons for the decline of the state and is rooted in the theory of growth and development outlined above.

For, tax revenue grows and declines with the state. In the development from the village community to the sedentary culture the state rises from a simple into a complex organization of absolute power and bureaucracy. With it comes a larger demand for goods and services in the provision of public services. The need for higher tax revenue is met without difficulty by the accompanying economic prosperity. The simplicity and moderation that characterizes the first stages of development, with low expenditure
levels that reflect this simplicity, permit taxes to be levied at low rates. Low tax rates have a favorable incentive effect on business activity: the size and the number of enterprises grow. With them, assessments increase, and the rising tax revenue provides more funds than is necessary to pay for expenditures. A surplus emerges. The gradual appearance of the sedentary culture causes expenditures to grow; government bureaucracy widens; civilian and military personnel are granted higher allowances; public works projects are undertaken. A budget deficit appears. Tax rates are raised and new taxes are levied to meet the deficit; private properties are confiscated, and the state enters the arena of commercial activity.

The tax rate increase sooner or later reaches a level beyond the limits of equity. The incentive effects begin to work in reverse. Excessive rates discourage business activity; the number and size of enterprises decline; tax revenue falls. In a desperate attempt to cover the budget deficit the state raises the taxes further. This, however, does not remedy the situation, for business costs are already too high, taxes are too heavy, and the anticipated profits fail to materialize. The complete destruction of economic incentives destroys the civilization.

Arbitrary appropriations of private property have similar consequences. The greater the infringement upon private property, the greater the disincentive to engage in business. With the decline in business activity people migrate to areas outside the jurisdiction of their state; labor supply diminishes; production declines further, and with it the tax collection.

Trading by the ruler will also end up destroying the civilization, since the state’s engagement in commercial and agricultural activities will take business away from private individuals and thus destroy the economic foundations of the society. The state is infinitely richer than its subjects and also possesses the powerful tool of political authority. The ruler is now able to act as a monopolist and causes prices to rise to levels at which profitability of private activity ceases. Ultimately, the farmer is obliged to give up his farm and the merchant his trade. All merchants are affected, whether engaged in domestic or external trade, and all professions and crafts through the indirect effects of the merchants’ spending cuts. Reduction in trade reduces the collections from customs duties and sales taxes; this is further aggravated by the unlikelihood of taxes being imposed on the activities of the ruler himself.

This is the dialectical relationship between the developments of state and civilization according to Ibn Khaldun. The more powerful the state, the more efficient its bureaucracy, and the more it encourages economic activity, the faster is economic growth and with it the development of civilization and its manifold institutions. In its turn, the more economically prosperous the society, the greater is the strength and power of the state. The power of
the state and economic prosperity are interrelated. However, the rise of absolute power can be maintained by ever-increasing expenditure on a bureaucracy accustomed to a life of luxury. This requires an ever-increasing revenue. New taxes are levied, old taxes are raised to a point that discourages all economic activity. State income from taxes declines; the state interferes in economic activity by directly engaging in commerce in order to enhance its revenues. But this renders the death-blow to civilization, since the state, by so doing, destroys the normal working of a competitive economy. The result is a sharp fall in the total tax yield, the financial ruin of the state, consequent depopulation of the city, disruptions of the institutions of organized social life and arrival of the end of the life cycle of state and civilization.

No doubt, Ibn Khaldun's theory, like all social and economic theories, reflects the conditions of his times and is influenced heavily by the rise and fall of city kingdoms and dynasties of North Africa and Moorish Spain during his lifetime, just as much as Schumpeter's dynamic analysis of capitalism and of the fiscal crises in Europe that followed World War I is, as we shall see presently, heavily influenced by the events of his time. Nevertheless, it should be emphasized that his approach to public finance proceeds from sociological and historical terms and reflects his total Weltanschauung that taxes and revenues reflect the requirements of a given historical situation; in turn, changes in them reflect the underlying changes in the social structure and development of civilization.

