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Tracing the Sociohistorical Conditions of the Financial Crisis

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Fiscal State-citizen Alignment: Tracing the Socio-historical Conditions of the Financial Crisis*

The 2008 crisis ended the growth-bubble of the 2000s, which OECD governments facilitated through the normative/political-regulatory promotion of household indebtedness. Historically contextualizing this state-citizen relationship, this article maps out four episodes of sovereign fiscalism, namely debt-taking in the Italian city-states, the making of the absolutist tax/fiscal state, the eighteenth/nineteenth century elaboration of the economic citizen, and the postwar era of managed capitalism. Finally, it applies this framework to the 2008 crisis and the larger post-1970s politico-economic constellation. The crisis can be perceived as a particular articulation of an age-old state-household dynamic – a dialectical alignment of the mode of fiscal state-crafting with the ethos of the state-citizen nexus – characterized by a heightened fiscal attentiveness to ordinary consumer-citizens. By uncovering the socio-historical conditions governing the dominant pre-crisis regime, it not only nuances our understanding of the crisis but also of neoliberalism and suggests the implausibility of returning to “Golden Age” democratic capitalism.

Introduction

The 2008 financial crisis broke the spell of the dominant debt-fuelled consumer-oriented growth regime of the 2000s. In hindsight, this bubble-economy of the 2000s, prevailing not only in “Anglo-liberal” countries,¹ but in many advanced Western liberal-capitalist democratic polities, relied on a socio-psychological culture of perpetual economic growth² and a firm expectation of ever-expanding future consumption possibilities. Amidst low interest rates and rising income inequality across the OECD (and particularly in the US),³ governments in the 1990s began facilitating economic growth through the political and regulatory promotion of household indebtedness, which arguably expanded or, at least in the US, maintained or smoothened personal consumption.⁴ The realization of the

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¹ Colin Hay, “Pathology Without Crisis? The Strange Demise of the Anglo-Liberal Growth Model,” *Government and Opposition* 46, no. 1 (2011): 1–31.

² See, for example, Fiona Allon and Guy Redden, “The Global Financial Crisis and the Culture of Continual Growth,” *Journal of Cultural Economy* 5, no. 4 (2012): 375–390.

³ OECD, *Growing Unequal? Income Distribution and Poverty in OECD Countries* (Paris: OECD Publishing, 2008); OECD, *Divided We Stand: Why Inequality Keeps Rising* (Paris: OECD Publishing, 2011); Joseph Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future* (New York: W. W. Norton & Company, 2012); Thomas Piketty, *Capital in the Twenty-first Century* (USA: Harvard University Press, 2014).

⁴ See particularly Aldo Barba and Massimo Pivetti, “Rising household debt: Its causes and macroeconomic implications — a long-period analysis,” *Cambridge Journal of Economics* 33, no. 1 (2009): 113–137; Robert Guttman and Dominique Plihon, “Consumer

economic potential of “ordinary” consumer-citizens became institutionalized in a dominant growth regime of so-called “privatized” or “house price” Keynesianism, which became a means of reproducing fiscal-budgetary activity.⁵ Importantly, the crisis of 2008 revealed that the historical democratization of private debt integral to the prevailing growth regime of the 2000s relied on, as one of its main conditions of possibility, a particular fiscal relationship between governments and their citizens: a mode of “infrastructural” fiscal state-crafting,⁶ in which the routine behavior and social ethic of ordinary households – the “ethos” of the state-citizen nexus – were actively sought out, aligned with, and drawn into governments’ yearly cycles of growth maximization. The 2008 financial crisis can be perceived as the culmination, and perhaps permanent breakdown, of a larger post-1970s fiscal state-citizen alignment, in which active fiscal complicity and co-producership by the increasingly liberalized and democratized sovereign consumer-citizens have become absolutely integral to modern day sovereign fiscalism.

This article seeks to examine the main historical, socio-cultural, and political conditions of possibility of this post-1970s development. It situates the above mode of fiscal state-crafting within a broader context of shifting fiscal state-citizen alignments by mapping out selected historical episodes of fiscal management within the Western setting. By shedding light on the mechanisms and conditions of fiscal state-crafting cutting across time and space, the article favors the examination of historical commonalities of Western polities, rather than more fixed cross-sectional differences.⁷ Comparing, for example, the citizen-creditors of the Italian city-states of the Middle Ages and Renaissance with the citizen-debtors of the dominant growth regime of the 2000s allows us to more visibly perceive the co-evolution of the state-citizen relationship and the mode of fiscal state-crafting.

debt and financial fragility”, *International Review of Applied Economics* 24, no. 3 (2010): 269-283; Raghuram G. Rajan, *How Hidden Fractures Still Threaten the World Economy* (Princeton: Princeton University Press, 2010).

⁵ Colin Crouch, “Privatized Keynesianism: An Unacknowledged Policy Regime,” *British Journal of Politics and International Relations* 11, no. 3 (2009): 382-99; Matthew Watson, “House Price Keynesianism and the Contradictions of the Modern Investor Subject,” *Housing Studies* 25, no. 3 (2010): 413–426; Wolfgang Streeck, “The Crisis of Democratic Capitalism,” *New Left Review* 71 (2011): 5-29; see also Leonard Seabrooke, “What do I get? The everyday politics of expectations and the subprime crisis,” *New Political Economy* 15, no. 1 (2010), 51-70. On the general post-1970s marketization or financialization of “daily life” and the self, see, for example, Zygmunt Bauman, *Liquid Modernity* (Cambridge, 2000). Randy Martin, *Financialization of daily life* (Temple University Press, 2002); Paul Langley, “The Uncertain Subjects of Anglo-American Financialisation,” *Cultural Critique* 65 (2007): 656-691; ; Maurizio Lazzarato, *The Making of the Indebted Man: An Essay on the Neoliberal Condition* (Los Angeles, CA: Semiotext(e), 2012); Paul Verhaeghe, *What about Me? The Struggle for Identity in a Market-Based Society* (Scribe, 2014).

⁶ On “infrastructural power”, see Michael Mann, “The Autonomous Power of the State: Its Origins, Mechanisms and Results,” in *State/Space: A Reader*, Eds. Neil Brenner, Bob Jessop, Martin Jones, Gordon Macleod (Oxford: Blackwell, 2003). For a Bourdieusian understanding of neoliberal “state-crafting” focused on contemporary advanced marginality, see Loïc Wacquant, *Punishing the poor: The Neoliberal Government of Social Insecurity* (Durham: Duke University Press, 2009); Loïc Wacquant, “Three steps to a historical anthropology of actually existing neoliberalism,” *Social Anthropology* 20, no. 1 (2012): 66–79.

⁷ For an excellent defense of this, in relation to studying contemporary capitalist commonalities, see Wolfgang Streeck, “How to Study Contemporary Capitalism?,” *European Journal of Sociology* 53, no. 1 (2012): especially 23.

The conceptual framework set up here intends to synthesize and strike a productive compromise between two dominant ways of dealing with contemporary fiscal state-crafting and political authority. On the one hand, there are approaches that emphasize the bottom-up forces of post-1970s fiscal reproduction, such as notable neo-Marxist, Neo-Foucauldian, or “everyday politics” perspectives, which tend to identify, or a priori correlate, state action with civil society structures and dynamics (such as, respectively, social classes, micro-powers, or mundane action).⁸ On the other hand, there are approaches that stress top-down factors, such as “neo-institutional” or Luhmannian/post-Luhmannian perspectives that, respectively, tend to emphasize the capacities of “competition states” for “shaping” society or perceive legal-institutional acts of authority as “endogenous” differentiations or self-limitations operating “from within power as its internal reflexive form.”⁹ In this article we are interested in synthesizing and possibly going beyond such bottom-up/top-down inclinations by emphasizing the historically varying relationship between these two forces – and, most importantly, the effects of their dialectical co-evolution in relation to the recent pre-crisis condition. Importantly, while the analytical ambition of synthesizing the bottom-up and top-down forces of fiscal reproduction has been integral to more recent historical scholarship, particularly on French absolutism and early modern state-formation, critical politico-economic scholarship treating the neoliberal turn and the 2008 crisis has underemphasized many of these insights and the potential analytical yield of a long-term macro-historical perspective.¹⁰

The regime of “privatized Keynesianism” that precipitated the crisis was part of a larger post-1970s fiscal state-citizen alignment. This post-1970s alignment can be perceived as the result of governments having to increasingly integrate a certain socio-cultural and political state-citizen ethos into the mode of fiscal state-crafting. Across our selected historical episodes we can observe an increasing fiscal infatuation with the consumption patterns of everyday consumer-citizens. As the causal saliency of the bottom-up forces increases relative to the top-down dimensions, the necessity of alignment with the prevailing normative justificatory order rises. Our crisis event can thus be seen as the result of having to fiscally accommodate and manage the consumer-citizens in a particular

⁸ See, for example, respectively, Henk Overbeek, ed., *Restructuring hegemony in the global political economy: The rise of transnational neo-liberalism in the 1980s* (Routledge, 2002); Peter Miller and Nikolas Rose, *Governing the Present: Administering Economic, Social and Personal Life* (Cambridge: Polity, 2008); John M. Hobson and Leonard Seabrooke, *Everyday Politics of the World Economy* (Cambridge: Cambridge University Press, 2007).

⁹ Philip G. Cerny, “Paradoxes of the competition state: the dynamics of political globalization,” *Government and opposition* 32, no. 02 (1997): 251-274; Christopher Thornhill, “Niklas Luhmann and the Sociology of the Constitution,” *Journal of Classical Sociology* 10, no. 4 (2010): 330.

¹⁰ See, notably, William Beik, *Absolutism and society in seventeenth-century France: State power and provincial aristocracy in Languedoc* (Cambridge: Cambridge University Press, 1985); James B. Collins, *The state in early modern France* (Cambridge: Cambridge University Press, 1995); Michael Kwass, *Privilege and the politics of taxation in eighteenth-century France: liberté, égalité, fiscalité* (Cambridge: Cambridge University Press, 2006).

bottom-up driven way. Importantly, while many of the prevailing narratives of the 2008 economic malaise have focused on important factors such as financialization and financial actors,¹¹ this article perceives the 2008 crisis as the result of a historically particular dialectical alignment between top-down forces of fiscal governing and bottom-up normative and socio-structural conditions.

Two additional analytical implications follow from this historically-situated analysis. First, the analysis provides a particular take on neoliberalism, which does not reduce the post-1970s period to one of de-regulation, privatization or a “rollback” of the state. Instead, the article emphasizes the continued importance of state accumulation – that is, the ever-expanding causal weightiness of the state budget for managing social activity. Secondly, in contrast to the implied romanticism of recent “neo-Keynesian” calls for a reinvigorated return to the Golden Age period of democratic capitalism,¹² the article argues that the postwar period should not merely be (optimistically) characterized by welfare state “decommodification”,¹³ but rather institutionalized commodification in the form of an alignment between managed fiscal state-crafting and consumer-citizenship.

The narrative presented here is based on historical-theoretical analysis.¹⁴ Rather than through what is typically denoted a deductive or inductive logic, the historical-theoretical ideal-type categories are developed in an iterative process, continuously oscillating back and forth between theoretical development and historical grounding.¹⁵ As a way of framing our analysis of the 2008 crisis, the article examines different fiscal state-citizen alignments (or alignment “attempts”) during four separate historical episodes. These are: (I) the evolution of public debt-taking in the Italian city-states of the Middle Ages and Renaissance (focusing on Genoa, Venice and Florence); (II) the 16th/17th century rise of the absolutist “tax” or “fiscal” state; (III) the post-18th century state-facilitated elaboration of the economic citizen and the institutionalization of a politically-inclusive fiscal order; (IV) the well-known “Golden Age” post-WW2 era of managed capitalism and consumer-citizenship. These four episodes can be considered exemplary historical cases; they are illustrative of the logic of the always precarious ways in which the mode of fiscal state-crafting has to dialectically assimilate the ethos of the state-citizen nexus.

