Joseph Aloisius SCHUMPETER

The crisis of the Tax State

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I. Issues

Many people assert, and indeed in some circles it has become axiomatic, that the fiscal problems left in the wake of the war cannot be solved within the framework of our pre-war economic order. This order was a mixture of highly contradictory elements. Only by heroic abstraction could it be called an economy of free competition; yet whatever drive and success it had were due to such elements of free competition as remained in spite of everything-in spite even of those attempts at state tutelage which, though reinforced by the war, were by no means created by it. Will this economic order collapse under the weight of the war burden or, indeed, must it collapse? Or will the state have to alter it so much as to make it something entirely new? The answer tends not to rest on dispassionate analysis. As usual, everyone endeavours to proclaim the fulfilment of his own wishes to be a necessary consequence of the war. Some foresee that "high capitalism," having culminated in the war, must now collapse; others look forward to more perfect economic freedom than before, while yet others expect an "administered economy" fashioned by our "intellectuals." This is bound to happen because the state-so says the bourgeois smugly-or because the free economy-so says the intellectual enthusiastically-have failed. Neither of them, though possibly the socialist a little more than the other, attempts to justify his judgment in a manner which bears even a faint resemblance to scientific habits of thought. This discussion, unpleasant like almost every expression of today's culture or lack thereof, goes to prove that there remains free competition at least in slogans: the cheapest wins. In no other field of knowledge would such a performance be possible. Only in economic matters does everyone consider himself called upon to speak as i n expert; every Tom, Dick, and Harry feels entitled ingenuously to recite age-old fallacies and naively to declare his own most subjective economic or ideological interest to be the last word of wisdom. In these pages, however, we shall only touch upon this question. Whoever expects an exhaustive discussion of it should lay down this pamphlet. For our main concern is with other matters.

If the initial assertion is true then we face a crisis of much greater scope than is indicated by the catchword which has provided us with our title. If the tax state were to fail and another form of providing for the wants of the community ensued, this would, on the one hand, mean much more than that a new fiscal system replaces the pre-war one. Rather, what we call the modern state would itself change its nature; the economy would have to be driven by new motors along new paths; the social structure could not remain what it is; the approach to life and its cultural contents, the spiritual outlook of individuals- everything would have to change. On the other hand, it should be pretty clear that a continuous failure of the tax state could never be the fortuitous result of any disturbance, however big-as if, for example, an otherwise perfectly healthy tax state had suddenly become impossible owing to the world war and its aftermath. Even the simplest considerations show that, at most, the war could have brought to light a much more basic inadequacy of the particular society whose fiscal expression the tax state is; that, at most, it could have been the occasion which laid bare the structural weaknesses of our society and thus precipitated a collapse which was inevitable for deeper reasons. Here we come to the sociologically important vista which the fiscal position opens before us and which is our main concern. What does *failure of the tax state* mean? What is the nature of the tax state? How did it come about? Must it now disappear and why? What are the social processes which are behind the superficial facts of the budget figures?

II. Fiscal Sociology

It is Goldscheid's enduring merit to have been the first to have laid proper stress on this way of looking at fiscal history: to have broadcast the truth that "the budget is the skeleton of the state stripped of all misleading ideologies"-a collection of hard, naked facts which yet remain to be drawn into the realm of sociology. The fiscal history of a people is above all an essential part of its general history. An enormous influence on the fate of nations emanates from the economic bleeding which the needs of the state necessitates, and from the use to which its results are put. In some historical periods the immediate formative influence of the fiscal needs and policy of the state on the development of the economy and with it on all forms of life and all aspects of culture explains practically all the major features of events; in most periods it explains a great deal and there are but a few periods when it explains nothing. Our industrial organism cannot be understood the way it actually is if this is overlooked. And our people have become what they are under the fiscal pressure of the state. It is not merely that economic policy has, up to the turn of the century, been motivated primarily by fiscal considerations: exclusively fiscal motives determined, for example, the economic policy of Charles V; led in England up to the sixteenth century to the domination by foreign merchants under the protection of the state; led in Colbert's France to the attempt at subjecting the whole country to the guild and led in the Great Elector's Prussia to the settlement of French artisans. All of this created economic forms, human types, and industrial situations which would not have grown in this manner without it. All of this, too, continues to have an effect to this day. More than that, fiscal measures have created and destroyed industries, industrial forms, and industrial regions even where this was not their intent, and have in this manner contributed directly to the construction (and distortion) of the edifice of the modern economy and through it of the modern spirit. But even greater than the *causal* is the *symptomatic* significance of fiscal history. The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare- all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns the thunder of world history more clearly than anywhere else.

Most important of all is the insight which the events of fiscal history provide into the laws of social being and becoming and into the driving forces of the fate of nations, as well as into the manner in which *concrete* conditions, and in particular organizational forms, grow and pass away. The public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life. The full fruitfulness of this approach is seen particularly at those turning points, or better epochs, during which existing forms begin to die off and to change into something new, and which always involve a crisis of the old fiscal methods. This is true both of the causal importance of fiscal policy (insofar as fiscal events are an important element in the causation of all change) and of the symptomatic significance (insofar as everything that happens has its fiscal reflection). Notwithstanding all the qualifications which always have to be made in such a case, we may surely speak of a special set of facts, a special set of problems, and of a special approach-in short, of a special field: fiscal sociology, of which much may be expected.

Of these approaches, the development of which lies as yet in the lap of the gods, there is one which is of particular interest to us: the view of the state, of its nature, its forms, its fate, as seen from the fiscal side. The word "tax state" is a child of this view, and the following investigations are concerned with the implications quite clearly contained in this term.

III. The Crisis of the Desmesne Economy at the Close of the Middle Ages

The modern tax state whose "crisis" is debated today has, in its turn, grown out of the crisis of its predecessor, the feudal relationship. At least so far as Germany and Austria are concerned (and our material will in substance be limited to these two countries) it is well known that the modern tax state is not rooted in the tax state of antiquity, either in the sense of continuity or in the sense of resuscitation or "migration of culture." It is rooted instead in the highly autochthonous circumstances of the territories of the *Reich* and the princes of the fourteenth to the sixteenth centuries. Its genesis can be told in a few words. The pressure of the times created it. The fourteenth and fifteenth-century prince was not the absolute ruler of his country that he became after the Thirty Years' War. He was confronted by the solid position of the estates, that is primarily the nobility of various degrees, to a lesser extent the clergy, still less the burghers of the towns, and finally and least important, the remains of free peasantry, particularly in the Tyrol and in Eastern Frisia. The estates held their position vis-8-vis the prince by their own power and in their own right, and it was a position essentially similar to that of the prince, resting on essentially the same sanctions and consisting of essentially the same elements. The position of the prince, too, consisted merely of a sum of the rights of dukes, counts, various feudal officials, landowners, etc., as did the rights of all other land- and relatively independent allodial lords. The difference between the overlord and the others was at first only one of degree; he was *primus inter pares.* Only gradually was this overshadowed by the fact that his dependence on the Emperor and the *Reich* through vassalage and otherwise evaporated more and more while the subordination of the great lords of the territories, which rested on the particular titles, not only remained intact but grew and finally merged into the whole of sovereign rights-into a special "sovereignty." This sovereignty was one of the germs of state power, as was the position of the non-sovereign feudal lords, though to a lesser extent and partly in other spheres. Even then the prince, supported by the logic of the facts and aided by Roman patterns of thought, assumed the bearing and the phraseology of state power. There did remain in this sovereignty something of the organic position of earlier days, something of the deposable dignitary of the Carolingian and Ottonian *Reich* .But it was not yet state power, for it did not rest on any general sovereignty, the representative and personification of which the prince might have felt himself to be and from the sanction of which the rights of the remaining powers which confronted the prince within the territory might have derived. The prince owned his sum of rights and positions of power for his own benefit, so that his phrases of public welfare then and much later had no other meaning than, for example, similar expressions uttered by a factory owner of today. The natural law distinction between the *persona.publica* and the *persona privata* of the prince did, therefore, not simply remain unrecognized at the time because of deficient legal or sociological analysis, but it had no factual basis and would have been meaningless. The prince did not look upon his territory then as a modern estate owner looks upon his cattle. ll this came later. But he did look upon the sum of his rights precisely like this-as a *patrimonium* of which he could dispose in a manner which was nobody else's business.

or was the prince the only one who considered his prerogatives in this way. Everyone else did too, in particular the other "lords" of the country whose opinion alone counted. Certainly, they took a stand as to the manner in which the prince used his rights. But they did so in no sense other than that in which interested persons of every industry or every region today take a stand vis-8-vis the possibly vexatious or anti-social behaviour of a landlord or factory owner. We think this strange, but unjustly so. For it was impossible then to speak of any point of view of common welfare, which is what we miss. Nobody represented such a point of view and it was not founded on any social power.