III. The Fiscal Sociology of Schumpeter

The drastic structural changes of the second half of the 19th century, the bellicose gales that swept through Europe in early 20th century, and the social phenomena they gave rise to once again laid the grounds to explain fiscal events through causal, evolutionary, and historical processes. Schumpeter was prominent in this line of analysis. Erudite scholar that he was,

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9 R. Goldscheid also argued that the lack of a theory of fiscal sociology was a serious deficiency of the social sciences and that only through sociological analysis could one show how social conditions determine public needs and how the pattern and evolution of sociology shape the inter-relationship between public expenditure and public revenue. To him fiscal sociology was the key to understanding social change, and social and fiscal conditioning were mutually determining: the public household was determined by social conditions and in turn the public household conditioned the society. However, as a socialist, he saw exploitation in the fiscal/tax system of his times. He, therefore, proposed the restoration of wealth to the state and the culmination of public finance in a theory of public property. See R. Goldscheid, "A Sociological Approach to Problems of Public Finance", in R. A. Musgrave and A. T. Peacock (eds.), *Classics in the Theory of Finance*. **
he knew of Ibn KHALDUN and of his work; but as far as we can determine, he did not preoccupy himself with the study of Ibn KHALDUN's fiscal sociology, although the translation into French had been available since 1868. Yet his views are incredibly close to those of Ibn KHALDUN - naturally expressed in 20th century scientific terminology and naturally relating to the historical and social development of Europe - in tying the public sector and its transformation to the social organization within which it functions and analyzing the interaction between the two. He wove his fiscal sociology into the evolution and dissolution of economic systems and, as an integral element, of the form and nature of states. His principal concern was the development of a dynamic theory of the evolution of capitalism whose end he prophesied at a time when there seemed no limits to growth and which he elaborated in depth some twenty years later. In the process he linked the change in the revenue structure and tax types closely to the inherent changes in the states, their form and their needs.

According to Schumpeter, a different revenue structure corresponds to every stage of economic development and to every form of state. A fundamental change in this revenue structure and its replacement by totally new sources of provision for the community's needs is not a mere replacement of one fiscal system by another; rather, it reflects the fact that the state's nature has changed, that the economy is now being driven by completely new forces in new directions, that accordingly the new social structure cannot remain what it was, and that attitudes towards life and its cultural content are altered.

The rights and positions of power of the feudal princes of Europe in the 14th to 16th centuries were their own patrimony to be disposed of at their private will. The sovereignty was not derived from a centralized state


He refers to Ibn KHALDUN as part of philosophers with similar occurrences of ideas as those of Vico and to his realization of human geography complementing the material of historical sociology. See J. A. Schumpeter, History of Economic Analysis, New York, 1954, p. 236 and p. 788.


power, and the revenues came from the princes’ private properties, feudal rights, gifts, contributions from the church etc. There was no general right to taxes. But by the turn of the 15th century, the gradual disintegration of the feudal organization, increased warfare and hence the growing need for mercenary armies, the breakdown of the vassal relationship and the institution of military nobility into the service of the court to gain ground vis-à-vis the estates all caused skyrocketing expenses for which revenues did not suffice. Defense, which up to then was the responsibility of the prince, came to be accepted as a matter of common exigency by the estates. This acceptance gave birth to a public sphere which was distinguishable from that of the prince’s private domain. And that public sphere gave birth to the state. This, in turn, paved the way to general taxation on the basis of majority decision and its distribution among lords and vassals.

The opposition of the estates to the way the prince raised the voted sums gave rise to the estate tax system which reached its peak in the second half of the 16th century. It formed the basis of estate autonomy, i.e. a new state with its own organs and separate power. The princes fought back and were victorious. They now became the state, their interests became the state’s interests, their bureaucracy was the state bureaucracy, and their power the state power, until the system was destroyed by modern democracies. Taxes not only helped to create the state: they helped to form it. The financial need was, therefore, the immediate cause for the creation of the state. The disintegration of the very foundation of the medieval economy and its social structure explains how and why taxes came to meet this need and to be an expression of this development.

The dialectics of the process is, however, such that once the state begins to exist as a separate reality, once it is recognized that it serves many other purposes than the mere satisfaction of the common exigency, it develops into a complex institution for which the finances become a serving tool. The state now takes over, forms the finances, and enlarges.