¹¹ Against this, see also for example Allon and Redden, “The Global Financial Crisis”.

¹² For example, Stiglitz, “The Price of Inequality”; Piketty, “Capital in the Twenty-first Century”. On the notion of “democratic capitalism”, see Streeck, “Crises of Democratic Capitalism.”

¹³ Göran Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Cambridge: Polity Press, 1990).

¹⁴ On theorizing history, see William H. Sewell Jr., *Logics of History: Social Theory and Social Transformation* (Chicago: The University of Chicago Press, 2005).

¹⁵ On transcending the deductive/inductive logic, see Berth Danermark, Mats Ekström, Liselotte Jakobsen and Jan Ch. Karlsson, *Explaining Society: Critical Realism in the Social Sciences* (London: Routledge, 2002 [1997]).

To be sure, this historical-theoretical scheme leaves out a battery of historical events and episodes that might have productively illustrated certain fiscal state-citizen alignment techniques, such as notably WWI (a major site of the gradually penetrating economic patriotism and the development of the income tax, etc.), the Great Depression (which helped spark a new need for and confidence in “economic planning”), or, more generally, the important pre-WWII development of the welfare state. Moreover, rather than engaging in the extremely difficult task of highlighting the complex and always contradictory action-specific sociological processes in which the relevant state-citizen synchronization usually takes place, the historical exercise merely consists in mapping and surveying the key fiscal or legitimacy features that reveal an attempted sovereign alignment.

A Framework for Mapping Fiscal State-citizen Alignments

Drawing and expanding upon several strands of scholarship – and anticipating lessons drawn from the historical analysis itself – I shall in the following set up a basic conceptual framework for studying different historical fiscal state-citizen alignments. While the scholars I will discuss differ on many accounts, they all address the relationship between the organization of economic affairs and the concomitant securing of legitimacy and alignment with underlying conditions of normative order.

From a neo-Marxist or “critical” perspective, scholars have articulated tensions between democracy and capitalism/markets, suggesting from a range of perspectives that democratic ideals of popular sovereignty may conflict with market ideals of efficiency and maximum economic growth.¹⁶ Political theorists of the 1970s have, similarly, suggested internal tensions in the imperatives of democratic capitalist states.¹⁷ Here, the twin functions of the (capitalist) state entail the simultaneous coordination of “capital accumulation” (fiscal maintenance) and “legitimation” (legitimacy reproduction).

The general question of whether normative support is needed for any social system to viably reproduce itself was addressed by Max Weber in his classic work *The Protestant Ethic and the Spirit of Capitalism*.¹⁸ Here, Weber stressed that while the capitalist system of ever-increasing profit-making historically had required an underlying

¹⁶ Adam Przeworski, *Capitalism and Social Democracy* (Cambridge: Cambridge University Press, 1993 [1985]); Charles E. Lindblom, *Politics and Markets: The World's Political-economic Systems* (New York: Basic Books, 1977); Streeck, “The Crises of Democratic Capitalism”.

¹⁷ James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973); Claus Offe, *Contradictions of the Welfare State* (London: Hutchinson, 1984); Jürgen Habermas, *Legitimation Crisis* (Boston: Beacon Press, 1975).

¹⁸ Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (London: Routledge, 2005 [1930]).

cultural/religious basis or “social ethic”, once “modern capitalism has become dominant” it becomes self-sustaining, it “needs its support no longer”.¹⁹ Although rejecting Weber’s proposition that capitalism no longer requires a supporting social ethic, Boltanski and Chiapello, in *The New Spirit of Capitalism*, explicitly draw on the general analytical logic of Weber’s “Protestant Ethic thesis”.²⁰ Through an examination of management literature they point toward three successive “spirits of capitalism” that are revealed in different historical organizational/leadership types. For each of the stages of these spirits of capitalism, various forms of criticisms of the status quo have been assimilated into the system. Capitalism, they argue, needs a “justificatory regime” to retain mass-based commitment to its purposes. Again, as for Weber, it is the connection between the prevailing normative conceptions of social order and the chosen institutional organization of economic reproduction that is paramount. Basically, in order for an economic system to viably reproduce itself it needs its normative inputs, its critical other.

Finally, this overall emphasis on normative conditions is also implicitly approximated in Miller & Rose’s Neo-Foucauldian diagnosis of the challenges for authorities in intervening in the social patterns of the supposedly self-regulating citizenry in contemporary liberal-democratic society.²¹ As they note, the existence of a “self-regulating” subject has “established some crucial conditions for governing in a liberal democratic way.”²² We may re-interpret this in the following general way: the effective reproduction of a fiscal system entails a viable alignment with the prevailing normative justificatory order. As Fernand Braudel noted, “capitalism is unthinkable without society’s active complicity.”²³ Somehow, it can be argued, states need to assimilate the ethos of the subjects whom they seek to fiscally control.

In this article any given historical *fiscal state-citizen alignment* entails an attempted coordination between a specific *mode of fiscal state-crafting* – that is, the distinctive style and content of fiscal management within a nominally sovereign spatial enclosure²⁴ – and the dominant *state-citizen nexus* – that is, the prevailing socio-cultural and political relationship between the state and its citizens/subjects and the distinctive ethos or normative/legitimatory order which underlies it. Although every state or organized sovereign authority is obliged to fiscally cater to the mentalité of its subjects/citizens in order to ensure an effective and normatively viable reproduction of the economy, the degree of necessity varies immensely: the more socio-cultural and political leverage the citizens/subjects have relative to the state, the more necessary the assimilation of the ethos of the state-

¹⁹ Ibid., 34, 114.

²⁰ Éve Chiapello and Luc Boltanski, *The New Spirit of Capitalism* (London: Verso, 2005 [1999]), 46, fn. 21.

²¹ Miller and Rose, “Governing the Present”.

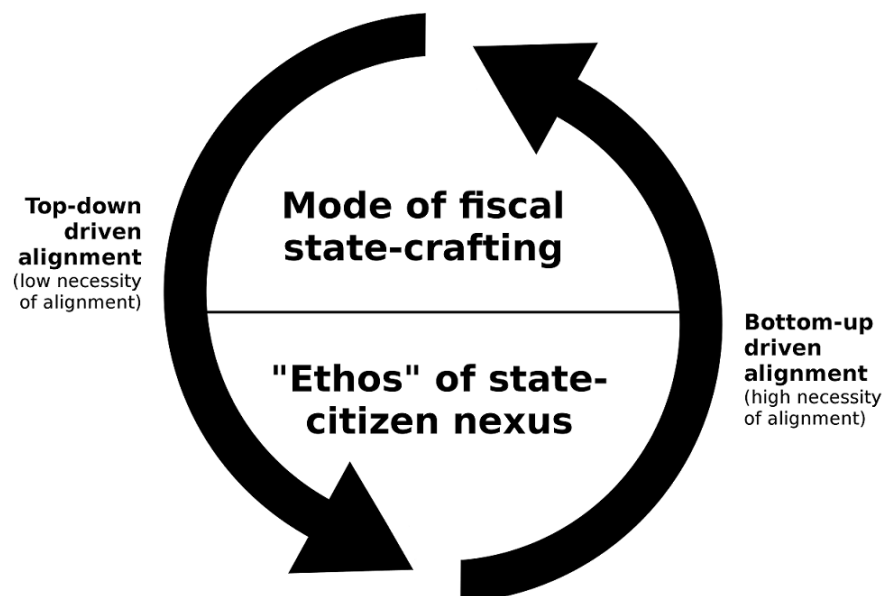
²² Ibid., 26.

²³ Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism* (USA: The Johns Hopkins University Press, 1977), 62.

²⁴ Fiscal is here generically understood as the “macroeconomic” instruments of debt, taxation and public expenditure.

citizen nexus becomes. This implies that as the necessity of assimilating the ethos of the state-citizen nexus increases, states become less and less able to autonomously determine the style/content of the mode of fiscal state-crafting. Thus, it is possible to distinguish between a top-down driven alignment – with a relatively high degree of fiscal governing autonomy (and a low necessity of normative alignment) – and a bottom-up driven alignment – with a relatively low degree of fiscal governing autonomy (and a high necessity of normative alignment). Importantly, the nature of the state-citizen nexus is itself affected by the prevailing or past mode of fiscal state-crafting – and vice versa. Any fiscal state-citizen alignment represents a dialectical balancing of its two organizing properties, not an automatic equilibrium constituting a coherent crisis-free regime. Alignments are dynamic, uneven and always incomplete, constantly imbued with a series of subordinate misalignments. The historically observed dialectical relationship between the mode of fiscal state-crafting and the ethos of the state-citizen nexus is stylistically shown in figure 1 below.

Figure 1: The dialectical coordination/assimilation process of a fiscal state-citizen alignment



Episode I – Italian City-States: Citizens as Creditors of their State

It is in the famous Italian city-states of the Middle Ages and Renaissance, for example Genoa, Venice and Florence – formally under the authority of the Holy Roman Empire and the papacy but effectively able to maintain political and

fiscal sovereignty – that we can first locate the evolution and political institutionalization of debt-taking for fiscal purposes. While debt-taking goes back historically between 4,000 and 5,000 years,²⁵ it was only in the autonomous Italian city-states of the 12th century that organized schemes for long-term public loans are first observed.²⁶ Although in places like Genoa where there was a relatively high proportion of voluntary loans,²⁷ the forced or compulsory public loan – a so-called “repayable tax” – became a central fiscal tool of the financially independent Italian city-states.²⁸

Two main strategies would emerge to tackle the perennial increase in fiscal governing needs stemming from war participation: taxation or borrowing.²⁹ As in the classical/ancient Greek city-states, the de jure free citizenry of the merchant-led medieval city-states of northern Europe considered direct taxation a largely illegitimate practice.³⁰ As an alternative to direct taxation on the property or income of its citizens, the city-states largely relied on indirect or more circumlocutory forms of taxation or funding, such as, respectively, (1) custom taxes on imported merchandise or taxes on essential consumption items (for example salt) and (2) voluntary and, most importantly here, forced loans. The citizen creditors received an interest payment on the long-term compulsory loans, often financed by indirect taxes obtained by the state. The fact that interest payment was received justifies labeling these forced loans a form of “repayable taxes”.³¹ The loans served a couple of convenient functions compared to a direct tax on income: first, direct taxes were, as mentioned, largely frowned upon by the citizenry. Second, the creditors would receive an interest income on the loan and were able to use it as a marketable asset on the free secondary market, allowing for the liquidization and privatizing of public debt. Rough estimates would indicate that around the early 14th century about two-thirds of the Florentine households held shares in the public debt, making James Macdonald declare that by that time “Florence, like Venice and Genoa, had become a republic of citizen creditors”.³² Often the merchants who supplied loans to the state were simultaneously prevalent amongst the political elite paying the interests on the loans, serving as members of assemblies, magistrates or fiscal officers etc.³³ An oligarchic

²⁵ C.f. David Graeber, *Debt: The First 5000 Years* (New York: Melville House, 2011); Niall Ferguson, *The Cash Nexus: Money and Power in the Modern World, 1700-2000* (New York: Basic Books, 2001), 107.

²⁶ Martin Körner, “Public Credit,” in *Economic Systems and State Finance (Origins of the Modern State in Europe)*, ed. Richard Bonney (USA: Oxford University Press, 1995), 513; Stephan R. Epstein, *Freedom and Growth: The Rise of States and Markets in Europe, 1300–1750* (London: Routledge, 2000), 12-37. C.f. David Stasavage, *States of Credit: Size, Power, and the Development of European Polities* (Princeton, NJ: Princeton University Press, 2011), 31.