O course, many of these princely rights did, at the time, serve the needs of the community, especially the right of jurisdiction. But this does not make them anything "public" or "governmental." The community needs shoes, too, but this does not mean make shoe manufacturing a public affair, though it could be one. Altogether, there is nothing which *could* not be a "general" or "public" affair, once the state exists; and nothing which *must* fall within the "public" or "state" sphere in the sense that we could not otherwise speak of a state. As long as the state does not exist as a separate and real power, the distinction of public and private law has simply no meaning.

The statement that during the middle ages public law was shot through with aspects of private law or that there existed only private law is as illegitimate a projection of our modes of thought into the past as is the opposite assertion. The concept of the state is inapplicable to the circumstances then existing, but not in the sense that what we see today within the sphere of the state was absent and that only the private sphere remained; instead, the organizational forms of that time combined both what we nowadays call the public and the private sphere in one essentially different unity.

So far as the economy of the prince was concerned, it followed that he had to meet all the expenses of any policy which was his private affair and was not the policy of the state. For instance, he himself had to meet the cost of a war against "his" enemies, at least unless he had a right to the necessary contributions by virtue of particular titles, such as the vassals' obligation to render military service. Neither the means at the prince's disposal for this purpose nor his sovereignty derived from any centralized state power. The one was the sum of revenues of the most diverse kind, the other a sum of diverse rights. Most important were the revenues from his own lands, that is, the dues of his subjects, the peasant-serfs, whose landlord he was. Since the thirteenth century these dues were paid mostly in money. Until the sixteenth and seventeenth centuries these revenues were considered the foundation of the princely economy as well as the core of the fiscal problem connected with the domains' administrative reform which took place everywhere between the thirteenth and the sixteenth centuries. In addition there were diverse feudal rights, such as the mint, market, customs, mining, or protection-of-Jewry *regalia* and all the rest of them, and finally the revenues from those powers which he had as a dispenser of justice or as lord over towns and bailiwicks. Apart from that there were traditional gifts of vassals, the highly controversial contributions of the church, but no general right to "taxes." At most the towns were an exception. Though they did not as yet know the idea of a state, they did have the "idea of the town" and in this as in other matters they anticipated developments which in the country did not come about until much later. Aside from this neither the freeman nor even the dependent nobleman paid taxes as a rule.

During the fourteenth and fifteenth centuries the princes got into more and more difficult financial straits which contrasted oddly with their rise in every other respect-both in relation to the *Reich* and to the other powers of the territory-and which frequently led to tragicomical situations. At the turn of the fifteenth and sixteenth centuries, and in individual cases as early as in the fourteenth century, the situation became untenable: a crisis of the fiscal economy was at hand. Let us look more closely at the situation of Austria, or the "five Lower-Austrian *Lander,"* to use the traditional terminology. The immediate reason why the prince got into debt to such an extent that he finally could not carry on was that he mismanaged his affairs, that he administered his domain inefficiently. If that had been all we could speak of a crisis of the economy of individual princes, but not of a crisis of the whole fiscal system. Every fiscal system can occasionally break down. But this by no means signifies the collapse of its *principle.* So long as the cause is accidental, i.e., so long as it does not follow from the inner logic of the system and so long as remedies can be found within the system (in this case more efficient management), so long the collapse may be of interest perhaps to the historian, but not to the sociologist. In such a case we cannot conclude that there is an underlying social process of change. The broken-down economy is somehow liquidated and thereafter things proceed as before. This is important for a precise definition of what we mean by "crisis"-also when applied to the tax state.

Another cause for the difficulties of the princes is much more interesting: this is what historians refer to as courtly waste. It was the maintenance of all the nobles in the service of the lord which made the court so expensive. But this particular expense was neither accidental nor avoidable. Profitable service at the court transformed a recalcitrant country nobility into a pliable court-, official-, and military nobility, and if the prince wanted to gain ground *vis-a-vis* the estates he had to offer such court service when the ties of the vassal relationship began to loosen. But the prince's means had not been intended for such expenses and proved insufficient to meet them.

Here we have both a *factor* and a *symptom* of a process of social change as well as a cause of the failure of the fiscal economy of the prince. It is a cause which does have an interest from the point of view of "principle."

The most important cause of the financial difficulties, however, consisted in the growing expenses of warfare. The emergence of mercenary armies (which confronted the prince with a situation similar to that which a modern aristocratic household had to face when it had to pay each servant the wage determined by the industrial labour market) was, of course, not the consequence of the invention of gunpowder, as the high school textbook puts it with involuntary humour. The feudal army could have learned the use of firearms quite as well. And the hired soldier for a long time rode his steed into the enemy much as the nobleman would have done. However, the feudal ban, first of all, was simply not numerically sufficient, particularly not against the Turkish armies. Moreover, the nobility increasingly resisted the fulfilment of its obligations and more and more failed the enemy. The prince finally realized that it became useless and in the sixteenth century used his right to call up the feudal ban only to wear down recalcitrant estates. How did this come about? It was simply due to the fact that life was breaking through the feudal organization, that after the fiefs had de facto become hereditary a long time ago the vassals began to feel as independent lords of their soil and began to detach themselves in spirit from the vassalage, the essence of which was continuous fighting, continuous conquest, and knightly life in the sense of the early middle ages. This is one of the forms of the process which I usually refer to in my private use as *Patrimonialization of the Personality*. The mercenary army was also an expression of this process, and so were the fiscal needs thereby created. These in turn became the driving forces for further development. Around A.D. 1500 the normal income of the electorate of Cologne was, for example, 110,000 Rhenish guilders, that of Mayence 80,000, that of Treves 60,000, and that of Brandenburg 40,000. The house of Hapsburg towered over them all with 300,000 guilders received from its hereditary Austrian territories alone. But even this sum would have paid for only 6,000 foot soldiers or 2,500 "armoured horses" during a year. And with these 6,000 foot soldiers or 2,500 knights the prince would have been free to oppose the 250,000 Turks whom the Sublime Porte could have sent into the field at any time. Here we have with the clarity of a textbook example what we mean by the crisis of a fiscal *system*: obvious, ineluctable, continuous failure due to unalterable social change.

The prince did what he could: he got into debt. When he could borrow no more, he turned begging to the estates. He acknowledged that he had no right to demand, declared that accession to his plea was not to prejudice the rights of the estates, promised never again to beg-this is the content of those *Schadlosbriefe* (letters of indemnity) which, had this development continued without a break, might have come to take the place that in England is taken by the *Magna Charta*. The prince pointed to his insolvency and suggested that matters such as the Turkish wars were not merely his personal affair but a "common exigency." The estates admitted this. The moment they did so a state of affairs was acknowledged which was bound to wipe out all paper guarantees against tax demands. This state of affairs meant that the old forms were dead which had encompassed the whole personality in a super-personal system of aims; that the individual economy of each family had become the centre of its existence; and that thereby a private sphere was created which was now to be confronted by the public sphere as a distinguishable element. Out of the "common exigency" the state was born.

At first the concession of taxes by no means implied a general tax duty. The previously sketched view of the nature of the medieval political community is confirmed by the observed facts, which are fully concordant with that nature and are reoriented only step by step in the direction which corresponds to the modern idea of the state. Not only was the concession of taxes valid, only for the estates which granted it and perhaps for their own vassals-from whom they could in Austria, with the consent of the prince, in any case recoup part of their taxes since 1518-rather than for the whole country as such; but at first only those who had themselves voted for the tax concession were committed, while he who had mounted his horse before the concession and had ridden off did not have to pay. This speaks a clear language. Tax liability on the basis of a majority decision, even more so general tax liability and a legally controlled distribution of the tax burden among lords and vassals-all this came about but very slowly. In this process it is of interest to us, though we cannot go into details, that this development kept pace with the emergence of the state along all other lines and that the fiscal element was frequently the driving element and in all cases the faithful image of the development of social affairs.