Yet, there is a finite limit to the state’s action in the tax sphere, and this is determined by the inherent dynamics of capitalist evolution where the interaction between economic and political forces plays a crucial role. The core of the argument, simply put, is that capitalism is a dynamic process of wealth creation and change driven by technological innovation. In its early stages of 18th century bourgeois liberalism, characterized by a competitive economy where the principle of private property ruled with all its moral (including the resulting income distribution) and political consequences of a state which governs the least, the income tax became the revenue source.

14 Ibid., p. 15.
15 Ibid., p. 16.
which best corresponded to the mentality of the times. Initially vehemently opposed by the bourgeoisie, it ultimately came to be accepted by it, when governments, supported by the same bourgeoisie, used it to finance the required services. The bourgeoisie even came to approve it\textsuperscript{16}. It financed the state the way the bourgeoisie wanted it. It was the fiscal policy expression of the economic policy principles of the liberal era\textsuperscript{17}.

But as the capitalist epoch wears on, the institutions and traditions that sheltered the structure of capitalism tend to wear away. The competitive economy makes way for the modern monopolistic corporations which, although the product of the capitalist process, begin to socialize the bourgeois mind. Thus, the capitalist process, by its very success, tends to raise the economic and political position of groups that are hostile to the ethos of wealth production, saving, and allocating resources to economic productivity. The capitalist stratum itself tends to lose some of the grip and part of the motivation it previously possessed. There arises a tendency towards increasing bureaucratization of economic life, coupled with an increasing dominance of labor interest\textsuperscript{18}. The social justification for capitalism is eroded by growing hostility towards the cultural conditions of an advanced capitalist state. Its political foundations are weakened by the hostility of the groups for which it has no further use. Rising unemployment leads to radicalism of the masses who now demand non-capitalist forms of economic organization, since the roots of all evil are found in private entrepreneurship and it is believed that if private enterprise were to disappear, all health would be restored. Nationalization of capital-intensive industries, political control of the markets, the formation of unions, trade and industry associations follow\textsuperscript{19}.

Economic requirements run counter to what is socially permissible. As the public sector encroaches upon the private sector, it reduces the area of entrepreneurial activity and dampens economic growth by withdrawing funds that are needed for productive growth. Business is unable to function according to design when its most important "parameters of action" – wages, prices, interest – are transferred to the political sphere and dealt

\textsuperscript{16} It was called the "noble tax", the "ideal tax", the "most beautiful flower of the tax culture", the "highest achievement of tax technique and tax justice". See J. A. Schumpeter, "Ökonomie und Soziologie der Einkommensteuer", \textit{Der Deutsche Volkswirt}, vol. 4, 1929/30, pp. 380–385.

\textsuperscript{17} J. A. Schumpeter, "Ökonomie ...", op. cit., p. 382.


\textsuperscript{19} J. A. Schumpeter, "Wenn die Finanzreform mißlingt ...", \textit{Der Deutsche Volkswirt}, vol. 4, 1929/30, p. 698.
with according to the requirements of the political game. High wages reduce output and employment; price control becomes an obstacle to growth; so does the bureaucracy’s persistent hostility supported strongly by public opinion.

The dampening of productive growth puts a finite limit to the state’s ability to respond effectively to the growth in the public’s demand for governmental services, from basic provision to intervention in the productive areas of the economy. As non-competitive forces take over the industrial sphere, the scope of the income tax gets restricted to sectors which neither can bear its burden nor correspond to the controlled self-assessment principle underlying the income tax. With the increase in the tax rates the fundamental moral value of tax compliance declines. The tax is looked upon as a penalty payment to a state which has become the enemy of the bourgeois world. Tax inquisition becomes the order of the day and a gigantic control machinery is erected which wastes away resources that otherwise could have been allocated to productive activity.

The outcome is that the income tax, like any other social institution, begins to lose its correspondence to the circumstances of the times. It becomes an absurd instrument of fiscal policy and is bound to disappear with the changes in the economic system and the changes in the mentality whose tax child it was. Over the long run the entire process causes the collapse of the tax state.