²⁷ James Macdonald, *A Free Nation Deep in Debt: The Financial Roots of Democracy* (New York: Farrar, Straus and Giroux, 2003), 95.

²⁸ Ibid., 67-104. Florence levied the *prestanze*, Venice the *prestiti* and Genoa the *luoghi*.

²⁹ Stasavage, “States of Credit,” 25-28.

³⁰ Macdonald, “A Free Nation Deep in Debt,” 32, 70, 72-4.

³¹ Ibid., 73.

³² Macdonald, “A Free Nation Deep in Debt,” 82.

³³ Stasavage, *States of Credit*.

merchant elite notwithstanding, citizenship in the Italian city-states did entail certain “civic duties”, such as supporting the state in times of crisis by helping to manage debt.³⁴ In this sense, we may rightfully say that in these sovereign cities “to be a citizen was, by definition, to be a creditor of the state.”³⁵ A widely held obligation for citizens to support their fiscal systems – *sub necessitate et pro militate publica* – thus entailed that citizens/households would act as the main creditors of their state, helping it maximize economic gains or overcome sudden war-induced liquidity problems.³⁶

This city-state episode is illustrative of a complex mode of attempted bottom-up driven alignment. On the one hand, the mere fact that many of the loans “offered” by the Italian citizens to their state were largely forced of course highlights important contrasts with contemporary times regarding the power-relationship between the state and its citizens: a transformation from the forced Italian citizen creditors to our current formally democratized citizen debtors. On the other hand, as we shall also see later, the oligarchic citizens of the Italian city-states enjoyed a relatively high degree of sovereignty compared to the subjects of monarchical absolutism – that is, they had relatively more socio-cultural and political leverage. As mentioned, the forced loans can be perceived as repayable taxes. They offered an interest payment by the state and were a more convenient and legitimate quasi-indirect way of taxing the citizens, that is, a way to assimilate the ethos of the state-citizen nexus. In other words, in this relatively bottom-up driven alignment, indirect rule or relative citizen sovereignty went hand in hand with, and helped determine, alternative forms of taxation through debt-taking.

Episode II – The Rise of the Absolutist Tax State

From roughly the 15-16th century – in the wake of Fernand Braudel’s “city-centered economies of the European past”³⁷ – we begin to see the gradual emergence and consolidation of a more centralized absolutist monarchist state, which reconfigured much of the ideological authority upheld by the church.³⁸ The emerging European absolutist states increasingly attempted to emulate the novel fiscal characteristics of the Italian city-states – such as maritime law, contractual arrangements, and state borrowing. This fiscal emulation process is indicative of a general trend:

³⁴ John H. Munro, “The Medieval Origins of the Financial Revolution: Usury, Rentes, and Negotiability,” *The International History Review* 25, no. 3 (2003), 515; Derek Heater, *A Brief History of Citizenship* (New York: NYU Press, 2004), 54.

³⁵ Macdonald, “A Free Nation Deep in Debt,” 74.

³⁶ Munro, “The Medieval Origins of the Financial Revolution,” 515.

³⁷ Fernand Braudel, *The Perspective of the World* (New York: Harper & Rowe, 1984).

³⁸ See, for example, Gianfranco Poggi, *The State: Its Nature, Development, and Prospects* (USA: Stanford University Press, 1990), 34-51; On the normative shift from church to state, see particularly Michael Mann, *The Sources of Social Power. Vol. 1, A History of Power from the Beginning to AD 1760* (Cambridge, Cambridge University Press, 1986), 377-383, ch. 13.

often earlier developed tools of economic governance become part of the fiscal repertoire of later alignments. The 16th century saw the gradual transformation towards a modern tax or fiscal state.³⁹ Here, through increased centralized suppression of the autonomy of the local noble landowning classes by a territorial ruler, modern taxation triumphed: *pecunia nervus rerum* – the aphorism likening money to the nerves or “muscles” of the state favored by contemporary statesmen and theorists – gradually became the norm as the tax state consolidated itself.⁴⁰ The perennial war-related liquidity problems that forced monarchs to systematically take up massive amounts of public debt engendered, in great part, the development of a bureaucratic institutionalization of regular taxation.⁴¹

As is historically uncontroversial, the lower strata generally resented arbitrary or unjustified levels of taxation. Collective peasant rebellions against various forms of taxation were thus a typical phenomenon of European state formation.⁴² The legitimation for impinging on the perceived economic rights of the peasant subjects of the absolutist state, consisted in some form of appeal to necessity (*necessitas*) – that is, taxation was just when it helped defend the external territorial sovereignty or maintain the internal social order.⁴³

While the 16th century saw the widespread emergence of state fiscal bureaucracy, European absolutist states still did not rely on a formalized annual budgeting process,⁴⁴ and systematic tax revolts, which were widespread in the Middle Ages, persisted for a long time. Tax evasions and revolts can be seen as an example of a misalignment – a disequilibrium – between the chosen mode of fiscal state-crafting and the underlying state-citizen nexus. As Bourdieu notes, “[e]ven today, tax fraud bears testimony to the fact that the legitimacy of taxation is not wholly taken for granted.”⁴⁵ Thus, not before the 17th century did the tax state become firmly consolidated within the European monarchies. In this century, expensive military innovations – and more generally accelerated competition amongst states – placed absolutist monarchies in an almost permanent state of indebtedness, which increased the need for direct and ordinary taxation in order to guarantee repayment.⁴⁶ These new fiscal-military states became

³⁹ Rudolf Goldscheid, “A Sociological Approach to Problems of Public Finance,” in *Classics in the Theory of Public Finance*, eds. Richard A. Musgrave and Alan T. Peacock (London: Macmillan, 1958 [1925]), 202–13; Joseph A. Schumpeter, “The Crisis of the Tax State,” in *Joseph A. Schumpeter: The Economics and Sociology of Capitalism*, ed. Richard Swedberg (Princeton, NJ: Princeton University Press, 1991 [1918]), 99–140.

⁴⁰ Winfried Schulze, “The Emergence and Consolidation of the ‘Tax State’. I. The Sixteenth Century,” in *Economic Systems and State Finance (Origins of the Modern State in Europe)*, ed. Richard Bonney (USA: Oxford University Press, 1995), 269, 276. On the British “fiscal-military state”, see John Brewer, *The Sinews of Power: War, Money, and the English state, 1688–1783* (Harvard University Press, 1990).

⁴¹ Marjolein ‘t Hart, “The Emergence and Consolidation of the ‘Tax State’. II The Seventeenth Century,” in *Economic Systems and State Finance (Origins of the Modern State in Europe)*, ed. Richard Bonney (USA: Oxford University Press, 1995), passim.

⁴² Schulze, “The Emergence and Consolidation of the ‘Tax State’,” passim. For a mapping of the history of tax rebellions, see David F. Burg, *A World History of Tax Rebellions* (New York, Routledge, 2004).

⁴³ For example, Schulze, “The Emergence and Consolidation of the ‘Tax State,’” 273, 276–77.

⁴⁴ Ibid., 270.

⁴⁵ Pierre Bourdieu, “Rethinking the State: Genesis and Structure of the Bureaucratic Field,” *Sociological Theory* 12, no. 1 (1994): 6.

⁴⁶ ‘t Hart, “The Emergence and Consolidation of the ‘Tax State’,” passim.

increasingly intrusive in their new roles as upholders and advocates of sovereign fiscalism: interventionist centralized states became empowered and new property registers were drafted detailing economic information on the subjects of the sovereign territory.⁴⁷ Despite this increasing fiscal intrusiveness, during the 17th century, the centralized imposition of regular taxation – under the ideological guise of bureaucratic and sovereign indispensability – gradually became seen as a more or less legitimate part of the fiscal systems of sovereign states.

The historical episode marking the rise and consolidation of the absolutist tax/fiscal state is characterized by a firmly constituted asymmetrical power relationship between the state and its subjects. Hence, under absolutist statehood, the increased absolutist monopolization of coercion and violence, coupled with the religious-cum-ideological order of indivisible sovereign rule (the “Divine Right of Kings”), implied that the top-down logic of the mode of fiscal state-crafting of the absolutist tax state increased in parallel with the weakened necessity of assimilating the ethos of the state-citizen nexus. The gradually increasing directness of rule – representative of a reconfigured underlying state-citizen nexus – correlated with a change in fiscal state-crafting involving a heightened degree of fiscal intrusiveness. While the Italian city-states were characterized by a relatively more indirect form of economic governance, the consolidation of the territorial absolutist tax state entailed a gradually more direct form of rule (although, of course, important intermediaries still existed) engendering an increased fiscal mediation and autonomous intervention in subjects’ daily lives – that is, a more top-down driven alignment.

That said, in the context of the gradual consolidation of tax systems, widespread and systematic tax revolts are illustrative of the illegitimacy of this instrument of fiscal intrusiveness, despite the otherwise prevailing absolutist ruler-subject power relationship. Thus, even though absolutist rulers were less obliged to integrate and cater to the mentalité of their subjects, some form of assimilative adjudication of economic reproduction and legitimacy production was still necessary. Here, as is a general trend across the historical episodes surveyed in this article, illegitimacy in fiscal state-crafting – in this case illustrated by tax revolts – were often managed via reference to fiscal necessity, such as the necessities of war.

Episode III – The Elaboration of the Economic Citizen: Enlightened Absolutism and the Awakening of Private Appetites and Public Privileges

The episode that we shall now tackle covers a period stretching roughly from the early 18th century to the 1930s.

While we, of course, cannot do justice to the inherent complexity and heterogeneity of such a period, the purpose is

⁴⁷ Ibid., 293.

simply to analytically reveal and synthetically carve out the gradual state-facilitated elaboration of the economic citizen. This 18th century state-cultivated elaboration of a certain form of economically-oriented citizenship represents a revolutionary long-term historical process – involving decisive, and possibly irreversible, changes in the normative, socio-political, and fiscal-institutional makeup of society – that would later critically underpin the formal constitution of the post-WWII “consumer-citizen” (addressed in episode IV). The elaboration of the economic citizen – our third episode – developed in three overlapping stages.

Stage one: enlightened bureaucratic publicness

Influenced by the intellectual triumph of Enlightenment, the gradually enlightened absolutist monarchs sought to infuse territorial rule with a new rationality. As emphasized by Bourdieu, the emergence and consolidation of a class of civil servants (particularly jurists) helped foster a notion of universality – that is, a bureaucratic self-interest in the creation of a public domain and a dissociation of private and public interest.⁴⁸ Bureaucracy entailed a lengthening and differentiation of “the chains of authority and agency”⁴⁹ – it separated the person of the ruler or king from the apparatus of rule and the monarch gradually became a servant of the state.⁵⁰ The establishment of a public economy was not only preconditioned by the invention of the budget but also a separation between the royal and the public economy.⁵¹ The bureaucratic efficiency-seeking initiatives of the absolutist (or partly enlightened) monarchs created new normative demands and obligations: a more impersonal apparatus meant that a separation between private and public was invented, which in turn opened up the space for political and institutional inclusion.

Stage two: the state-facilitated forging of a liberal-capitalist order

Perhaps paradoxically, alongside and particularly in the wake of the enlightened absolutist emergence of bureaucratic state structures, we can observe a state-facilitated forging of a liberal-capitalist order through the awakening of economic liberties and “private appetites”.⁵² On the one hand, this development was critically conditioned by a new humanist and post-Reformation understanding of the subject.⁵³ Already around the late 15th century and early 16th century, the place of the individual vis-à-vis Christendom and the earthly absolute sovereign

⁴⁸ Pierre Bourdieu, “From the Kings House to the Reason of State: A Model of the Genesis of the Bureaucratic Field,” in *Pierre Bourdieu and Democratic Politics – The Mystery of Ministry*, ed. Loïc Wacquant (Cambridge, UK: Polity Press, 2005), passim.