The estates did not trust their prince. Frequently the funds that had been raised were channelled to their intended purpose through the estates' own agents, and always, except in disagreeable cases of difficult collection, the estates opposed the intervention of the prince as to the way in which the voted sums were to be raised. This led to the growth of an estate tax system, administered by a bureaucracy of the estates, which reached its peak during the second half of the sixteenth century and became the basis of estate autonomy also in other matters. The newly born state acquired a solid framework, created its own organs, became a separate power. Taxes were no longer raised merely for the purposes for which the prince had asked them but also for others. The estates of Styria and Carinthia, for instance, did much for public schools and in general a free, attractive, autonomous cultural life developed. True, all this served the freedom, the culture, and the policy of a class. The peasant was suppressed with an iron fist. Yet it was the freedom, culture, and policy appropriate to the spirit of the age. It takes all the narrowness of the liberalizing type of historian biased in favour of the princely bureaucracy to take the side of the prince in this fight between prince and estates and to stylize him as the father of his country, solicitous of its welfare, and fighting for the suppressed against the brutal class of lords. However this may be: the tax state had arrived-its idea and its machinery. Everywhere in Europe the princes took up the fight for the conquest of this state. In England the fight ended on the scaffold of Charles I. Everywhere else it ended with the victory of the prince because he and his soldiery were the only unbroken powers on the soil devastated by the religious wars. Now the prince tore the sharp weapon, "the state," out of the hands of the estates which had begun to forge it. And then in turn the modern democracies of the continent wring the state from the hands of the prince, but it is now a state formed by his interests and his tendencies which will continue to have an effect for a long time to come. Everywhere on the continent *his* bureaucracy became the state bureaucracy, his power the state power. All the prince's former rights and positions went over into state power, except for a residue which could not be assimilated and which later became the private law sphere of the prince. But the first thing that happened was that the "patrimonial" concept of the rights of the prince was transferred to the power of the state which he had conquered: *now* he really stood in his country like a landowner on his property, now *he* was the state-the real power in the public sphere.

IV. The Nature and the Limits of the Tax State

We have seen that without financial need the immediate cause for the creation of the modern state would have been absent. In its turn, the appearance of this need and its satisfaction precisely by the method of tax demands is explained by the process of disintegration of medieval forms of life. This process itself may very well be traced through all intermediate causes to changes in the very foundations of the economy; it ends up in the free economy of the individual family. This is the reason why this manner of looking at the facts opens a path to the furthest depths of social development. The tax is not merely a surface phenomenon, it is an expression of this development which it summarizes in a particular direction.

Taxes not only helped to create the state. They helped to form it. The tax system was the organ the development of which entailed the other organs. Tax bill in hand, the state penetrated the private economies and won increasing dominion over them. The tax brings money and calculating spirit into corners in which they do not dwell as yet, and thus becomes a formative factor in the very organism which has developed it. The kind and level of taxes are determined by the social structure, but once taxes exist they become a handle, as it were, which social powers can grip in order to change this structure. However, the whole fruitfulness of this approach can here only be hinted at.

Since "state" and "tax" have so much to do with each other it is natural to try to penetrate the nature of the state from this point of view. Insofar as the word "state" signifies the factor of social life which we see at work around us rather then simply a synonym for “community" or "social organization," there is, in the first place, no room for the special phenomenon of the "state" where *all* areas of social life are "socialized" and where all the activities of the individual merge in the social whole. This is why a primitive horde has no state. Its social organization is an entity which *also* fulfils those functions that later fall to the state, but from which no separate state has as yet developed. If we wanted to find a state here we would have to identify it with social order as such.

For the same reason a socialistically organized people would have no state. Of course, such a socialist community, too, would be a subject of international law and in this sense a state in the meaning of international law. However, in its internal organization there would be no state power distinguishable from other social powers. If socialism became a reality through the conquest of the economy by the power of the state, the state would annul itself by its very expansion.

This would also be true of a lord-and-vassal community in its pure and complete form. No doubt this never existed, just as the free economy does not occur in its pure form; but we nevertheless must imagine it for theoretical purposes if we are to approach a particular historical situation with clear concepts. The very ideal of life in such a lord-vassal community would be fulfilled in the community. The community would be the origin of the guiding principles of individual life finding its own meaning in what is one of the closest approximations to the super-personal and absolute known to social reality. True, some parts of the people would remain outside this circle. But they too belong to this world-as its working animals. Without the dues of the peasant-serfs the castle of the Holy Grail was impossible. Only, they had as little part in it as the slaves of antiquity had in the spirit of Athens. There was God and the lord and the knight-the expression of the form of life of the age-but no state except in the sense in which we might speak of a state of the bees. When the stream of productive revolutions sweeps away this world, when the knight forgets the Holy Grail and bethinks himself of his property, then this order breaks up like a corpse swollen with putrefying gases-and it breaks up into individuals and families with a thousand conflicting interests.

Only where individual life carries its own centre of gravity within itself, where its meaning lies in the individual and his personal sphere, where the fulfilment of the personality is its own end, only there can the state exist as a real phenomenon. Only there does the state become necessary, and there it arises, either by a "common need" finding its spokesman in the future master of the state, or be cause the all-embracing community which breaks up retains certain functions-whatever they may be-which the newly created individual autonomies are unwilling or unable to take over. For this reason the state can never be its own end but only a machine for those common purposes. It is part of its nature that it opposes individual egotism as a representative of the common purpose. Only then is it a separate, distinguishable social entity.

The economy, of course, is of the essence. So long as the economy is the concern of the whole group or at least is subject to a super-individual system-a consciously regulated system and not merely, as is true of any economy, a system of automatic interactions of individual or family egotisms-so long does the economy carry with it that essential unity of all cultural life which simply leaves no room for the state. The individual economy disrupts this unity. How the individual economy has grown from these forms can be understood in essentially economic terms, even if only through numberless intermediate links and ideological fire magics, just as can the opposite process if it should ever occur in the future. The individual economy makes the individual-or the family-dependent upon himself and forces him, as the apple in paradise, to open his eyes to the economic realities of the world and to read his purpose out of his interest. His horizon narrows, his life settles down in his own spiritual house, and he looks at the world only through his window-and not very far at that, for soon his view is obstructed by the walls of other such houses. The individual now runs his economy for himself, and anything that is not in some individual's interest as a rule remains, both in principle and in fact, denuded of all economic means-unless, as is the case of the church, it can place itself on a separate economic basis. This is why fiscal demands are the first sign of life of the modern state. This is why "tax" has so much to do with "state" that the expression "tax state" might almost be considered a pleonasm. And this is why fiscal sociology is so fruitful for the theory of the state.

It goes without saying that there is more to the state than the collection of taxes necessitated by the common need that was their origin. Once the state exists as reality and as a social institution, once it has become the centre of the persons who man the governmental machine and whose interests are focused upon it, finally, once the state is recognized as suitable for many things even by those individuals whom it confronts-once all this has happened, the state develops further and soon turns into something the nature of which can no longer be understood merely from the fiscal standpoint, and for which the finances become a serving tool. If the finances have created and partly formed the modern state, so now the state on its part forms them and enlarges them-deep into the flesh of the private economy.

Apart from the character of the state as a machine for certain fairly [1] circumscribed ends (which machine is confronted by the whole of the nation's cultural life with its essential driving forces) it is, however, decisive for a realistic understanding of the phenomenon the state to recognize the importance of that group of persons in whom it assumes social form, and of those factors which gain domination over it. This explains the state's real power and the way in which it is used and developed. At first, the actual master of the state was usually the prince from whose hands the modern democracy of the Continent received the state or is about to receive it. Later, one could say more frequently of the bureaucracy that it was the state. And finally the state could penetrate so deeply into the consciousness of the people-and the fist of the prince has contributed to this-that it was really able to become something impersonal, a machine manner only by serving, not by dominating spirits. This kind of state may perhaps continue to exist as a mere habit of thought of its citizens. Perhaps it has already come to this in some countries.

In any case, the state has its definite limits. These are, of course, not conceptually definable limits of its field of social action, but limits to its fiscal potential. These vary considerably in each specific case according to the wealth or poverty of the country, to the concrete details of its national and social structure, and to the nature. of its wealth. There is a great difference between new, active, and growing wealth and old wealth, between entrepreneurial and *rentier* states. The limits of their fiscal potential may also differ according to the extent of military expenses or the debt service, to the power and morality of its bureaucracy, and to the intensity of the "state-consciousness" of its people. But they are always there and they may be theoretically determined in general terms from the nature of the state.

The bourgeois tax state of the present time does not exist anywhere as a pure type. Everywhere it is shot through with elements of the past, everywhere the shadows of future developments can more or less clearly be seen to fall upon it. Yet everywhere this tax state is today still the expression of the most creative forces. Everywhere it leads a separate existence not only *vis-a-vis* the individuals and families whose private lives are for them their centre and purpose but also vis-8-vis the totality of these individuals. Everywhere it confronts the private economies with relatively few means-private economies whose meaning and drive are service for the private sphere and which produce only for the latter-while the state is dependent on what it can wring from them. Though the state may be felt every e, and notwithstanding the phraseologies hammered into the ns by its organs from their childhood, it remains something peripheral, something alien to the proper purpose of the private economy, even something hostile, in any case something derived.

