

Preface

This book examines some of the material of public finance (or public economics) through ‘a different window’, to borrow a phrase from Friedrich Nietzsche. The object of analytical interest in the theory of public finance is a government’s activities, mostly its revenues and expenditures (though any budgetary operation can be mirrored by a regulation). But through what window is this object viewed? The most commonly used window is one where government is portrayed as an entity that intervenes in society to alter the equilibrium pattern of market-generated outcomes. When seen through this window, public finance appears as the activity of developing knowledge about the consequences of different interventionist actions by governments.

When viewed through my alternative window, public finance appears as a form of social theorizing. If the aim of market theorizing is to explain how people are able to generate generally orderly patterns of activity when they relate to one another through private property, the coordinate aim of fiscal theorizing is similarly to explain how orderly patterns of activity emerge when people relate to one another in the particular form of collective property that constitutes a state. A comprehensive social theory might thus be thought to entail a combination of market theory and fiscal theory, taking care to incorporate the forms of civic association as well.

Through this alternative window, government appears as one of several interrelated arenas within which people interact inside a society. The pure theory of a market economy treats property rights as absolute. The alternative that I pursue here treats property as non-absolute, perhaps as illustrated by John Paul Sartre’s closing declaration in *No Exit* that ‘hell is other people’. Rights of property not only depend on what other people allow but are also subject to variation over time through societal processes that form part of the subject matter of the material I present here. Both political and economic activities emerge within the same societal process, a process that entails both cooperation and conflict. Societies have multiple arenas of interaction, and a government is just one of those arenas. Fiscal activities are thus assigned to the realm of catallaxy or interaction and not to the realm of interventionist choice. To be sure, catallaxy is generally regarded as denoting exchange. Knut Wicksell’s vision of unanimity would be such a representation of catallaxy. But I use catallaxy to represent

interaction, and in this I include duress as well as consent, as Wicksell recognized in his pragmatic retreat from unanimity.

The relationship between economy and polity is sequential in conventional fiscal theorizing: market equilibrium is first established, with government then intervening to shift society to some alternative equilibrium. This is, of course, as it must be with systems design, for an existing system is to be followed by some alternative. In contrast, when public finance is treated as a facet of social theorizing, the relationship between economy and polity must be coeval within a societal catallaxy. Moreover, primacy of analytical focus is placed on emergent processes of development and not on states of equilibrium. Moreover, much of that development is set in motion by conflict among people and their plans.

The book's material is presented in eight chapters. The first two chapters treat preliminary considerations. Chapter 1 explores the contrasting architectonics for the alternative approaches to public finance that I have just adumbrated: the predominant approach treats public finance as a branch of economic systems design; the alternative that I sketch here treats it as a form of social theorizing. To be sure, systems design and social theorizing are not antagonistic to one another. One person can practice both approaches to public finance, but not at the same instant. Chapter 2 examines the treatment of property rights within the context of a social-theoretic public finance, and shows how some incongruities between politically-generated and market-generated institutions can promote societal tectonics and not some placid equilibrium. The main point of this chapter is to explain the non-separable character of polity and economy, and to sketch some of the implications for a theory of public finance.

The next four chapters divide a social-theoretic treatment of public finance into four conceptual modules. Each module, moreover, reflects an enterprise-centered approach to public finance. By this, I mean that the aggregate pattern of activities undertaken by a government is generated in bottom-up or emergent fashion through entrepreneurial activity that is pursued politically. Chapter 3 conceptualizes a society as possessing two forums through which entrepreneurial activity can be pursued: a market square and a public square. These two forums reside within the same society, so they are connected; moreover, those points of connection serve as hubs of contested exchanges. The abstract notion of state is assimilated not to some such form of organization as a firm or club but to a particular type of transactional nexus; a parliamentary assembly is thus construed as a peculiar type of market forum. Chapter 4 characterizes political entrepreneurship as supplying the organizational momentum for the public square. With the political enterprise treated as the central unit of analysis for a theory of public finance, Chapter 4 locates political entrepreneurship

as the generative source of the pattern of fiscal activity within a society. Chapter 5 examines the arrangements of governance within political enterprises with respect to their ability to promote the success of those enterprises. Chapter 6 explores how political enterprises go about securing revenues to support their activities, recognizing the complementarity between the taxing and the spending sides of the budget.

The final two chapters explore analytical extensions of the preceding analysis. In the earlier chapters, a society was implicitly characterized as possessing a single public square out of which the phenomena of public finance emerge. Most people, however, live inside multiple public squares. Chapter 7 examines federalist forms of public square, and does so within a polycentric vision that contrasts with the allocationist-centered vision that is common in the literature on fiscal federalism. Pareto efficiency, as generally interpreted, is a coherent analytical construction only within the framework of a closed system of equilibrated relationships. My alternative analytical window, however, entails an open system of emergent relationships, which renders Pareto efficiency incoherent. Chapter 8 presents an alternative exploration of the object of concern that has been addressed by welfare economics, and does so by working with some ideas that inhabit the domain of fiscal sociology.

This book is not written as a textbook. It assumes that the reader has a working knowledge of the standard conceptual framework within which the theory of public finance is commonly presented. It is written as an essay that offers a personal statement regarding the theory of public finance when that theory is understood to be one aspect of a broader scheme of social theorizing. It is elemental in character, in that it addresses some foundational conceptual issues in a straightforward manner, even as it presumes a general familiarity with the standard conceptual framework. The book seeks to explore some of the contours of what a theory of public finance might look like when it was oriented toward social theorizing and not systems design.

The modern development of public choice theorizing has, of course, sought to probe some of the interaction between market and public squares, and I embrace that development. The development of public choice theorizing, moreover, is to a significant extent a continuation of the social-theoretic orientation toward public finance that was developed by Italian scholars during roughly the period 1880 to 1940, as I have explained elsewhere (Wagner 2003). At the same time, however, much public choice theorizing treats governments as acting units of intervention and seeks to uncover the logic of such state intervention. In contrast, I treat democratic forms of government not as organizations but as orders, inside which many particular organizations operate.

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