⁴⁹ *Ibid.*, 48.

⁵⁰ On the genealogical shift from “the state of princes to the person of the state”, see Quentin Skinner, *Visions of politics. Vol. 2* (Cambridge: Cambridge University Press, 2002), 368-413.

⁵¹ Elias, Norbert, *The Civilizing Process. Vol. 2: State Formation and Civilization* (Oxford: Basil Blackwell, 1982), 110, 218.

⁵² Janet Coleman, “Preface,” in *The Individual in Political Theory and Practice (Origins of the Modern State in Europe)*, ed. Janet Coleman (USA: Oxford University Press, 1996), xv.

⁵³ Wolfgang Weber “Rulers and Subjects: The Absolutist Making of the Individual,” in Coleman, *The Individual in Political Theory and Practice*, 192-200.

ruler had started to change. Responsibility and religious conviction assumed an increasingly private and inward character disembedded from the grip of the sovereign.⁵⁴

On the other hand, as a way of both catering to and actively reinforcing the already changing place of the individual in theory and practice, the enlightened absolutist state exercised and helped set in motion a form of “functional individualization”, a process in which it “supported, or took over, the propagation and instilment of the so-called bourgeois values of order, industry and thrift, in order to gain progressive access to the taxability and industry of its subjects.”⁵⁵ In more liberal states, greater attempts were made at providing a normative “space, guaranteed by rights, for the pursuit of private appetites.”⁵⁶ Arguably, albeit indirectly and unintendedly, the state-facilitated process of a gradual extension of economic liberties and private appetites ultimately helped initiate the so-called consumer revolution of the 17th and 18th century, in which new modes of acquisitions – and propensities to consume – started to emerge and colonial trade allowed a wider part of the European population to join the otherwise elitist practice of consumption.⁵⁷ In this sense, the state is also a producer of the underlying ethos of the state-citizen nexus, and not simply placed in a passive position during its construction and evolution.

Stage three: the “civilianization” of rule and the normalization of popular sovereignty

The revolutionary character of the period emerging from the 18th century gave way to two more key interrelated forces of political inclusion, which partly co-evolved with the above state-facilitated changes, namely a civilianization and a democratization of rule. Around the early 18th century we begin to see the formal shift from paid mercenaries (brokerage) towards the nationalization of military power – incorporating the military into the state – and the installation of a more direct form of rule, which increasingly dispensed with important autonomous intermediaries.⁵⁸ The state’s extraction of resources from its population – and the original contestation over the legitimacy of this – often created new demands on the state – for example, demands for adjudication of disputes in the form of legal regularization.⁵⁹ In this way, increased fiscal intrusiveness, and state intervention more generally, helped create “new forms of political organization.”⁶⁰ From the mid-19th century a regular “civilianization of government” appears. We observe a move from the nationalization of the military towards increasing military

⁵⁴ For example, Coleman, “Preface,” xiv.

⁵⁵ Weber, “Rulers and Subjects,” 213, 211. See also Michel Foucault, *Security, Territory, Population. Lectures at the Collège de France, 1977–1978* (New York: Palgrave, 2007), 72–3.

⁵⁶ Coleman, “Preface,” xv.

⁵⁷ C.f. Weber, “Rulers and Subjects,” 212–3.

⁵⁸ Charles Tilly, *Coercion, Capital, and European States, AD 990–1990* (Cambridge, MA: Basil Blackwell, 1990), 103–4.

⁵⁹ Ibid., 97.

⁶⁰ Ibid., 98.

specialization.⁶¹ The military became subordinated to the increasingly civilian and increasingly representative government, which started to divert economic resources away from military activities towards nonmilitary state expenditures.⁶²

As Charles Tilly notes, the new civilian state structures can largely be seen as “unintended burdens” of states’ fiscal or military organizational initiatives: rulers “discovered that the organizations themselves developed interests, rights, perquisites, needs, and demands requiring attention on their own”.⁶³ Thus, top-down fiscal state-crafting initiatives indirectly helped constitute new normative-institutional state-citizen arrangements. After 1789 we see the socio-political and semantic anchoring of “the people” as the ultimate locus of sovereignty, which sparked two key processes: firstly, a new socio-political vocabulary, the notion of left and right and organized sets of articulated ideals known as political ideologies.⁶⁴ Secondly, from the mid to late 19th century, European externally mobilized socialist or social democractic mass parties entered the elite parliamentary scene from the outside, organizing societal cleavages and furthering the interest of major politically excluded societal constituencies.⁶⁵ In the long run, the emerging political party system came to serve as an electoral mode of state legitimation.⁶⁶ This process entailed a higher saliency of bottom-up driven social structures over top-down driven political organization and state-crafting.

Importantly, the joint processes of a civilianization and a democratization of rule facilitated a remarkable shift in the patterns of public expenditure towards increased social spending since the late 18th century. Lindert’s extensive historical-quantitative examination of public expenditure in Western Europe and the United States, which points to “political voice” as the key triggering force, reveals a marked increase from ca. 1880 in the absolute size and relative share of public finances devoted to social needs.⁶⁷ Arguably, this can be perceived as the fiscal-sociological expression of the increasing importance of assimilating the ethos of the state-citizen nexus. This softening of governing-institutions – increasing governing needs and expectations – would have put a major strain on fiscal governability were it not somehow roughly matched by corresponding increases in the taxable capacity of

⁶¹ Ibid., 29.

⁶² Ibid., 114-15, 122-126.

⁶³ Ibid., 117.

⁶⁴ Immanuel Wallerstein, *The Modern World-system IV: Centrist Liberalism Triumphant* (Berkeley, CA: University of California Press, 2011).

⁶⁵ See, for example, Maurice Duverger, *Political Parties: Their Organization and Activity in the Modern State* (New York: Wiley, 1954).

⁶⁶ On the electoral mode of popular consent, see David Beetham *The Legitimation of Power* (New York: Macmillan, 1991), 150-158, more generally on state legitimacy 117-160.

⁶⁷ Peter H. Lindert, *Growing Public: Social Spending and Economic Growth Since the Eighteenth Century* (New York: Cambridge University Press, 2004), particularly 11-15.

these polities in the period 1880-1980. The legitimacy of this tax base, the ability of the state to continuously and systematically extract resources from its citizens, precisely depended on political-institutional inclusion.

Episode IV – Managed Capitalism: Establishing a Culture of Expanding Mass Consumption and Growth

A new culture of growth and mass consumption

After World War II, we enter the post-war economic boom characterized by a parallel and complementary growth of productivity and real wages. It may be argued that this seemingly crisis-free and economically prosperous embedded Bretton Woods period, to quote Wolfgang Streeck, “still dominates our ideas and expectations of what modern capitalism is, or could and should be.”⁶⁸ The *trente glorieuses* period relied on a gendered “breadwinner-homemaker household” – the “capitalist patriarchy” – which came to epitomize the so-called “nuclear family” of the 1950-60s.⁶⁹ Wages rose steadily and a rising affluent middle class had more money to spend on daily consumption and mass tourist leisure travels. In the wake of a “baby boom” (introducing baby- and toy industries) and a suburbanization of cities – along with the consolidation of the washing machine, domestic refrigerator, and family car – the TV emerged in the 1960s as a new culturally dominant entity, helping both to intensify American capitalist culture at home and to export “Americanization” to Western Europe through music, movies, commercials etc.⁷⁰ The national educational systems of the Western industrialized democracies expanded, receiving more public funding and taking in a broader social base, facilitating a general economic and intellectual empowerment of the populace. This increasing democratization of education and “new adolescent spending power” enabled the emergence of mass youth culture, and soon the new category of “teenager” caught the eye of mass product marketers, producing a prosperous youth or “young adult” market in music, clothes, and retail products.⁷¹ Social consumption, or consumption as self-expression, intensified as part of the consolidation of a consumerist culture. The acceleration of this logic of consumption found its material and technical manifestation in the 1950s in the “ego-inspiring styling”

⁶⁸ Streeck, “Crises of Democratic Capitalism,” 5.

⁶⁹ Jan de Vries, *The Industrious Revolution: Consumer Behavior and the Household Economy, 1650 to the Present* (New York: Cambridge University Press, 2008). According to de Vries, this distinctive breadwinner household-market constellation emerged around the 1850s.

⁷⁰ On this period, see Tony Judt, *Postwar – A History of Europe since 1945* (New York: The Penguin Press, 2005), 324-53.

⁷¹ Judt, “Postwar,” 347-9.

of “planned obsolescence”.⁷² As we shall see, while it was during the Golden Age period that this mass cultural and social psychological expectation of expanding growth and ever-rising consumption possibilities consolidated itself, it was during the post-1970s that it intensified.

The new confidence in state-crafting

Triggered by the Great Depression and the rationalization of warfare, a new axiom of fiscal state-crafting emerged after WWII: governments can be smarter than markets.⁷³ Two crucial features associated with the general postwar mode of fiscal state-crafting should be mentioned: First, as part of the development of national accounting systems, the Gross Domestic Product (GDP) measure formally emerged after WWII as a new way of accounting for national economic strength and well-being, and became what has been called “the world’s most powerful number.”⁷⁴ Second, after WW2, we witness the formalization of the study of the macroeconomy effectively turning the state’s perspective of society into a conjunction of aggregate variables, which can be managed and rearranged in order to secure full employment, rising economic output, and future consumption possibilities.⁷⁵ Suddenly, concepts and variables that had an internal statistical relationship, such as GDP, investment, savings, public expenditure, and consumption appeared as part of the vocabulary of finance ministers.⁷⁶ Importantly, when consumption became a central component of total demand it spawned an increasing technical-fiscal infatuation with the consumption patterns of the ordinary household.

Consumption as a political project

Although it was gradually institutionalized throughout the 1930s, and while it arguably stretches all the way back to the 18th century,⁷⁷ mass consumption became an explicit institutionalized political project amongst the developed countries during the postwar period, particularly as part of expanding and reconstructing the national economies after the war. In this new “consumer’s republic”⁷⁸ – of which postwar America can be seen as an extreme case – citizenship and consumership intertwined: buying things increasingly entailed participating in democratic society;

⁷² On this, see Glenn Adamson, *Industrial Strength Design: How Brooks Stevens Shaped Your World* (Cambridge, MA: The MIT Press, 2005).

⁷³ Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle for the World Economy* (New York: First Touchstone Edition, 1999).

⁷⁴ Lorenzo Fioramonti, *Gross Domestic Problem: The Politics Behind the World’s Most Powerful Number* (New York: Zed Books, 2013).

⁷⁵ See also Peter Hall, “Keynes in Political Science,” *History of Political Economy* 26, no. 1, 144.

⁷⁶ On this, see for example André Vanoli, *A History of National Accounting* (Amsterdam: IOS Press, 2005), 19, more generally ch. 1.

⁷⁷ Timothy Hall Breen (1988). ““Baubles of Britain”: The American and Consumer Revolutions of the Eighteenth Century”, *Past and Present*, no. 119 (1988): 77.

⁷⁸ Elizabeth Cohen, *A Consumers' Republic: The Politics of Mass Consumption in Postwar America* (New York: Vintage Books, 2003)

fulfilling one's economic "civic duties" helped the postwar nation prosper. A whole infrastructure of policies was instituted, which sought to facilitate the political project of mass consumption: new consumer credit availability, progressive tax regimes, large-scale public investments, incentives for suburban homeownership etc. It is also in the postwar period that we witness the formal appearance of organized consumer protection regimes.⁷⁹ The consumer was to be confident and commercially literate.