Here we have arrived at the fact which can become the leading principle for the theoretical understanding of the economic capacity of the tax state. In the bourgeois society everyone works and saves for himself and his family, and perhaps for some ends he has chosen himself. What is produced is produced for the purposes of the private economic subjects. The driving force is individual interest-understood in a very wide sense and by no means synonymous with hedonistic individual egotism. In this world the state lives as an economic parasite. It can withdraw from the private economy only as much as is consistent with the continued existence of this individual interest in every particular socio-psychological situation. In other words, the tax state must not demand from the people so much that they lose financial interest in production or at any rate cease to use their best energies for it. This is a different amount depending on the manner in which particular people view a particular state in a particular historical situation which necessitates the tax. In times of patriotic fervour, tax payments are consistent with extreme productive adaptation of strength which normally would make production cease altogether. However, though the limits are nearer or farther away in different situations, they are nevertheless in every case recognizable on the basis of our principle.

Let us consider first how much indirect taxes can contribute. The effects which emanate from them through the process of shifting and of curtailment of consumption cannot be described briefly in their enormous complexity. However, we are not interested in the manner in which, retarding and destroying, they affect first the economy, then the way of life, and thus finally the cultural level. Nor are we interested in investigating the extent to which the low intellectual and moral level of the majority of the population in most countries today can in the final analysis be traced back to these effects. All we are concerned with is that indirect taxes are for the time being an indispensable and certainly the most important element of the mechanism of the tax state, and the fact that for the tax load on each article and thus for the receipts from indirect taxes as a whole there exists a level beyond which further tax increases mean not an increase but a decrease of yield. The determination of that level which yields the maximum revenue meets with two great practical difficulties. There is first the fact that every significant indirect tax enforces technical and commercial changes in the productive apparatus, the consequences of which are most difficult to follow. Second, there is the difficulty that the situation in which the tax was imposed does not remain un- ,hanged in other respects; there are practically always other "disturbances" which may weaken the effect of a tax on the consumer (such an accidental expansion of production of the article in question abroad) or which accentuate the effect of the tax on the consumer and dampen it for the producer (such as a simultaneous increase in population). Leaving aside fiscal ineptness which is largely responsible, these difficulties explain in part why to our days almost all countries have shot way beyond the mark in this or that case of indirect taxation and have burdened some articles to such an extent that the fiscal interest of the state itself has been hurt and a tax reduction would lead to an increase in revenues. The most brilliant examples of such a policy of raising revenue by diminishing taxes have been furnished by the younger Pitt and by Gladstone. But there always is a point of maximum yield of any indirect tax beyond which returns fall and, given sufficient knowledge of the facts, it should always be possible to determine it. No fiscal system can extract more from indirect taxes than this maximum amount which is thus a datum independent of the will of the state. Once this limit has been reached we have also reached the limit of the effectiveness of this method of taxation. No need for more funds can push it further out.

With direct taxes things are, in practice, less clear but only apparently different. Let us investigate only the taxes of individual types of income: entrepreneurial profit, monopoly profit, profit, interest, rent, and wages. We can limit ourselves in this way because a reasoning very similar to that we have indicated for indirect taxes is also applicable to the special taxes upon individual forms of those income categories, such as taxes on buildings, dividends, etc. In any case, income tax is for everyone simply a tax on the returns which make up his income. There is only one tax which is in a category by itself, and that is a property tax which is not, as is the case with the Prussian one, to be paid out of income and therefore simply a special kind of income tax, but which is meant to be a real cession of property. But it is only a rare expedient and we shall overlook it here. We shall return to it in the next section.

Entrepreneurial profit proper-as distinct from interest with which it used to be combined, from the risk premium which obviously is no net income, and from the wages of the entrepreneur which is a special case of wages-arises in the capitalist economy wherever a new method of production, a new commercial combination, or a new form or organization is successfully introduced. It is the premium which capitalism attaches to innovation. As it arises continuously so it disappears continuously through the effect of competition which, baited by the profit, follows up immediately on the innovator. If this profit were taxed away, that element of the economic process would be lacking which at present is by far the most important individual motive for work toward industrial progress. Even if taxation merely reduced this profit substantially, industrial development would progress considerably more slowly, as the fate of Austria plainly shows. We are not here concerned with the obvious consequences for the economy and thus in the last analysis also for the finances of the state. Only one thing is important for us: that there is a limit to the taxation of entrepreneurial profit beyond which tax pressure cannot go without first damaging and then destroying the tax object. An ideally perfect tax practice, which would give individual treatment to each individual case of entrepreneurial profit as it arises, could collect much higher sums than the actual practice which in spite of relatively small success nevertheless brutally destroys many possibilities for economic development. Yet even the most ideal tax technique would reach a limit and would reach it fairly soon.

This is not true for monopoly profit and ground rent. The monopoly profit of a cartel, for instance, that is the difference between the net return and the sum which is necessary to pay for the means of production employed (including interest) may be almost completely taxed away without any unfavourable repercussions. So can pure ground rent, i.e., that element of the net return of a rural or urban piece of land which remains after deduction of interest on the capital invested (which already includes the wage sums spent on installation of fixed capital and operation)-but not, of course, after deduction of interest on the purchase price! Since this pure ground rent is merely the payment of the productive accomplishments of nature which would remain even if the owner received no return, and since the motive for the utilization of a piece of land lies in the return to labour and capital which it can yield and which remains even when the ground rent is taxed away, such a tax never reflects back on the productive process. The same is true of all windfall profits which are not the result of special economic activities. Inheritances hardly ever fall into this category, but the various forms of "unearned increments of value" frequently do, though most of the time it is very difficult to single out among the mass of phenomena which the layman calls an unearned increase in value, those cases to which the epithet really applies, in particular those in which the increase in value does not fulfil1 the function of a risk premium or of an interest element. In all these cases we have ideal tax objects, provided one can always recognize them beyond doubt, separate them from others which look similar but are very different, and provided that a correct tax technique for their treatment can be devised. This has never been done successfully so far. In practice we mostly find something like an attempt to load a sack of flour on the shadow of an ass. Even here there exists a limit. But it is determined only by the existence and magnitude of such taxable objects.

In the case of interest and wages the tax cannot penetrate too deeply into the tax object. Since we are here considering the taxation of *all* forms of capital yield and wages, we need not worry about a shift of capital and labour into alternative uses. And since we are here dealing with a problem common to all tax states, with a problem of the system and not of a particular state, we shall disregard also the tendency of capital and labour to migrate to countries of lower taxation, however important this is precisely for Austria. But even so there are still two reactions which occur both with capital and with labour. Insofar as they result in higher interest or wages which entrepreneurs have to pay, taxes counteract the expansion of production which would have occurred without them. Insofar, however, as these taxes are a charge on the income of the capitalists or the workers, they may even sometimes result in more saving and more work than without them. But such cases are rare exceptions for capital and are significant for labour only if the working day was relatively short prior to the imposition of the tax. In all other cases capital formation is paralyzed and may even turn into capital consumption through lack of amortization and repairs. And additional taxation of higher labour incomes, which are the only ones which matter in practice, discourages all above-average effort wherever the effort is not its own end. Again, the economic effects of these taxes do not interest us here. What matters to us is that the possible tax yield is limited not only by the size of the taxable object less the subsistence minimum of the taxable subject, but also by the nature of the driving forces of the free economy. The layman, of course, thinks of the big incomes as almost inexhaustible sources of taxes. And our intellectual whose whole outlook is basically petit-bourgeois is inclined to set the limit which demarcates the big incomes just above the salary rank or other income which he hopes to attain himself. However, neither the numbers nor the size nor the capacity to bear taxes of the big incomes is all that large, and hardly anywhere smaller than with us (in Austria). The case of the childless millionaire living off his inherited rents, whose income is given once and for all and can therefore be taxed without fear of diminution, this case is rare, though the time may come when the whole bourgeoisie will be nothing but a childless *rentier*-millionaire.