Now, fiscal policy is politics which requires implementation with the appropriate political institutions. It is the politics of the democratic system which rose along with capitalism and in causal connection with it. Its foundation is individual freedom; its ideology rests on a rationalist scheme of human action and of the values of life. In its early stages the capitalist system was able to limit the sphere of politics by limiting the sphere of public authority: a parsimonious state that exists primarily for the guarantee of the bourgeois legality and of autonomous individual endeavor in all fields.

But this kind of state is no longer with us, nor does it appeal to us. With the formation of economically and politically hostile groups, with the rise of interest groups, party interests, social groupings or classes or associations, all of which would like to have their points of view reflected in the

20 J. A. Schumpeter, Capitalism . . ., op. cit., p. 386.
21 Ibid., p. 387.
budget which then has to be voted upon in the parliament or the legislature, democracy encounters increasing friction\textsuperscript{26}.

Fiscal policy becomes the prime victim of this process. For fiscal policy serves not only the needs of a given situation, it also reflects the outcome of all social, political, cultural, and economic relations of a nation. It should take account of the expected and desired economic, social and political development and enable their realization. The basic question to answer then is: how should the fiscal system be modified so that it does not become a deadweight, but promotes development\textsuperscript{27}? In Schumpeter's opinion fiscal policy is doomed in achieving this long run goal. For one, the democratic system is unable to place sufficiently authoritative individuals with freedom of movement in positions of political responsibility. Secondly, primary attention in a democracy to the political values of a bill or an administrative act distorts all the pros and cons and forces on the politicians and bureaucrats a short run view and makes it extremely difficult for them to serve the long run interests of the nation\textsuperscript{28}.

In his later writings, especially in his \textit{Capitalism, Socialism, and Democracy}, Schumpeter paved the way for the public choice theory of today. Downs gives recognition to Schumpeter's profound analysis of democracy, which he recognizes as having formed the foundation of his thesis\textsuperscript{29}. In the democratic state the politicians acquire the power to decide by means of a competitive struggle for the people's vote. This way of putting it, to Schumpeter, greatly improves the theory of the democratic process, for rather than making the selection of representatives secondary to the primary purpose of Vesting the power of deciding political issues in the electorate, it makes the election of the decision makers primary to the decision of the issues. The theory thus makes the competitive element the essence of democracy; it recognizes the vital role of leadership; it does not stop at the execution of the \textit{volonté générale}, but goes some way towards explaining its emergence; it incorporates the organizing of volitions by political leaders, so that the interaction between sectional interests and public opinion and the way they produce the political situation becomes clearer; it clarifies the relation between democracy and individual freedom; and it makes the

\textsuperscript{26} Ibid., pp. 298, 301, and "Finanzpolitik . . .", op. cit., p. 866.
\textsuperscript{27} J. A. Schumpeter, "Finanzpolitik", \textit{Der Deutsche Volkswirt}, vol. 1, 1926/27, p. 827.
\textsuperscript{28} Ibid., p. 827, and \textit{Capitalism . . .}, op. cit., p. 287, 293.
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foremost task of each political party the attempt to prevail over the others in order to get into power or stay in it.\(^{30}\)

The main ideas of public choice theory and their ramifications are not the subject of inquiry of this paper. In summary, we can say that it encompasses the theory of the state, voting rules, voter behavior, party politics, the bureaucracy etc. Its purpose is to analyze and understand how political structures produce fiscal outcomes. In principle, the discipline encompasses the study of the implications of the differences between political systems on collective actions. Yet, the vast literature has neglected this aspect of the discipline\(^{31}\) and concentrated on the various elements of political decision-making in capitalist democracies. The basic assumption is that man is an egoistic and rational utility maximizer under constraint.

In its normative branch, public choice parts from the premise that a community necessarily holds a set of collective values without which it would not be a community. It studies the processes through which these commonly held values are revealed and derives PARETO-efficient social choice propositions from the consensus, such as the discussion of the unanimity versus majority rule of decision making. Positive public choice focuses on the processes that reveal the individual preferences which form the basis of the community’s commonly held values. It analyzes the implications of collective decision rules given individual preferences. Thus, it analyzes decision making at the parliamentary or legislative stage under the rules set at the constitutional stage\(^{32}\).