Although wage moderation became a generalized cross-country feature, the Golden Age period was characterized by a parallel development of growing productivity and real wages, which came to underlie the sustainability of this growth model.⁸⁰ Relying on the Keynesian intuition that the level of economic activity is dependent on aggregate demand – which is ultimately dependent on income distribution⁸¹ – policy-makers increasingly came to believe that consumers "held the key" to the expansive reproduction of the economy. What is crucial to understanding this Keynesian postwar growth model in which consumption became a political project is how changes in the state-citizen relationship (wrought by normative and socio-political transformations) affected fiscal state-crafting. First, a new socio-structural culture of consumption emerged, fostering an increased endogenous or organic synchronization of social and market relations. Second, a new war-initiated confidence in economic planning appeared, which, coupled with a perpetual obsession with sophisticating earlier fiscal techniques, culminated in the joint invention of the GDP measure and the macroeconomy. These two mutually reinforcing developments enabled the initiation of consumption as a political project. Now aggregate consumption became a key fiscal variable for the reproduction of the national economy. Although initiated during the 18th century, an increasing political and technical-fiscal infatuation with the consumption patterns of the ordinary household institutionalized itself and, in the words of Adam Przeworski, "suddenly workers and the poor turned out to be the representatives of the universal interest."⁸² The political and fiscal institutionalization of consumption as a central component of total demand – consumption as a political project – should not only be seen as a representation of a new dialectic of fiscal state-crafting and the state-citizen relationship. This specific fiscal state-citizen alignment of the Golden Age also critically affected the logic and basic future conditions of aligning the two. Thus, as we shall see, the fiscal attentiveness to the ordinary household would intensify in the post-1970s period.

⁷⁹ Matthew Hilton, "Consumers and the State since the Second World War," *Annals of the American Academy of Political and Social Science* 611, no. 1 (2007): 66–81.

⁸⁰ Philip Armstrong, Andrew Glyn and Bob Sutcliffe, *Capitalism Since World War II* (London: Fontana, 1984).

⁸¹ Stephen Marglin and Amit Bhaduri, "Profit Squeeze and Keynesian Theory," in *The Golden Age of Capitalism – Reinterpreting the Postwar Experience*, ed. Stephen A. Marglin and Juliet B. Schor (Oxford: Oxford University Press, 1991), 153–185.

⁸² Przeworski, "Capitalism and Social Democracy," 209.

The Dynamics of the Four Episodes

Our historical-theoretical analysis of the four different episodes of sovereign fiscalism has shed light on how states, in order to viably govern the economy, have to align the specific mode of fiscal state-crafting with the ethos of the underlying socio-cultural and political state-citizen relationship.

- Although every state is obliged to cater to the mentalité of its subjects/citizens, this necessity varies immensely throughout the historical episodes. Moreover, while states do not create the ethos, they may shape it (e.g. through the awakening of individual appetites or appeals to economic patriotism).
- Throughout the episodes traced in this article, states have systematically appealed to necessity and civic duties in order to mobilize their subjects/citizens for fiscal purposes (e.g. during military or economic/consumption crises).
- We see a clear trend towards an increasing scope and sophistication of the “art of reasoning by numbers”.⁸³ Starting with the Italian city-states, new techniques, styles, and instruments have been added to the repertoire of states’ budgetary-fiscal systems through fiscal emulation.
- Overall, the historical episodes reveal an increasing degree of fiscal intrusiveness – that is, an increasing fiscal mediation, interposition, or intervention in the daily lives of subjects, citizens, and consumers.
- We can observe an increasing fiscal infatuation with the consumption patterns of everyday consumer-citizens, which historically correlates with the changing status of citizenship and the varying necessity of assimilating the ethos of the state-citizen nexus.

Next, we shall use this analytical scheme to frame and diagnose the main properties of the 2008 crisis event and the larger post-1970s fiscal conditions underpinning it. Thus, we shall ask ourselves the following question: what are the socio-historical conditions of possibility of the regime of “privatized Keynesianism”? As we shall see, the post-1970s fiscal state-citizen alignment – our fifth episode – should be seen not only as the latest historical articulation of an age-old state-household dynamic in which citizens are actively drawn into the budgetary dynamics of a fiscal sovereign but also as special case of fiscal ungovernability. Privatized Keynesianism appears in a situation in which liberal-capitalist democratic polities, due to their heightened inability to directly govern the “sovereign” consumer-

⁸³ Charles Davenant, in his *Discourses on the Publick Revenues and on the Trade of England*, Part I ([London: James Knapton, 1698], 2), spoke of “Political Arithmetic”—a term developed by the political economist Sir William Petty—as “the art of reasoning by figures, upon things relating to government.”

citizens,⁸⁴ have to promote, or at least infrastructurally sustain, alternative means of synchronizing fiscal requirements with the behavior of the citizenry. In this way, our historical-theoretical framing throws light on the condition of post-1970s society, “so that the past becomes the gateway to an understanding of the present.”⁸⁵

The New Ungovernability of the Post-1970s

The recessionary period emerging with the so-called “stagflation” crisis of the 1970s did not actually foster “diminished expectations” on the part of households.⁸⁶ Instead, we witnessed a powerful stickiness of a certain historical manifestation of capitalism. As Tony Judt soberly points out: “[t]he depression of the 1970s seemed worse than it was because of the contrast with what had gone before (...) It was not the 1970s that were unusual so much as the ‘50s and ‘60s.”⁸⁷ The political-economic history of the post-1970s period reveals that governments, in various ways, at various speeds and with varying success, have attempted to promote new growth regimes capable of again sustaining high and expanding levels of production and consumption.

In the following, we shall first address the character and main sources of the breakdown of the postwar settlement. Second, the nature of the immediate 1980s recalibration of the postwar mode of fiscal state-crafting – what might be called the “Reagan response” – will be examined. Third, we shall outline the main features of the socio-cultural and political changes which have occurred since the late 1960s resulting in a new co-producing form of sovereign consumer-citizenship and market-based liberal democracy. Lastly, we shall address how this reconfigured state-citizen nexus has altered the conditions of fiscal state-crafting. Two distinctive governmental therapies have appeared particularly since the 1990s: (1) economic patriotism and (2) a regime of privatized Keynesianism.

⁸⁴ On the difficulty for “[d]eveloped capitalist industrial societies” of directly reconciling norms and functional behavior, see Offe, *Contradictions of the Welfare State*, 83.

⁸⁵ Krishan Kumar, “The Past in the Present: Mills, Tocqueville and the Necessity of History,” *Journal of Historical Sociology* 28, no. 3 (2014): 281.

⁸⁶ Compare this view with Judt, *Postwar*, 453-485.

⁸⁷ Judt, *Postwar*, 456-7.

The breakdown of the postwar settlement

Economic “malaise” ensued in the 1970s. Generally, the two oil shocks of 1973 and 1979 should best be perceived as triggers and not causes of the “stagflation crisis” of the 1970s.⁸⁸ Notably, a certain “wage moderation/high investment equilibrium” facilitated the dominant growth model of the postwar period: in a sense, wage restraint was traded for sustained or increased investments.⁸⁹ President Nixon initiated the collapse of the Bretton Woods System in 1971–1973. As plausibly argued by Eichengreen, the rise of capital mobility entailed that “inflationary expectations” no longer had a credible “anchor”.⁹⁰ This meant that “so long as inflationary bursts were only temporary, workers had limited incentive to demand compensatory wage increases. By anchoring expectations, the Bretton Woods System thus moderated the impact of demand stimulus on inflation and wages.”⁹¹ In other words, following Eichengreen’s argument, because a credible exchange-rate commitment could no longer be maintained, worry increased that inflation would persist and that, as a result, wage demands would be exacerbated.

While both the early increase in energy costs and the termination of the Bretton Woods system certainly increased wage demands, these two factors merely accelerated an already existing wage push. Already in 1968 – the symbolic starting point of the so-called “cultural movement” – under conditions of generalized full employment, labour militancy, and union power, wage inflation had started to expand.⁹² During the Golden Age period workers had come to internalize certain “firmly ingrained expectations of regular yearly wage increases.”⁹³ Moreover, governments, increasingly on the lookout for economic output legitimacy, were of course complicit in providing the institutional arrangements that facilitated both the newborn mass cultural and socio-psychological natural necessity of ever-rising economic growth and consumption and the increasingly unmanageable wage settlements. Here, inflation appeared as a salient strategy of “conflict pacification”.⁹⁴ From the late 1970s the notion that the economy was becoming increasingly ungovernable started to flourish. On July 15, 1979, President Jimmy Carter gave his infamous “Crisis of Confidence” speech, which approximated the basic conservative reading of the crisis at the time: society was disintegrating due to an explosive inflation in wants and rising expectations of what the state should

⁸⁸ Stephen A. Marglin and Juliet B. Schor, *The Golden Age of Capitalism – Reinterpreting the Postwar Experience* (New York: Oxford University Press, 1991).

⁸⁹ Barry J. Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond* (Princeton, NJ: Princeton University Press, 2008), e.g., 47–51; cf. Nicholas Crafts and Gianni Toniolo, “Aggregate Growth,” in *The Cambridge Economic History of Modern Europe: Volume 2, 1870 to the Present*, ed. Stephen Broadberry and Kevin H. O’Rourke (Cambridge: Cambridge University Press), 296–332.

⁹⁰ Eichengreen, *European Economy since 1945*, 220.

⁹¹ *Ibid.*, 49.

⁹² See also Streeck, “Crises of Democratic Capitalism.”

⁹³ *Ibid.*, 11.

⁹⁴ *Ibid.*, 10–12.

deliver.⁹⁵ Rather than pointing to a democratic impulse, the leftist side of the ungovernability debate saw claims on the state as being largely a function of consumer-capitalism's continuous production of insecurity and structural needs.⁹⁶ Arguably, both a democratic "ethos" of self-governance and anti-authoritarian aesthetics, on the one hand, and a socially stratificatory system of consumer capitalism, on the other, dialectically challenged governments' authority and capacity to reproduce their fiscal systems.⁹⁷ As a "fiscal crisis of the state" (where public expenditure systematically exceeds revenues), the stagflation crisis of the 1970s can be interpreted as the fiscal-budgetary representation of a breakdown of governability (where governing needs and expectations systematically exceeds governing capacity).

The Reagan response

At least symbolically, Ronald Reagan – together with a battery of other newly elected "hardline" European colleagues – ushered in a new philosophy of economic governance when he defeated Carter in the United States presidential election of 1980. Controlling inflation was high on Reagan's agenda. Already in 1979, under the Carter administration, interest rates were raised markedly – in what came to be known as Paul Volcker's initial "October massacre". While Volcker's policy of disinflation raised unemployment (resulting in a recession), inflation fell from an annual average of 13.5% in 1980 to 3.2% by 1983.⁹⁸ In the UK, Thatcher followed this policy of disinflation in the early 1980s, as would many other countries. As part of the "Reagan response" to the stagflation crisis of the 1970s, a new era of privatization and cross-national (especially financial) de-regulatory initiatives cultivating the market emerged in the early 1980s – with the US at the forefront of this process.⁹⁹ Paradoxically, Reagan's programmatic ideological plan to lower both taxes and public spending was not executed. Only taxes were lowered. Instead, despite political rhetoric suggesting otherwise, government expenditure shot up, markedly increasing deficit spending. Similarly, in Britain the "no state" rhetoric of Thatcherism did not actually entail a lowering of public expenditure.¹⁰⁰ Of course, that the dismantling of the public sector to some extent was merely apparent has to do with the ambiguous character of the terms "de-regulation" and "privatization". Irrespective of important national variations, as well as the distinction between the "roll-back neoliberalism" of the 1980s and the "roll-out

⁹⁵ See particularly Michel Crozier, Samuel P. Huntington and Joji Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission* (New York: New York University Press, 1975).