The tax state is not altogether limited to derived revenues. It has not only the mostly small inheritance of its predecessor, but it can also create its own economic sphere within the world of capitalism and can become an entrepreneur itself. I do not mean here the "profit sharing" with private industries, for this is but another word for a tax. I mean enterprises which the state itself runs. In so doing it does, indeed, transgress its own limits. However, as long as the state has not swallowed all or most of the economy it remains essentially what it was. The decisive criterion is whether, apart from any monopoly position which it might secure for itself, the state does or does not continue to work within the framework of a free economy whose data and methods it has to accept in its own enterprises. If it does and thus works in a capitalistic spirit toward as high a money profit as possible, then its possible profits are limited by the economic laws of capitalist production. And these limits are narrower than the layman believes. Since the state must work with money capital just as any other entrepreneur, and since it can raise this money only through loans, it is unlikely that the remaining profit will be much larger than what could have been extracted from the same industry by direct and indirect taxes including taxes on the income of this industry. This is likely to be true even with extreme fiscal exploitation of a possible monopoly position and even if we disregard the small entrepreneurial ability which the state in fact has.

It can now be seen how untenable is the phrase that with the public economy and contrary to the private economy, income depends on outgoings. The fiscal capacity of the state has its limits not only in the sense in which this is self-evident and which would be valid also for a socialist community, but in a much narrower and, for the tax state, more painful sense. If the will of the people demands higher and higher public expenditures, if more and more means are used for purposes for which private individuals have not produced them, if more and more power stands behind this will, and if finally all parts of the people are gripped by entirely new ideas about private property and the forms of life-then the tax state will have run its course and society will have to depend on other motive forces for its economy than self-interest. This limit, and with it the crisis which the tax state could not survive, can certainly be reached. Without doubt, the tax state *can* collapse.

V. Must the Tax State Collapse?

Tax states have collapsed innumerable times. Even more frequently has their collapse been expected, even in England which has the long- est unbroken tradition of fiscal solvency. However, these breakdowns were always considered as particular accidents or crimes; never has one despaired of the system. And correctly so. However much mismanagement there was and however big the mistakes in particular cases, the system has successfully survived the Turkish wars, the world wars against the Spanish threat, the Thirty Years' War, the world wars against *ancien régirne* France, and the world war against Napoleon. And if the expenditures were smaller than they are nowadays, so were the means to at least the same degree.

One might almost forget the above-described limits of the tax state as one views its huge expansion through the centuries. What a path from the three-and-a-half million pounds of government revenues of the Restoration (1680) to the 188.8 million of the British fiscal year 1912-13 to the gigantic figures of the last war budget! Austria has during the years of the dual monarchy gone from 281.24 million guilders in 1868 to 514.5 million guilders in 1888, and from there to about **3** billion crowns in the last year of peace. But the figures themselves do not matter. The point is that the system of the tax state has so far met all challenges, and whenever it has failed to do so in particular causes, special causes can be found which are not inherent in its nature. Its best period on the continent was the turn of the century, and in England the Gladstone era. At that time it had everywhere risen above all tribulations, above its previous disgrace. At that time it wallowed in surpluses. This was brought to an end quantitatively not so much by the rising social expenditures as by the financial shadow of the approaching world war. Yet the former were much more ominous for the tax state than the latter, for it is from that side that it may be conquered. In any case, our great problems, financial as well as other, all have their roots in pre-war circumstances. The war has not created any new problems, it has only accentuated an existing situation. It is a superficial view to link to the war the question of life and death of the tax state or, for that matter, of any social institution. However, at this stage we too want to do just that.

Nowhere is this question so obvious as in Austria. Indeed, if there were to be a collapse of the tax state, it would have to be a local Austrian affair (not even an Austro-Hungarian affair). The collapse of Russia is a very special case which does not belong here. What collapsed in Russia was that peculiar tyranny which had been grafted onto a peasant democracy. This tyranny had been only just strong enough to prevent the formation of an upper class capable of political action, so that, parenthetically, the Russian revolution as such is in a very untypical special position. The fiscal collapse in Russia, too, was only a consequence of the anti-capitalistic *will*. Given even the most unfavourable judgement f the development of Russia's finances since 1890, the colossus which has such unlimited possibilities need not have broken down. Incidentally, the return to the tax state is certain particularly in the Russian case, so that it is as impossible to speak of the defeat of its principle as of its hopeless failure. None of the other warring nations, however, will be forced to abandon the tax state. Great Britain indeed has from the very beginning covered a substantial part of her war needs by taxes. The question whether Great Britain will be able to bear her war burden within the framework of a free economy must be answered with a clear-cut Yes. No reasonable doubt can be entertained as to Germany's ability to carry on with the means of the tax state. Even in Italy things are not desperate. And France? If she collapsed, this would be due solely to the devastation of her northern parts. Against this no community has any ready means. However, France will not collapse. Indeed all this will be overcome not only with the means of the tax state but essentially with its old means. The fiscal policy of our days has no new ideas nor altogether much talent.

Thus we shall limit ourselves to Austria. If *her* tax state can stand the test, the others can do so *a fortiori*. Let us specify the question: if it is said that the tax state will fail in the face of the problems which the war will leave behind, one or both of two things are meant. One is the problem of the war burden, of covering the cost of the war; the other is the reconstruction of the dislocated economy. It is implied that the tax state cannot bear the financial burden of the war with its own means, and that it cannot carry through the tasks of reconstruction. The two problems are not of the same kind. Rather, they lie in two different spheres which have to be kept strictly separate in a discussion of economic matters and the confusion of which is a typical lay error.

The first problem is fiscal. It is, in concrete terms, a matter of *money*: money which the state needs to fulfil1 its obligations and to get rid of its deficit. It is not a matter of goods, such as war materials, food and clothing for the army, etc. To be sure, the true costs of the war lie in the goods sphere: the used-up goods, the devastation of parts of the country, the loss of manpower, these are the real "cost" of war to the economies. It was the procurement of the mass of goods needed for the conduct of the war that was the great problem within which the raising of the necessary sums of money was a relatively subordinate problem of fiscal technique. However, this problem is already solved. What the armies and the peoples needed for warfare in the way of goods, we have raised already by hook or by crook and we shall continue to raise it during the war. The problem which *then* remains is merely a "question of money." We shall be in the position of businessman whose factory has burned down and who now faces the task of expressing this loss in his books. Like a huge conflagration the war has devoured a large part of our national wealth, the economy has become poorer. This has already happened, nothing can change it, and whatever goods were necessary for the purposes of war will have been supplied by the end of the war. However, in money terms the economy has not become poorer. How is this possible? Simply so that claims on the state and money tokens have taken the place of stocks of goods in the private economies. The state cannot replace the goods it has taken out of the private economies-it could after all only take them from the economy itself. What is needed is simply an adjustment of money values which would return them to harmony with the world of goods, that is to say, a large-scale writing-down of book values. And this can be done only by the state covering its monetary obligations out of the money claims and money stocks of the economy. Therein lies the meaning of the problem of the covering of the war cost, which is a specific problem of the tax state since only the form of the tax state and of the free economy of private property explains the way in which the war is financed and with it the origin of the problem. The war was financed as an enterprise through the purchase of goods and credit operations, the only exception being military service which is a great payment in kind. Therein lies also the guarantee that the problem is soluble.

The problem of reconstruction is a different matter. This is not, or at least not in the last resort, a question of raising *money* but a question of securing *goods*. The peace economy has yet to accomplish after the conclusion of peace what the war economy is already accomplishing during the war. This problem is not specifically one of the tax state. Every form of organization would encounter it. Money to cover the cost of the war is needed only by the tax state because only it is forced to enter into obligations toward individuals in order to carry on the war. The goods for reconstruction are needed in any case, in whatever form of organization we may live.