Clearly, then, SCHUMPETER’s analysis of the democratic process forms a pillar of positive public choice theory when it attempts to understand how the democratic process turns out legislation and administrative measures and makes the fulfillment of the social function incidental, as it were, to the competitive struggle for power and office\(^{33}\).

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\(^{30}\) J. A. SCHUMPETER, Capitalism . . . , op. cit., Chs. 22 and 23.

\(^{31}\) For an exception see R. CAO-GARCIA, Explorations toward an Economic Theory of Political Systems, New York, 1983. It is of interest to note marginally that MONTESQUIEU, in his monumental comparative study of the types of government, distinguishes between taxes that are most appropriate to democratic and to despotic governments. He argues for a head tax in despotic states and for a commodity tax in democracies. He further maintains that levies have to be low in despotic states where the loss of freedom needs to be compensated by moderate taxation. They can be raised in democracies where freedom is the reward for bearing high tax burdens. See C. L. S. MONTESQUIEU, “De l’Esprit des Lois”; in G. Vedel (ed.), Montesquieu, Oeuvres Complètes, Paris, 1964, pp. 608-613.


\(^{33}\) J. A. SCHUMPETER, Capitalism . . . , op. cit., p. 282.
IV. Concluding Remarks: Policy Indications?

*Ibn Khaldun* in the 14th century posited a fiscal sociology which embodied a theory of interaction between “civilization” and one of its integral institutions, the state, which determined the trajectory of the civilization. Five centuries later, *Schumpeter* began to elaborate a theory of dynamic process whereby this interaction leads to the destruction of the state. Both have concluded that it is impossible to alter drastically the course of development; they concur in many respects and diverge in others, as is to be expected when five centuries of phenomenal social transformation separates two scholars. *Ibn Khaldun* does not discuss specific taxes; he simply concludes that excessive taxation will lead to the collapse of the state. It is logical that *Schumpeter* wrote about the rise of the income tax and its demise when bourgeois democracy no longer prevails; but it is the state that created this income tax that will collapse. And yet another 50 years or so later public choice theory once again emphasizes the relationship between politico-social organization and the fiscal system and the necessity of understanding the latter not independently of society but as a product of it.

*Ibn Khaldun* and *Schumpeter* both attempted to derive the trajectory of civilization from their determinist analyses, which, in turn, left hardly any room for long-term policies. *Schumpeter* recommended drastic reduction in the income tax rates and a shift to consumption taxes to revitalize growth. He recognized that the income tax was going to be with us for some time to come because of the strong forces that support it, including the convictions of professional people34. However, it could not last forever and would be washed away by the currents of development.

Public choice theory makes no claim to prediction of any particular outcome; at least, it made no such assertion before 1978 when *Olson* articulated the thesis that democracies that mature and age in peace will experience declining growth rates35. In a framework reminiscent, in part, of *Schumpeter’s* he maintains that narrowly based special interest groups – labor unions, professional associations, farm organizations, trade associations, lobbies, and informally and even tacitly organized groups – proliferate as democracies mature uninterrupted by war or similar crises. Their proliferation inhibits growth, since efforts to increase efficiency and growth are costly and since narrowly based special interest organizations or collusive combinations will obtain a minute share of the increase they bring

about. They will, instead, endeavor to obtain a greater share of the pie while maintaining an “anti-capitalist” bias in obstructing innovation. Growth will slow down.

The use of majority rule to achieve redistribution in a democracy dominated by interest groups results in the growth of the government’s size, for redistribution does not typically occur via direct transfers, but is hidden in indirect policy measures such as special regulations, tariffs and quotas, subsidies, tax shelters etc.\textsuperscript{36} The political issue of the equity-efficiency trade-off then converts into one of the proper size and scope of government and thus is reminiscent of Ibn Khaldun. The argument that there is slower productivity growth in the expanding public sector adds yet another factor to the explanation of slower growth in the economy as a whole\textsuperscript{37}.