⁹⁶ O'Connor, "Fiscal Crisis of the State,"; Habermas, "Legitimation Crisis"; Offe, "Contradictions of the Welfare State".

⁹⁷ C.f. Daniel Bell, *The Cultural Contradictions of Capitalism* (Basic Books, 1978 [1976]); Offe, "Contradictions of the Welfare state," 164-8.

⁹⁸ Bureau of Labour Statistics (BLS), *Consumer Price Index History Table, CPI Detailed Report, table 24* (August 2013). <http://www.bls.gov/cpi/#data>

⁹⁹ Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, MA: Harvard University Press, 2011).

¹⁰⁰ See also Judt, "Postwar," 542-3.

neoliberalism” of the 1990s,¹⁰¹ post-1970s economic policy has been predominantly “re-regulatory” and “market-conforming”.¹⁰² Typically, freer markets entail more rules.¹⁰³

Situated within our larger historical-theoretical scheme, the recalibration of the postwar consensus around monetarism and new classical macroeconomics should be interpreted as an immediate 1980s response to the inherent problems of the fiscal state-citizen alignment of this episode: the postwar mode of fiscal state-crafting was no longer capable of viably managing the new conditions of the changing state-citizen nexus. But even though the new co-producing consumer-citizenship of our contemporary period was already underway (ultimately having roots in the 18th century), the Reagan response nonetheless facilitated the new post-1970s socio-cultural and political state-citizen nexus.

Market-based liberal democracy: co-producing consumer sovereignty as the “New Normal”

Already by the end of the 1960s noticeable shifts in the ideational and material constellation of democratic capitalism began to take place. One noticeable difference, dialectically ushered in by both the shift from mass production to so-called “flexible specialization” and the societal and intellectual “cultural turn”, is, in Wolfgang Streeck’s terms, a transformation “from sellers’ to buyers’ markets.”¹⁰⁴ Across the OECD, household consumption expenditure constitutes the largest component of GDP, with an average consumption share in GDP above 50 % since approximately World War II.¹⁰⁵ Arguably, the higher consumption-to-GDP ratios get, the more the socio-psychology of household behavior enters into the fiscal equations of the state.

The 1980s saw the introduction of new more flexible engineering and production techniques. This made it possible to cater to a more diversified, sovereign and capricious consumer population, which markedly intensified the logic of planned obsolescence.¹⁰⁶ Behind this supposed top-down shift was also a new ideological configuration based on self-development, expressive identities, creativity, anti-establishment culture, anti-bourgeois conformity

¹⁰¹ Jamie Peck and Adam Tickell, “Neoliberalizing space,” *Antipode* 34, no. 3 (2002): 380-404.

¹⁰² Phillip G. Cerny, “Paradoxes of the Competition State: the Dynamics of Political Globalization,” *Government and opposition* 32, no. 2 (1997): 251- 274; Wacquant, “Three steps to a historical anthropology of actually existing neoliberalism,”

¹⁰³ Steven K. Vogel, *Freer Markets, More Rules: Regulatory Reform in Advanced Countries* (Ithaca: Cornell University Press, 1996).

¹⁰⁴ Wolfgang Streeck, “Citizens as Costumers – Considerations on the New Politics of Consumption,” *New Left Review* 76 (2012): 28.

¹⁰⁵ OECD, “Household Consumption,” in *National Accounts at a Glance* (Paris: OECD Publishing, 2013), 40-43, http://dx.doi.org/10.1787/na_glance-2013-12-en; The World Bank, *Household final consumption expenditure (% of GDP)*, World DataBank.

¹⁰⁶ See also Richard Sennett, *The Culture of the New Capitalism* (New Haven & London: Yale University Press, 2006); Streeck “Citizens as Costumers”.

and so on.¹⁰⁷ Of course, the process of deindustrialization also played a role. Since the late 1960s the manufacturing economies of the US and Western Europe had diminished and by the 1970s governments and citizens faced the rise of the service economy.¹⁰⁸ Arguably, this change in the nature of employment and production also changed citizens' relationship to work and their basic outlook on life – physical tasks became more elusive, the tangibility of commodities more vague, relationship with people more fluid. The liberalization of desires and the new societal craving for non-conformity and personal authenticity started to influence management literature and practices: in a supposedly more dialogical or voluntary manner, consumers are increasingly rendered “co-producers” of the products and current marketing revolves around letting the sovereign costumer tell the companies what it wishes for, helping them understand what new products will sell.¹⁰⁹

Typically, as Baudrillard would have it, companies' (still) mass-produced serial consumption objects become imbued with subjective qualities of distinction.¹¹⁰ As Sennett points out, drawing on Erving Goffman, some ads present “half-finished frames”, “which invite the consumer to participate by filling in the picture.”¹¹¹ Now, in this co-producing consumer-economy, where the sovereign consumer “holds the key”, both companies and governments have to actively engage with the de jure empowered and self-governing 2.0 consumer-citizen, allowing for some degree of “co-producership”.

This new condition of governing is premised on two causally co-evolving developments, which dialectically helped facilitate the creation of a market-based liberal democracy: first, in recent decades we have witnessed the ideological legitimacy of consumer capitalism and the view that the consumer can meaningfully be perceived as an economic voter.¹¹² Second, after the post-1989 “Great Consensus”,¹¹³ we see the effective rolling out of a more de-politicized and ideologically centrist competitive party democracy. Arguably, New Labour/the Third Way can be

¹⁰⁷ For empirical indications of this, see Ronald Inglehart, *Modernization and Postmodernization: Cultural, Economic, and Political Change in 43 Societies* (Princeton: Princeton University Press, 1997). See also Boltanski and Chiapello, “The New Spirit of Capitalism”.

¹⁰⁸ Crafts and Toniolo, “Aggregate Growth,” 316–17.

¹⁰⁹ See, e.g., the report Cognizant-Forbes, “Innovation Beyond the Four Walls: Breaking Down Innovation Barriers,” Cognizant, April 2012, 1–24. Here, companies are advised to “involve” their customers and initiate, e.g., “Co-Creation Labs” and “platforms to elicit and share ideas with consumers.” A good example of this would be Nike's ongoing online sales campaign NIKEiD (“Design Nike Shoes”).

¹¹⁰ Jean Baudrillard, *The Consumer Society* (London: Sage, 1998 [1970]).

¹¹¹ Sennett, *The Culture of the New Capitalism*, 148–9.

¹¹² Roger A. Dickinson and Mary L. Carsky, “The consumer as Economic Voter,” in *The Ethical Consumer*, Ed. Rob Harrison, Deirdre Shaw and Terry Newholm (London, England: SAGE, 2005), 25–36; Stefan Schwarzkopf, “The Political Theology of Consumer Sovereignty: Towards an Ontology of Consumer Society,” *Theory, Culture & Society* 28, no. 3 (2011): 106–129.

¹¹³ Francis Fukuyama, *The End of History and the Last Man* (London: Penguin, 1992); C.f. Samuel P. Huntington, “The Clash of Civilizations?,” *Foreign Affairs* 72, no. 3 (1993): 22–49; Slavoj Zizek, “The Spectre of Ideology,” in *Mapping Ideology*, ed. Slavoj Zizek (London: Verso, 1995): 1–34.

seen as an extreme example of “catch-allism” or the “cartel party”¹¹⁴ – or, more generally, a broader phenomenon of a rightward ideological tilting of classical social democracy within Western party systems.¹¹⁵ The new post-1990s politics of market-driven depoliticization and decreasing variation in ideological party-political platforms across the OECD, signals a general narrowing of both the room for political-ideological imagination and, using Claus Offe’s formulation, the institutionalized “articulation of conflict”.¹¹⁶ In this relation, the increasing focus on political consumerism signals that the power of economic voting surpasses the traditional “democratic chain of institutions”¹¹⁷ – political voice is most effectively exercised on the (class-biased) buyer’s market. More generally, the emergence of a co-producing market-based liberal democracy marks the new conditions of governing: self-governance has become a regulative axiom of social, political and economic relations.

Assimilating the New Normal: two governmental therapies

Now we shall examine two distinctive post-1970s therapies of economic governance that try to both assimilate the new co-producing market-based liberal democracy and overcome the breakdown/ungovernability of the postwar fiscal state-citizen alignment: economic patriotism and privatized Keynesianism.

Economic patriotism: a strategy of mobilization-control

In liberal-capitalist democracies, governments can directly interfere with neither the organizational authority of private producers nor the seemingly autonomous patterns and whims of the sovereign and unmanageable consumer-citizens.¹¹⁸ As we shall argue, governments seek to overcome this double-sided exclusion by finding alternative, or often complimentary, ways to indirectly promote economic growth. The principal ungovernability of democratic capitalism engenders a distinctive government program of “spontaneous” economic order: “market behaviour needs to be embedded into the ‘psycho-moral forces’ of society.”¹¹⁹

One of the increasingly prevailing (and symptomatic) strategies by which liberal-capitalist democratic polities seek to overcome the perceived ungovernability of the economy is to entice and mobilize their consumer-citizens

¹¹⁴ On the catch-all party, see Otto Kirchheimer, “The transformation of Western European Party Systems” in *Political Parties and Political Development*, ed. Joseph LaPalombara and Myron Weiner (Princeton, NJ: Princeton University Press, 1966), 177-199. On the cartel party, see Richard S. Katz and Peter Mair, “Changing Models of Party Organization and Party Democracy: The Emergence of the Cartel Party,” *Party politics* 1, no. 1 (1995): 5-28.

¹¹⁵ For empirical evidence of this, see Stephanie L. Mudge, “What’s Left of Leftism?: Neoliberal Politics in Western Party Systems, 1945-2004,” *Social Science History* 35, no. 3 (2011): 337-380.

¹¹⁶ Offe, *Contradictions of the Welfare State*, 167. On Third Way depoliticization, see Peter Burnham, “New Labour and the politics of depoliticisation,” *The British Journal of Politics & International Relations* 3, no. 2 (2011): 127-149.

¹¹⁷ Offe, *Contradictions of the Welfare State*, 168.

¹¹⁸ Claus Offe, “The Theory of the Capitalist State and the Problem of Policy Formation,” in *Stress and Contradiction in Modern Capitalism*, ed. Leon Lindberg (Lexington: D.C. Heath, 1975), 126-7.

¹¹⁹ Werner Bonefeld, “Adam Smith and Ordoliberalism: on the Political Form of Market Liberty,” *Review of International Studies* 39, no. 02 (2013): 248.

through a form of economic patriotism.¹²⁰ Economic patriotism can be understood as a particular form of state-crafting that seeks to mobilize households' moral and associational alignment to a given spatially enclosed state-form for fiscal purposes. Economic patriotism should not only be seen as a way to overcome shrinking national fiscal autonomy stemming from increased international economic integration.¹²¹ As a strategy of what may be termed mobilization-control, it can also be read symptomatically: governments try to overcome their inability to directly align the functional needs of the economy with the de jure sovereignty of both the producers of goods and the consumer-citizens by assimilating the ethos of the prevailing state-citizen nexus. Or, less defensively: it is simply an attempt at influencing the ethos of the state-citizen nexus in a fiscally-favorable direction. Complementing (re-)regulatory initiatives promoting various forms of increased competition, the state embodies a form of "libertarian paternalist" statehood, which, by appealing to extra-economic sentiments, tries to entice, mobilize, activate, or nudge the otherwise unmanageable consumer-citizens.¹²² A well-chosen contemporary example of economic patriotism would be President Obama's 20-page second-term campaign booklet entitled *The New Economic Patriotism – A Plan For Jobs & Middle-Class Security*, in which he makes the following plea (representative of this mode of government): "I'm asking the entire country to rally around a set of goals for our country – goals in manufacturing, energy, education, national security and the deficit".¹²³ This attempt to rally around a set of economic goals for a given country is also evident in China and Singapore where "family policies" of "household savings", "marriage encouragement" and "fertility controls" are very often embedded within an overall state discourse of economic patriotism.