Now consider the first problem: the absolute level of the financial war burden is irrelevant for our discussion since with it comes increased inflation and hence the monetary expressions of yields, incomes, and property. For this reason we need not concern ourselves either with the question of when the murderous insanity which devastates Europe will end. Merely in order to make our presentation more precise let us assume that peace will be concluded in the autumn of this year. Even then our data cannot be very precise, for it cannot be foreseen what will be needed for disablement payments, demobilization cost, reconstruction of devastated areas, and war damage compensation proper. These items are to be counted as part of the cost of warfare, not of reconstruction. Just how much will be needed for them in any case depends largely on political intrigues and much less on objective considerations. Furthermore, the real cost of war, even counted only in money, cannot be known until later. However, if these items are added and the permanent burdens capitalized, the sum of 100 billion (crowns) is probably too low rather than too high. This sum will consist of war bonds, bank debts, and bank advances, or will soon be converted into one or the other of these forms. Of this amount, large parts are available to the state at purely nominal rates of interest, so that, notwithstanding the inevitable increase in the rate of interest after the war, we remain amply within likely limits if we assume an average interest of 5 percent, that is an increase in the annual debt service of 5 billion (crowns). Since we believe we can include all war expenditures in the wildest sense within those 100 billion, there remain the figures of the last peacetime budget. Some of these have not been increased at all by inflation, notably the debt service. Others have increased tenfold. A good many, particularly civil service pay, have not so far risen appropriately, but will inevitably soar if circumstances remain as they are. And these circumstances will by their nature continue as long as the present use of the printing press and will probably deteriorate even further. It is impossible to foretell the outcome. It is a conservative estimate if we suppose that the Minister of Finance who next New Year's Day - *i.e.*, on our assumptions a few weeks after the conclusion of peace though this is rather improbable considering the difficulties of peace negotiations - surveys his budget, will have to reckon at least that the 3 billion of the last peacetime budget will have risen to 10 billion. On our assumption, therefore, the peace budget would amount to 15 billion, compared with 23 billion of the last war budget. We assume that it will be covered to the extent of *5* billion out of taxes as was the case with the last war budget. This means a deficit of 10 billion compared with the last wartime deficit of 18 billion. To be sure, the deficit of the first peace year will be larger, but anything additional belongs properly in the 100 billion war cost.

We repeat: the figures are merely for example's sake; they are as little a prophecy as is the assumption that the war will end in the autumn.

What can the tax state do in such a situation? Three things immediately come to mind. First, the fact that it got into such a situation in the first place is not the fault of the *system* of the tax state so that even if it failed this would not prove anything against its principle. The enormity of the burden was in the first place a consequence of such limitless waste as no system could bear. Without such waste, the situation would still be serious, but much less so than it is now. Second, the weight of the burden was the consequence of the equally uninhibited paper money economy. The example of Great Britain alone shows that this is not by any means a necessary consequence of the system of the tax state. It is clear, furthermore, that strictly speaking we could have squeezed the necessary money out of the private economy just as the goods were squeezed out of it. This could have been done by taxes which would have looked stifling but which would in fact have been no more oppressive than the devaluation of money which was their alternative. The individual economies would then have had fewer monetary units but they would have paid lower prices in exactly the same proportion and the sacrifices would have been distributed more evenly and rationally. Things would have been better and not worse than with the chosen method. Now it so happens that it is everywhere impossible completely to cover the cost of war by taxation, from the point of view both of politics and fiscal technique. Nowhere is this more true than in Austria. Nevertheless much more could have been achieved than was achieved in fact. Second, we shall refuse even to discuss the possibility of raising those annual 10 billion through further note issue, because of the social and economic consequences. Even apart from everything else, this would become an endless spiral since with the price level, public expenditures too would rise to heights which would make the present prices and budget figures look puny. Third, we equally refuse to consider the methods of 1811 and 1816. We do so with all the greater decisiveness as the voices which demand them are never completely silent. Already then these methods were more than ignominious, they were nonsensical. Now they would be incomparably more so.

There remain two ways. The first begins with the recognition, which at any rate is a reason for solace for us in Austria, albeit a melancholy one, that the figures of our budgets are not quite as oppressive as they would be if money still had its pre-war value. The amount of goods which 15 billion signify is not what it would have been four years ago. And what matters is precisely the amount of goods and means for the satisfaction of wants a money payment of 15 billion would withdraw from the economy. If the stock of money is not reduced then, as peace comes, only the other cause of high prices can disappear, namely the scarcity of goods due to interrupted production and imports. Prices would in this case have to remain well above peacetime levels. On the average, incomes will adapt themselves to these prices, and the 15 billion will not be five times as much as the peacetime burden, perhaps not even twice as much. Now it is of course impossible to increase every state revenue fivefold, if only to make allowance for those incomes which have not risen or have not risen correspondingly. But this is just the reason why some other incomes have risen more than proportionately-and by no means only the incomes of the "rich." On the *average* such an increase in the revenues of the state certainly lies within the realm of possibilities, whatever the technical difficulties that may arise in detail. It may be argued that there is not sufficient moral energy in Austria for such an effort. If so, this is Austria's affair and not the fault of the tax state. It is particularly important that such a tax burden would not by any means be crushing, would not mean want and poverty, neither so far as direct nor as indirect taxes are concerned: whoever can pay five times as high a price for his consumers' goods-and to the extent to which this is not yet the case it is bound to happen since the artificial maximum prices are in the long run untenable if inflation continues- can also pay five times as high a consumption tax. Inflation will make sure that he can do it; if this appears harsh it is only because we still think in terms of the old purchasing power of the crown. But it is a defect of this way out that it presupposes continuance of the inflation and abandonment of order in our monetary system.

The other way out leads not only to fiscal but at the same time to monetary order. It has the further advantage that it counteracts at least in part the emergence of a class of war bond *rentiers*. I mean a once-and-for-all capital levy high enough to enable the state not only to repay its bank loans and advances but also to redeem a significant part of the war bond issue. The latter is necessary because repayment of the bank debt means an end to the flood of bank notes and therefore a sharp decline in the price level, or, what comes to the same thing, an increase in the purchasing power of money. Thereby the real value of the public debt in the form of war bonds is raised as regards both principal and interest and the economic burden the state has to bear increases. In another respect the increase in the value of money due to this method would work in favour of the state. It need then not raise the salaries of its civil servants and would have to pay less for the goods it requires, such as buildings or locomotives.
In such an event the expenditures of the peacetime budget need not be assumed to be much higher. Revenues of 6 or 7 billion crowns might do, including the debt service for the remaining war bonds.

I confess that I was once quite taken with this mode of saving the situation, and that I still consider it correct in principle. If I have learned in the meantime to doubt its success, this is due to considerations which have nothing to do with the economics of the matter. Only a strong government on the broadest political base, impressing the public with real power and leadership, could dare to attempt the task of overcoming all resistance, in particular of preventing the levy from hitting only a small fraction of the private economy-too small for success-yet hitting that fraction with destructive force. The man who is to solve this task needs real political and fiscal ability-and he that brilliance of willpower and word which nations trust. In the treatment of the problems of our fiscal policy to date has almost prejudged an expert solution. But this is irrelevant here. What matters is neither political feasibility nor the technique of execution, but the proof that the thing can be done in principle. If we can prove this, no practical failure, if it occurred, will invalidate the proof, even if it should turn out that really unsurmountable difficulties of the Austrian situation are responsible and not other reasons. Once more, *Austria* would have failed, and not the tax state.

It may sound strange to expect from an economy impoverished by the war a capital levy which is not to eradicate the financial evils but to reduce them to manageable proportions. Is the diminished wealth to be diminished further, is even what remains to be wrested from the citizen? Is this not to advocate a course amounting to a confession of the failure of the tax state and the substitution of moral for fiscal bankruptcy-or, to quote the popular phrase, the substitution of the "people's bankruptcy" for that of the state? No, the capital levy does not demand further surrender of *goods* from the economy. This sacrifice has been made already. The tax object is not that which has declined during the war, namely *real* national wealth, but only that which has risen during the war and the rise of which is completely irrelevant, namely the *money value* of national wealth. Only the money value is reduced by that method, not the real wealth of the economy. This is particularly true of Austria; it is even more true of Russia, but much less so everywhere else. For this reason the problem of a capital levy in Austria is something special which makes the measure much more harmless here than elsewhere. In other countries a capital levy would have to be defended, if at all, with considerably more reservations and in any case with quite different reasons. *The levy is not to hand over any goods to the state but only money and claims.* And it is to do so only in order that this money and these claims may be destroyed, not in order to finance expenditures. If this were not so I would not only admit that that would be no salvation but a partial defeat of the tax state, nor would I assert that it would not be destructive of wealth. It is important to emphasize this in order to distinguish our position clearly from those voices which advocate the transfer to the state for permanent operation precisely of real sources of income, such as land, factories, etc. In the form in which the capital levy is proposed here it is, however, not only compatible with a free economy, it is the very method which is appropriate to the principle of economic freedom and which preserves it intact, exactly opposite to the method which considers a capital levy a suitable measure for nationalization.

The possibility of repaying even the whole war debt of the state through a capital levy is proven by the mere consideration that this debt is for the overwhelming part owned by our own citizens; it is conceivable, though of course not practicable, to impose upon them a tax to the full extent of their claim on the state. Let us imagine the whole process in the manner of an old thought experiment of Soetbeer: if all the liabilities of the state, including bank debts and bank and departmental advances, were converted into war bonds which would then amount to 100 billion (crowns), and if all citizens had invested the same percentage of their wealth in these war bonds, a capital levy of that same percentage would obviously finish the whole affair and would equally obviously not kill anybody. The practical difficulties are simply the result of the facts that not all private fortunes contain the same percentage of war bonds and that not all the liabilities of the state consist of or can be converted into war bonds. However, these difficulties prevent only a complete, not an adequate success.