Are we, therefore, to predict that the ensuing fiscal crisis will bring liberal democracy to its end? Neumark argues that the crisis of the fiscal state is very much exaggerated\textsuperscript{38}. Brittan is not optimistic\textsuperscript{39}. He fears the end of liberal democracy, for if the political process cannot resolve the problem of redistribution without dampening growth, either the capitalist system will disappear and with it liberal democracy, or we will have to give up redistribution, direct or indirect.

Musgrave does not think that the trend towards a fiscal and economic crisis is probable\textsuperscript{40}. According to him, the interactions between economic, political, and ideological forces and the fiscal system will continue to operate, but the pattern of change cannot be pre-determined; for in order to understand the sociology of fiscal politics, the voting behavior of all the fiscally relevant groups, which cut across income level and source, region, industry, and age, must be allowed for. He finds it probable that as income rises, society will find redistribution less necessary, for the proliferation of redistributive programs may move the dividing line between those who gain and those who lose down the income scale, which would make it difficult to secure a majority for further redistribution\textsuperscript{41}. Tax increases may become

\begin{itemize}
  \item \textsuperscript{40} R. A. Musgrave, “Theories of Fiscal Crisis”, in H. J. Aaron and M. J. Boskin (eds.), The Economics of Taxation, Washington, D.C., 1980, p. 390.
  \item \textsuperscript{41} Ibid., p. 385.
\end{itemize}
more and more difficult to enact; hence, fiscal expansion may well slow and the fiscal crisis may be blocked, but to be transferred to another less manageable sphere of the socio-economic system. The learning process which goes hand in hand with the evolution of the democratic process should trigger a remedial action and the median taxpayer should call a halt.

Olson is optimistic, although he realizes that there is no complete cure. His policy suggestions are elimination of the restrictive entry limiting practices of special interest groups. This can be done, among other means, by outlawing such practices, repealing resource misallocating special interest legislation, making special interest groups more encompassing, repealing the existing restrictions on immigration, allowing foreign firms to operate in national economies, repealing tariffs, and encouraging international competition. One could lengthen the list by suggesting that special interest groups should be enlightened as to the net benefits of the programs they may be opposing, or that constitutional amendments should be voted which would halt growth-retarding redistributive practices. Certainly rallying behind the preservation of democracy itself will not be enough.

Are any of the suggestions a way out? What lies ahead? The slow progress of international negotiations for freer trade, the resistance to the opening of national doors to foreign labor, the continuous protection of industries via quotas and other quantitative restrictions, the strict control of national interests when foreign enterprises are present, the closing of national markets to foreign products etc. are all current practices which clash with Olson's optimism, or at least postpone the realization of his vision to a far distant future.

The proposal to institutionalize redistribution as a specific choice in the constitution might increase the relative importance of efficiency elements in fiscal choice. But the technical difficulties that accompany its acceptance and implementation would be insurmountable. Such difficulties apply equally to Olson's policy proposals. For we will require not only total unambiguity on the meaning and content of the policy proposals, but also near consensus on their aims and on how they are to be defined. The complexity of the budgetary institution by means of which they are to be legislated adds further complications to their implementation.

Tracing the interaction between the state and the fiscal system from Ibn Khaldun to our times leaves us with two diametrically opposed ideas in fiscal sociology. One is to be found within the all encompassing thought

42 Ibid., p. 388.
43 Ibid., p. 390.
process of the philosophy of history, in the Hegelian sense, which in effect leaves no room for long-term policy measures that would alter the course of events. The other is the inter-relationship between the state and the society in a foreseeable period of time, a theory which would, and in fact should, lead to short- and long-term policy measures, especially if we adhere to the tenet that new circumstances lead to new ideas and new ideas, in turn, lead to new circumstances.

With public choice theory public finance took a giant step in integrating political science with economics; its disciples have been fascinated with the interaction between economic, social, and political behavior. Many questions raised in this paper on the inter-relationship between the fiscal state of the economy and the state of the political system, which so far have remained unanswered, may very well provide the research agenda for many public choicists.