Generally, as we have shown, history reveals national necessity as a salient method of fiscal mobilization. Whereas earlier appeals to necessity often referred to the urgent need for liquidity as part of military activity, in modern times it is often consumers who are being appealed to for help as part of promoting a larger national growth-oriented and consumption-inducing project. That said, as a form of fiscal state-crafting, we are advised to question the actual saliency and efficiency of the specific economic patriotism of the post-1970s. Arguably, economic patriotism is more effective during crises than during peace time or in economic booms or bubbles – and some fiscal duties, such as the raising of taxes, have historically been more easily appealed to. As a specific strategy of mobilization-control it is foremost symptomatic of an increasingly complex and ungovernable consumer-economy;

¹²⁰ For a decisive IPE-oriented account of the notion of economic patriotism, see Ben Clift and Cornelia Woll, "Economic Patriotism: Reinventing Control over Open Markets," *Journal of European Public Policy* 19, no. 3 (2012): 307-323.

¹²¹ *Ibid.*, 308.

¹²² For an influential and largely depoliticized account of nudging and "libertarian paternalism", see Cass R. Sunstein and Richard H. Thaler, *Nudge: Improving Decisions about Health, Wealth and Happiness* (New York, Penguin Books, 2009).

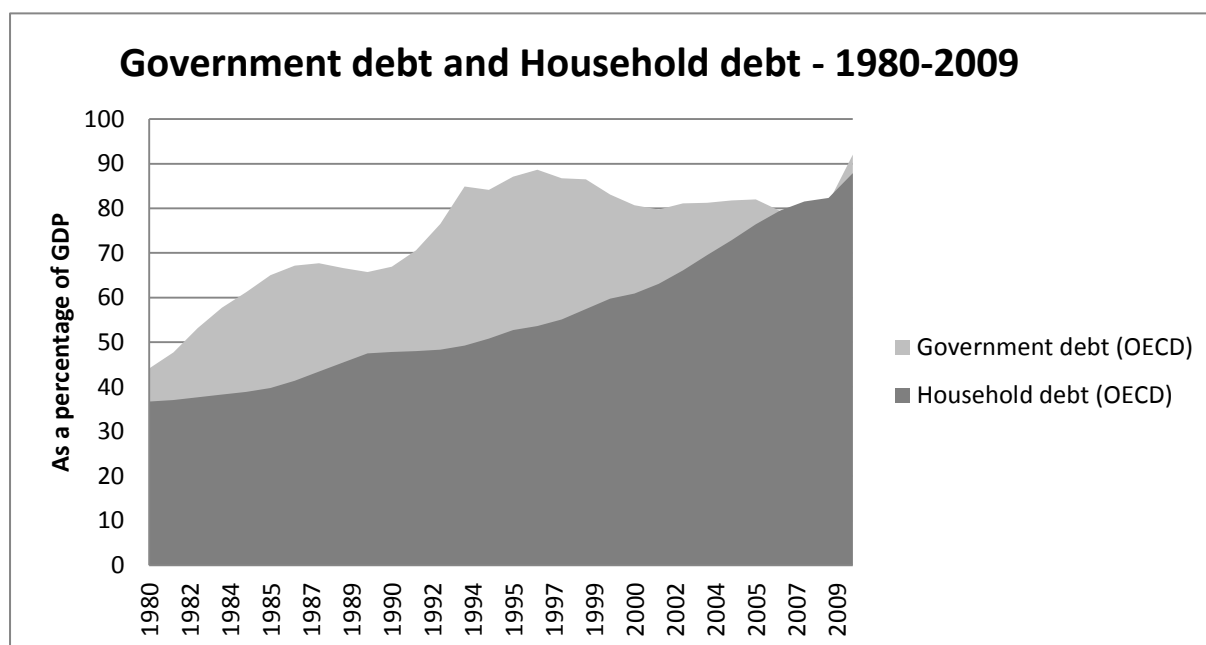
¹²³ *The New Economic Patriotism – A Plan For Jobs & Middle-Class Security* (Chicago, IL: Obama for America, 2012).

it is representative of a specific way of trying to align the increasingly unmanageable conditions of governing with the fiscal considerations of the state.

Private debt accumulation: re-regulation, mobilization-control and claim-reduction

As argued by Crouch, and later Streeck, governments in the 1990s increasingly began to promote and facilitate private debt-taking, particularly via mortgages, as a way of fiscally consolidating overburdened public budgets and indirectly reproducing the economy.¹²⁴ Clearly, citizen demand for credit has been rising, particularly in the period preceding the 2007 subprime crisis. Important exceptions such as Germany and Japan notwithstanding, figure 2 below clearly shows the average rise in household indebtedness across the OECD since the 1980s. As figure 2 also shows, there is moreover empirical justification for the argument that rising private debt can be seen as part of a process of fiscal consolidation of public debt, as we can observe that across the OECD the relative importance of household debt vis-à-vis government debt has been rising, particularly since the late 1990s.¹²⁵ Arguably, private debt can be perceived as the glue of the dominant growth regime of the 2000s.

Figure 2. Household and government debt as a % of GDP in the OECD



Note. Based on author's calculations. Household debt refers to "household and NPISH, all liabilities". Government debt refers to "general government, all liabilities". Numbers are calculated as an annual simple average for 18 OECD countries: The United States,

¹²⁴ Crouch, "Privatized Keynesianism"; Streeck "Crises of Democratic Capitalism".

¹²⁵ See also for example Streeck, "Crises of Democratic Capitalism", 16-19.

Japan, Germany, United Kingdom, France, Italy, Canada, Australia, Austria, Belgium, Denmark, Finland, Greece, Netherlands, Norway, Portugal, Spain and Sweden.

Source: Based on data from Stephen G. Cecchetti, Madhusudan Mohanty and Fabrizio Zampolli, *the real effects of debt* working paper dataset, “work352_data” (March 11, 2015), distributed by the Bank for International Settlements.
<http://www.bis.org/publ/work352.htm>

Placed in the analytical context of this study we may perceive this state-facilitated private debt accumulation as a distinctive therapy for assimilating the post-1970s conditions of fiscal governing, which relies on a combination of three strategies.¹²⁶ First, the strategy of market-conforming re-regulation: we have witnessed the positive implementation of market-conforming re-regulatory pro-credit policies. At the international regulatory level, besides the legally-authorized development and expansion of over-the-counter (OTC) financial products, there is general agreement that particularly the Basel II banking supervision reform helped introduce an overall market-conforming financial infrastructure.¹²⁷ While the authoritative relationship between states and central banks is notoriously ambiguous, it is a mainstream insight that the pre-crisis low interest rate policy critically underpinned the 2008 financial crisis.

Looking at individual country cases, various nationally-specific market-facilitating policies were launched aiming at promoting consumer debt-taking and homeownership particularly focused on including financially excluded segments of society. For example, in the US we saw the key amendments made to the US’s Community Reinvestment Act or the Clinton-signed Commodity Futures Modernizations Act. One could also point to Fannie Mae and Freddie Mac. In the UK, throughout the 1980s, rent control policies weakened and Thatcher’s “right-to-buy policy” kicked in. During the 1990s and the 2000s, New Labour launched a series of initiatives to encourage home-ownership and a more general financial outlook on welfare services.¹²⁸ In Denmark, with regards to mortgage-related household credit and the general housing bubble, a series of government-mandated changes could be mentioned: a tax freeze/ceiling on property in 2002; the appearance of new mortgage loan types such as “interest-only” loans (*afdragsfrie realkreditlån*) in 2003; the liberalization of the so-called cooperative housing associations (*Andelsforeninger*); a generally expansive and cyclically accommodative fiscal policy during the

¹²⁶ Compare these strategies with those described in Offe, “Contradictions of the Welfare State”, 69-73.

¹²⁷ For example, Geoffrey R. D. Underhill and Xiaoke Zhang, “Setting the rules: private power, political underpinnings, and legitimacy in global monetary and financial governance,” *International Affairs* 84, no. 3 (2008): 535-554.

¹²⁸ Watson, “House Price Keynesianism”.

2000s.¹²⁹ Decisive liberalization and new mortgage products and services also appeared, in variegated forms, in countries such as Spain, the Netherlands and Ireland.¹³⁰

Second, a heterogeneous strategy of pro-credit normative mobilization-control has been adopted: through various practices governments have tried to mobilize and encourage a financialized citizenry and, specifically, ideologically promote consumer- and household debt-taking, seeking to further intensify a marketization of social relations – appeals to economic patriotism being but a small (and possibly relatively futile) fraction of these.¹³¹ With regards to the case of privatized Keynesianism, the relevant indirect state-facilitated practices of mobilization-control involve such things as homeownership encouragement promoted through reports and informational campaigns; the early fostering of a spirit of “entrepreneurship” as part of the national educational agenda, official normative condonement – on the part of high-ranking politicians and particularly finance ministers – of a growth- and consumption-maximizing regime as well as systematic appeals to the consumer-citizens to use their credit cards to help the economy, and so on. This form of indirect mobilization-control – arranged and structured functionally, that is, not necessarily through an overarching strategy but rather through an organic and loosely coupled network of rhetorical campaigns and institutional configurations – of course relies on, and seeks to further intensify, an already existing marketization of social relations. Such indirect governmental maneuvers seek to align and synchronize the normative principles of self-governing individual market action with the functional “needs” of the fiscal system.

The surge in private debt accumulation since the 1990s has also been part of a third strategy not focused on offloading growth maximization to the co-producing and self-governing citizenry, but on reducing claims on the state and lowering its governing needs and expectations (that is, claim-reduction). In this relation, scholars have linked the observed rise in income inequality in the US since the 1970/80s with the rise in household indebtedness.¹³² Here, well-documented rising income inequality is seen as a main independent variable driving the

¹²⁹ For a government-sanctioned report on this, see Jesper Rangvid et al. *Den finansielle krise i Danmark: Årsager, konsekvenser og læring*. Erhvervs-og Vækstministeriet, 2013.