We could certainly speak of adequate success if the result amounted to about 40 billion, on our assumptions. The other 60 billion would remain outstanding in war bonds or would be converted into war bonds. After such energetic ordering of the budget they could certainly be converted into *5* percent issues. A yield of 40 billion would, at an assumed tax rate of 20 percent, presuppose taxable wealth in the amount of 200 billion. *Unless the formation of such wealth* is *artificially prevented* it will amply exist. It is surely a very moderate assumption that, after the conclusion of peace and prior to a reduction in the circulating quantity of money, prices on the average will be five times their pre-war level. According to Fellner's certainly not excessive estimate our national wealth amounted to about 80 billion before the war. Fivefold prices mean fivefold returns and fivefold returns mean fivefold capitalized values, that is 400 billion. Now, it is of course true that there will be a number of exceptions: the devastated parts of the country must be excluded, post-war production will at first fall short of war production in quantitative terms, many returns, such as controlled rents, and therefore their capitalized values cannot for particular reasons rise appropriately, and small properties, say up to 20,000 crowns, are difficult to assess. However, we need only half the 400 billion. If we do not get them, it will be our own fault, in particular the fault of the senseless hostility to capital which drives capital to Hungary, prevents a corresponding rise of stocks and shares and thereby destroys or diminishes important taxable objects, thus achieving exactly the opposite of the desired end as is always the case with irrational hostility to capital. Even more radical measures could be considered. A solution which leaves an inheritance of 60 billion in government bonds is not ideal and would hardly make a complete return to pre-war prices seem desirable from the standpoint of public finances. But it is a way out and this is enough for us.

Whatever will actually happen, the proposal need not fail because of technical difficulties. It must be realized that what is at issue is the salvation of the state from shame and evil rather than popular slogans, or in particular popular petty persecution of unpopular circles. The levy could be a fairly simple matter if for the sake of the purpose progression were foregone and with it the only reason for inquisition. Instead, the levy should be made a charge on the taxable object and its owner be left to deduct the appropriate amount of the tax from his creditors' claims. The problem involved would be that of estimating the market values. With joint stock companies other techniques could be used. The state would of course be among the debtors entitled to exemption. The enormous liquidity of the economy facilitates such a payment. War bonds would, of course, have to be accepted in payment. Only in a minority of cases would there be any economic justification for postponement of the payment of the tax or for its distribution over a number of years-whatever may be *politically* feasible.

This very liquidity helps to overcome whatever economic hesitations one may have. Anyone who has cash or war bonds, or bank deposits with which to buy war bonds, is in no danger even if he pays the levy out of his working capital. Though he will have fewer monetary units, their purchasing power will be the same and in certain circumstances even bigger than that of the greater amount had been before. Anyone who has neither cash, nor war bonds, nor bank deposits, has to borrow one of them and then to pay them back gradually. This is *always* possible since war bonds, cash, and deposits are in ample supply and there *must* be people who have more of them than the amount of the levy they have to pay. It follows that the levy cannot involve either a freezing of means needed by firms and households or further inflation through additional credit creation, provided the levy is carried through in a businesslike manner, decisively, and with a reassuring impartiality rather than with the bearing of a burglar.

The operation ends in the furnace in which all cash and titles which fall into the hands of the state must be burned. In the case of stock certificates the state would, of course, not burn them but exchange them against cash or war bonds. The meaning of the operation lies in the restoration of the parallelism between the worlds of goods and paper values which was disturbed by excess consumption and the paper mess of the war. There can be no question of any unbearable burden, of impoverishment, of anything whatsoever which might make us curse the tax state and prefer every alternative. Of course, more would remain to be done. New taxes, tax increases, even government monopolies would still become necessary. But the bulk of the work can be done by the capital levy. It can clear the way along which the tax state can go forward into a better future without break-down and without becoming a torture chamber-although an unskilfully executed capital levy creates the most beautiful opportunities for just that. Failure would simply be due to lack of moral strength and technical competence. The capital levy is a possible course. This was all we wished to demonstrate.

Yet the tax state could still founder on the rock of reconstruction. This implies in this connection that the "free economy," the competitive economy of entrepreneurs and capitalists could fail. For the free economy is the complement of the tax state which by its very nature must leave reconstruction to the market no less than normal economic activity. We have proved nothing with the above argument if failure were to be expected in this field. It would be useless if the tax state could save itself but if the economy were to perish in the process or be condemned to misery. It is not our concern here to investigate whether the free economy is the "absolutely best" method of solving the tasks of reconstruction. This is always a question of imponderable prejudices and of partisanship based on non-scientific reasons; nor would it be possible in the present context to consider all aspects in detail. In any case, the answer is irrelevant for our purposes. We do not care about what usually underlies this kind of discussion, namely a hidden accusation against the competitive economy or an apotheosis of its excellence. We merely want to assess what may be expected from the competitive economy at present, in our concrete historical situation, in order to see whether this economy is capable of bringing about economic reconstruction without delay-as compared to the only practicable alternative: a far-reaching administrative economy of the state.

In such a general form the question of the sufficiency of the free economy would, of course, have to be answered in the negative. In a situation where everything is disturbed and much is destroyed, where work toward reconstruction is the paramount task of the whole society, the machine of the tax state must, of course, contribute what it can. The liquidation of abnormal war developments, in particular of the human agglomerations of the armies; emergency situations beyond the capacity of the private economy; the restitution of the nervous system of the economy through the administrative machinery- in all these and other matters the mediating and facilitating action of the state will be needed and in some cases will become permanent, the classic example being the labor exchanges. This is, however, self-evident. The decisive question is whether the motive force can remain that of the free economy or whether the state has to take its place; and whether the *essential* task can be solved only by state intervention. This essential task is "recapitalization," to use Goldscheid's expression. Here we have to deal with two matters, both of which are problems of securing goods and not of raising money.

First, "war economy" essentially means "switching" the economy from production for the needs of a peaceful life to production for the needs of warfare. This means in the first place that the available means of production are used in some part to produce different final goods, chiefly of course war materials, and in the most part to produce the same products as before but for other customers than in peacetime. This means, furthermore, that the available means of production are mainly used to produce as many goods for immediate consumption as possible to the detriment of the production of means of production-particularly machinery and industrial plant-so that that part of production which in peacetime takes up so much room, namely the production for the maintenance and expansion of the productive apparatus, decreases more and more. The possibility to do just this, that is to use for the production of immediate consumption goods, labour, and capital which previously had made producer's goods and thus only indirectly contributed to the production of consumer's goods (i.e., which made "future" rather than "present" goods to use the technical terminology), this possibility was our great reserve which has saved us so far and which has prevented the stream of consumer's goods from drying up completely. This possibility explains the capability of the modern productive apparatus. But it explains also why the latter may exhaust itself rather quickly, as Lederer has pointed out. Our poverty will be brought home to us to its full extent only after the war. Only then will the worn-out machines, the run-down buildings, the neglected land, the decimated livestock, the devastated forests, bear witness to the full depth of the effects of the war. The reconstruction of this apparatus and its return to the production for peacetime uses, this is the first task of recapitalization. It will at first make the shortage of consumer's goods even more acute.