¹³⁰ For example, David Miles and Vladimir Pilonca, “Financial innovation and European housing and mortgage markets,” *Oxford Review of Economic Policy* 24, no. 1 (2008): 145-175; Jan Rouwendal, “Mortgage interest deductibility and homeownership in the Netherlands,” *Journal of Housing and the Built Environment* 22, no. 4 (2007): 369-382; Nicola Doyle, Housing Finance Developments in Ireland. Dublin: Central Bank and Financial Services Authority of Ireland, Quarterly Bulletin 04, October 2009; European Central Bank, *Housing Finance in the Euro Area*, Task Force of the Monetary Policy Committee of the European System of Central Banks, Occasional Paper no. 101, March 2010. URL: <https://www.ecb.europa.eu/pub/pdf/scpops/ecbocp101.pdf>

¹³¹ Although it tends to downplay the state-crafting logic underpinning this process, an increasingly large literature exists that corroborates the claim that we have witnessed a cultural penetration of “financialized” markets into the “daily life” of ordinary households. See, for example, Bauman, *Liquid Modernity*; Martin, *Financialization of daily life*; Langley, *The Uncertain Subjects of Anglo-American Financialisation*; Lazzarato, *The Making of the Indebted Man*; Verhaeghe, *What about Me?*

¹³² See particularly Barba and Pivetti, “Rising Household Debt”; Guttman and Plihon, “Consumer debt and financial fragility”; Rajan, “*How Hidden Fractures Still Threaten the World Economy*”. On rising inequality across the OECD, see for example OECD, “*Growing Unequal?*”; OECD, “*Divided We Stand*”; Piketty, “*Capital in the Twenty-first Century*”.

expansion of household credit through smoothening consumption. This inequality driver can then be linked to the 2008 financial crisis where, against the background of low interest rates, this demand for credit amongst particularly lower- and middle-income strata sparked the construction of a property-related debt-facilitated economy. By providing a privatized temporary palliative to the largely market-driven externalities of socio-economic inequality, debt-taking offered the political-administrative system, at least in the US, a way to outsource the “modalities” of conflicts and tensions “into extra-political ‘market’ domains”.¹³³ Through the socialization of debt implied by privatized Keynesianism, society is increasingly confronted with “individualized institutional situations” and we may say that “how one lives becomes the biographical solution to systemic contradictions.”¹³⁴

When looking across the OECD polities, we may supplement this US-focused inequality-debt explanation by also invoking the effect of consumption-oriented economic growth itself. Importantly, logically built into the growth obligation, which became institutionally consolidated and generalized after WWII in the form of the GDP measure, is the requirement that productive wants and desires cannot be wholly fulfilled, since economic growth intrinsically relies on the creation of new claims that ensure the reproduction of the system.¹³⁵ Thus, even without the effect of income inequality, the downward sticky logic of consumerism¹³⁶ and economic growth may well have engendered a rise in credit-taking on its own. In this perspective, income inequality in the US accelerated the existing and more markedly cross-country process of household indebtedness rather than produced it. Focusing solely on income inequality thus overlooks the generalized historical penetration of market relations and awakening of private appetites.

The evolution of debt-taking exposes an important historical parallel between the citizen creditors of the Italian city-states and the citizen debtors of the dominant pre-2008 debt-facilitated consumer-oriented growth regime: in both cases citizens were actively drawn into states’ cycles of fiscal reproduction through debt. Although both then and recently citizens can be said to have done their civic duties, marked differences appear. In the city-states, fiscal activities were largely financed through sovereign debt liquidized through a bond market system upheld in large part by powerful oligarchical citizens/households and wealthy families with political ties, acting as creditors of their state. In contrast, in our recent period, broad segments of lower- and middle-income households acted as

¹³³ Offe, “Contradictions of the Welfare State,” 71.

¹³⁴ Ulrich Beck, *Risk Society: Towards a New Modernity* (London: Sage Publications, 1992 [1986]), 137.

¹³⁵ See also Fred Hirsch, *The Social Limits to Growth* (London: Routledge, 2005 [1977]).

¹³⁶ On this, see Attilio Trezzina, “The Irreversibility of Consumption as a Source of Endogenous Demand-driven Economic Growth,” *Review of Political Economy* 23, no. 4 (2011): 537-556.

citizen debtors. In other words, the historical parallel renders visible a general democratization of debt-taking as part of fundamental transformations in the underlying state-citizen nexus that have occurred since the Middle Ages.

Although different in content, scope and societal ramifications, the two strategies of mobilization-control and claim-reduction have both been instituted as ways to align the mode of fiscal state-crafting with the new ethos of the state-citizen nexus – that is, as both symptomatic ways of assimilating and concrete ways of overcoming, within the prevailing mode of fiscal state-crafting, the new conditions of governing. Clearly, as also addressed, the two strategies do not exhaust the mode of fiscal state-crafting of the post-1970s: they are first of all underpinned by a general practice of market-conforming re-regulation.

The post-1970s alignment: tracing its socio-historical conditions of possibility

We can situate the crisis event within the following overall chain of historical processes. The state-facilitated awakening of economic appetites and public privileges triggered not simply a juridical-institutional separation of the state from the economy but also a ratchet effect: a demand inflation manifested in a possibly irreversible reconfiguration of the social consumption norms and cultural and socio-psychological expectation of ever-increasing growth.¹³⁷ While spawned in the 18th century, the stickiness of the Golden Age period of unprecedented growth served to intensify the relative power of consumption. The new wants and desires of the populace, the increasing needs, expectations, and ambitions of governing had by the late 1960s systematically come to exceed the fiscal capacity of governments.

This demand inflation, which culminated in the stagflation crisis of the 1970s, sowed the seeds of the gradually emerging post-1970s co-producing market-based liberal democracy, which further reconfigured the basic conditions of governing. While it was during the Golden Age period that a socio-psychological expectation and institutional naturalization of an ever-persisting growth- and consumption-maximizing regime consolidated itself, during the post-1970s it markedly intensified. This new state-citizen nexus, and the legitimacy order underpinning it, signals a relative historical shift from input to output legitimacy – that is, an increasing focus on governments' abilities to secure expanded economic growth (or competitiveness) and future consumption possibilities.¹³⁸ The coming into existence of the specific dominant debt-facilitated growth regime of the 2000s presupposed not only a long and possibly irreversible post-18th century awakening of societal demands, but also the dialectical conjunction

¹³⁷ On the consumption dimension, see Trezzina, "The Irreversibility of Consumption"; on the growth dimension, see Hirsch, "*The Social Limits to Growth*"; Allon and Redden, "The Global Financial Crisis".

¹³⁸ On the input/output terminology, see notably Fritz Scharpf, *Governing in Europe: Effective and Democratic?* (Oxford: Oxford University Press, 1999); See also Cerny, "Paradoxes of the competition state"; Wendy Brown, *Edgework: Critical Essays on Knowledge and Politics* (Princeton: Princeton University Press, 2005), 41-2.

of three distinctively post-1970s strategies of fiscal governance: on the one hand, market-conforming re-regulatory practices and, on the other, the two strategies of mobilization-control and claim-reduction. These latter two both assimilated the ethos of the state-citizen nexus and served as functionally equivalent solutions to the new conditions of governing and the crisis of governability of the 1970s.

Our analysis of the 2008 crisis has pointed to the historical particularity of the regime of privatized Keynesianism as a form of sovereign fiscalism: through the democratization of debt, conflictual fiscal requirements within the state are privatized to the consumer-citizens and internalized within the organic modalities of day-to-day social action. Moreover, privatized Keynesianism is illustrative of the limits of post-1970s state-crafting: instead of directly regulating organically patterned sovereign consumer-citizen relations and thereby automatically synchronizing social behavior with the given fiscal requirements,¹³⁹ states are instead obliged to displace certain expenditure-heavy activities, normatively mobilize the consumer-citizens or re-regulate certain policy areas in ways that indirectly coordinate behavior and fiscal objectives.

The importance of this inability to govern expectations/behavior in a direct way should not be underestimated. Firstly, it introduces a heightened institutional fiscal attentiveness to the day-to-day affairs of the consumer-citizens. Secondly, most advanced post-1970s state-directed changes take place in a Churchill-like indirect manner, in which “we shape our buildings, and afterwards our buildings shape us”. Despite certain regulatory and normative pressure – whether direct or indirect, or systematically launched by states or not – an overwhelming part of social change takes place in an endogenous, long-term and organically functional manner.¹⁴⁰ In an abstract sense, liberal-capitalist democratic polities are mostly able to indirectly steer attitudes through, to approximate Hanna Arendt, a cultivation of an “atomization” of society, that is, a form of government *by* (competitive) reification.¹⁴¹ Importantly, this does not have to imply an unreasonable amount of strategic consciousness on the part of state planners. Generally, the state’s main role as indirect organizer of social activity in a liberal-capitalist context simply consists in setting and managing the parameters of an overall fiscal framework – that is, promoting behavioral adherence to, and securing the general viability of, a growth- and consumption-maximizing regime.

¹³⁹ On the difficulty of this, see Offe, *Contradictions of the Welfare State*, 83.

¹⁴⁰ For early arguments along this line, see Albert O. Hirschman, *Shifting Involvements: Private Interest and Public Action* (1982; Princeton, NJ: Princeton University Press, 2002).

¹⁴¹ Hanna Arendt, *The Origins of Totalitarianism* (San Diego: Harcourt Brace and Company, 1973 [1951]).

Conclusion

This article has tried to diagnose the main socio-historical properties of the 2008 crisis by situating it within a broader historical context of shifting fiscal state-citizen alignments. Our analysis of the different episodes of sovereign fiscalism has shed light on how states, in order to viably govern the economy, have to align the specific mode of fiscal state-crafting with the ethos of the underlying socio-cultural and political state-citizen relationship.

The framework developed/utilized in this article seeks to productively synthesize both bottom-up and top-down driven approaches to fiscal organization. This article has not only emphasized the dialectical relationship between these two forces, but argued that the very nexus between the two – the varying fiscal state-citizen alignment – is absolutely integral to the dynamics of politico-economic organization. Importantly, the particular historical-theoretical approach of this article helps illuminate the socio-historical conditions of possibility of the 2008 financial crisis – the both legitimacy and fiscal-institutional contextual factors that together made our crisis event possible. The OECD-wide debt-fueled consumer-oriented growth regime of the 2000s, which critically precipitated the crisis, can be perceived as the latest historical articulation of an age-old state-household dynamic in which subjects/citizens are actively drawn into the budgetary cycle of a fiscal sovereign – a process that can be traced back to at least the city-states of the Italian Middle Ages and Renaissance. The increasing fiscal infatuation with the “organic” patterns of ordinary citizens implies a rising causal saliency of the bottom-up forces relative to the top-down dimension – that is, an increasing necessity of alignment with the prevailing normative justificatory order. Our crisis event, and the larger post-1970s fiscal state-citizen alignment, may thus be interpreted as the result of having to increasingly fiscally govern the consumer-citizens in a particular indirect and infrastructural bottom-up driven liberal-democratic way.

Importantly, our re-reading of the crisis leads us to reject or at least to compliment popular narratives mainly targeting the financial sector.¹⁴² We have argued that post-1970s fiscal state-crafting has relied on a more self-legitimizing mode of state accumulation¹⁴³ – that is, contrary to the perception of many “neo-Keynesians”, the so-called neoliberal turn has had a mass basis. This article shifts the focus away from simply top-down or bottom-up factors: it emphasizes how the dialectical interplay between these two properties of sovereign fiscalism has been

¹⁴² See also Allon and Redden, “The Global Financial Crisis”.

¹⁴³ See also Cerny, “Paradoxes of the Competition State”; Brown, *Edgework*, 41-2, 143 fn. 6.

constitutive of the crisis event. Specifically, this article has brought nuance to the interconnecting fiscal relationship between top-down and bottom-up forces by stressing both the historically varying and historically increasing necessity for states and private actors of fiscally translating and institutionalizing the socio-structural and normative/legitimatory status of the citizenry.

Two broader analytical implications seem to follow from this analysis. Firstly, going against a naïve conception of neoliberalism as entailing a weak/deregulated state we have systematically emphasized the historical continuity of state accumulation. Rather than dispensing with the power and autonomy of the state, we should perceive it as employing historically varying modes of state-crafting.¹⁴⁴ Secondly, and lastly, the analysis has implications for how to think about political strategizing. More than anything, the crisis of 2008 is a crisis of a “consumer age”¹⁴⁵ – of course, with the Anglophone polities (particularly the US and the UK) strongly leading the way. In this sense, returning to the dominant growth regime of the 2000s would entail a return to an unsustainable debt-facilitated consumption-bubble. This article should make us doubt the viability of the “neo-Keynesian” nostalgia for the postwar period of democratic capitalism, which overlooks the important expansionary logic of economic growth and consumption and the state-facilitated penetration of market relations that were consolidated during the long economic boom.

¹⁴⁴ See, for example, Mann, “The Autonomous Power of the State”, 54-6.

¹⁴⁵ Barry Z. Cynamon and Steven M Fazzari (2008) “Household Debt in the Consumer Age: Source of Growth—Risk of Collapse,” *Capitalism and Society* 3, no. 2, article 3 (2008): 1-30.