Now it is obvious that the enormous industrial achievement of switching the economy over to the exigencies of war was due at least 90 percent to the automatism of the free economy and to the play of self-interest. We owe to it not merely the equipment and supply of the army and most of what remained for the home front; we owe it also, and to a much greater degree than the public will generally admit, a distribution of the product which does at least keep the mass of the population alive. The worker does not owe his livelihood to any government measures but to the daily wage of 40 or 50 crowns which the automatism of the competitive economy sends his way in favourable cases. The contribution of the state exists beyond doubt only in those cases where the analogy with a beleaguered fortress is proper, a simile by which our intellectuals live and which the public therefore sees as through a magnifying glass. In every other case we have to judge the successes achieved not only by their immediate results but by their effects on supply, if the judgment is to be more than a partisan phrase or ;he expression of some personal interest. The reconversion to a peace economy differs in one essential respect from the conversion to a war economy which the market has successfully accomplished, though in a manner the comparative merits and shortcomings of which one will never be able to judge impartially and which will probably forever remain the victim of insidious phrases. While the transition to a war economy demanded the use of productive resources for the supply of present instead of future goods, reconversion requires the opposite process. The former is an act of economic waste, an action under the stimulus of immediate necessity; the latter is an act of saving, the counteracting of the very stimulus to waste. The former would in the last resort have come easily to the initiative of the collective economy; however, it would have proved itself as regards the enormous entrepreneurial achievements necessary even there. The latter demands, beside entrepreneurial activity, something which can do without private motives as little today as it could in the youth of capitalism and which is achieved with particular promptness if the motivation of the private economy is given a completely free rein. If the free economy succeeded in converting to war, it will, a *fortiori*, also succeed in the reconversion to peace. We shall not raise here the old question whether state direction of the economy can bring about that commitment of the whole personality, "that desperate energy" which alone can lead to success in the foreseeable - future and which is precisely that which characterizes the achievements of the entrepreneur. Indeed, there has been no difference of opinion on this point among economists of all schools since the middle of the eighteenth century, the socialists not excluded. Nor shall we point out that nine-tenths of all industrial experience and all industrial talent are at the disposal of private industry and not of the governmental bureaucracy. Nor shall we show that the hardships involved in the method of a free economy are essential motors of success, that these hardships mean benefits for the future and for the coming generations. It suffices to insist that the organizational form of the competitive economy can reconstruct the economy after the war exactly as it has created the modern economy in its essence and that therefore its public counterpart, the tax state, has an effective of reconstruction and will not come to grief on *this* task. It is indeed a highlight of the Communist Manifesto to have demonstrated the effectiveness of this method with such classical precision. The tax state can further the reconstruction most effectively if in its tax policy it makes allowances for this necessity to save and generally refrains from disturbance, but particularly if it knows how to raise that enormous treasure of energy which in Austria is wasted in the fight against the chains into which irrational legislation, administration, and politics have thrown the personality, which take the entrepreneur away from his organizational, technical, and commercial tasks and which leave him merely the backstairs of politics and administration as the only path to success.

The second task of recapitalization consists of arranging for the supply of those goods, particularly raw materials, which have to come from abroad. It is frequently said that the private economies will be unable to procure the necessary supplies and that for this reason we have to go beyond the essential nature of the tax state. Anyone who has the slightest idea about these things knows that any good bank has better access to foreign credits and will be accommodated much more readily abroad than the state. In the difficult post-war situation with its struggle for raw materials, it is clearly just that business ingenuity which in our as yet "capitalistically diseased" world is set in motion by the prospect of large private gain, that will be able to find ways and means here and there to wrest one or the other shipload out of the hands of stronger purchasing power and make it available to Austria. Those firms which belong to the combinations financed by the big banks may rest assured on this point. And so may many others. It is, of course, certain that in the process we will not get the distribution of raw materials which anyone considers ideal and that many entrepreneurs may need government subsidies; but it is equally certain that this is of no importance at a time in which the real question is to get anything at all of those goods that we need most. The wage level and the amount of liquid working capital will ensure that these essential imports will be the most profitable ones from the standpoint of the private economy. Let them insist that an ideally functioning state could perform better. This it is idle to discuss. It is certain that a private economy can *also* do it, and do it quickly and promptly if the bureaucracy does not get in its way and piles up a mountain of paper between us and the necessary raw materials. It is also a form of state aid not to penalize the importer who brings us what we need and to pursue a policy which will enable foreign countries to accommodate us; in fact this may be the kind of aid which gets us furthest at this moment. And if to this we add the tax and monetary policy which we have sketched earlier one can import as much as one wants and can get it without having to fear for the exchange rate.

The validity of our argument has two limitations. First, our argument concerns only the question whether the tax state and the organizational form of a free economy *can* cope with the post-war situation without breakdown and without oppressive hardships. This question can only be answered by an unequivocal Yes. It is not our concern here whether there may not be other reasons which might induce nations to abandon this organizational form voluntarily. But they are not forced to abandon it by any failure of the tax state; nor is the war and its heritage a sufficient reason. *In this, the only essential meaning, there is no "crisis of the tax state."*

Our argument applies, secondly, only to the particular historical moment in which we live. It is not intended as an apotheosis of the free economy as the last word of wisdom. I am not in the habit of crowning our bourgeoisie with laurel wreaths. However, it can do *exactly* what is needed now. No recognition of its narrowness and cultural poverty detracts from this fact. Marx himself, if he lived today, could not be of a different opinion. And he would laugh grimly at those of his disciples who welcome the present administrative economy as the dawn of socialism-that administrative economy which is the most undemocratic thing there is, that step back to what preceded the competitive economy which alone can create the preconditions for true socialism and finally evolve socialism itself. The social form of the society of the future cannot grow out of an impoverished economy thrown backward in its development, nor out of instincts run wild. It has been the tragedy of all attempts to realize the new social order, most recently of the Russian one, that people could be won over only when whipped up by dire need and when a situation existed in which true success could not be hoped for-a situation which precisely the bourgeois businessman with precisely his mentality and precisely his experiences and methods could meet successfully.

And yet it is the first precondition for the socialized community that capitalism has done its work and an economy exists which is satiated with capital and thoroughly rationalized by entrepreneurial brains. Only then is it possible to look forward calmly to that inevitable slowing down of merely economic development which is the concomitant of socialism, for socialism means liberation of life from the economy and alienation from the economy. This hour has not yet struck. The war has postponed it. The hour that is belongs to private enterprise, to economic effort to the very limit of its strength. And private enterprise the hour also belongs to the tax state. Only at the price of heavy sacrifices for all, including the interests of the workers, may the hour be torn from these hands. That much is certain.

Nevertheless the hour will come. By and by private enterprise will lose its social meaning through the development of the economy and the consequent expansion of the sphere of social sympathy. The signs of this are already with us and it was inherent in the tendencies of the second half of the nineteenth century, whose perhaps final aberration was all that which culminated in the world war. Society is growing beyond private enterprise and tax state, not because but in spite of the war. *That* too is certain.

We are at the crossroads of one of the most serious crises in World history. We are living history, yet our understanding of the flow of events since January 2020 has been blurred. Worldwide, people have been misled both by their governments and the media as to the causes and devastating consequences of the Covid-19 â€œpandemicâ€.Â It undermines the sovereignty of nation states Worldwide, without the need for military intervention. It is an advanced system of economic warfare which overshadows other forms of warfare including conventional (Iraq-style) theater wars. â€œGlobal Governanceâ€ Scenarios. The boundary of the Song tax state was largely confined to urban settlements. In rural areas, the state gave up the collection of commercial taxes by farming out this right to local elites. In the twelfth century, as traditional tax revenues fell far short of supporting military defence, the Song administration utilized credit instruments. Around 1200, the amount of redeemable promissory notes first exceeded that of annual tax revenues.Â His crisis theory and its relation to his prognosis of capitalist decline is explored, along with Goldscheid's earlier model. Both are found to have underestimated the resilience of the tax state and its ability to sustain expanding budgets. Schumpeter's view of the income tax as appropriate for a minimal state is assessed along with subsequent tax development. This will help Member States generate the tax revenue needed to respond to the major challenges of the current crisis. This Communication delivers on that commitment and sets out an â€˜Action plan for fair and simple taxation supporting the recoveryâ€ containing a set of 25 actions.Â Â· a reform of the Code of Conduct for Business Taxation, Â· a review of the EU list of non-cooperative jurisdictions for tax purposes, Â· improvements to reinforce tax good governance vis-Ã -vis EU funds and improved coordinated. defensive measures by EU Member States, and Â· support to developing country partners in enhancing tax good governance. We estimate that state tax revenues in 2009 were $31 billion lower than predicted, which is equivalent to 5 percent of the actual state tax revenues in 2009. In this case, all four channels make notable contributions to the deficit between actual and predicted revenues. While our intent is to quantify the main channels through which the housing market affects state and local tax revenues, it is important to point out that our methods do not identify the causal effect of exogenous house price declines on state and local tax revenues.Â For instance, during the state fiscal crisis of 2002 â€“ 2004, localities responded to cuts in education aid from the states by increasing property tax revenues in order to prevent cuts in education budgets (Dye and Reschovsky 2008). 5. The United States seems to have an economic crisis every 10 years or so. They are difficult to eradicate because their causes are different. But the results are always the same.Â These six crises help you recognize the warning signs of the next one. You'll see when government action prevents complete economic collapse and when it makes things worse. The Great Depression of 1929. The first warning was a stock market bubble during the Roaring 20's. Wise investors could have started taking profits in the summer of 1929. In October, the 1929 stock market crash kicked off the Depression. It wiped out the life savings for millions of people.ï»¿ï»¿ It wasn't the last time a stock market crash caused a recession. One of the Depression's causes was the Dust Bowl