workers with tax-favored dollars, those insurers develop a stake in tax expenditures. Employers themselves benefit because tax breaks for health and pension benefits help their companies attract and keep skilled workers, and may reduce demand for higher wages. The EITC picks up support from the National Restaurant Association and the American Hotel and Motel Association, whose members employ many low-wage workers. For these companies, the EITC acts like a wage subsidy, paid by taxpayers (Geewax 2005; Howard 1997; Pierce 2005).

Taken together, all four chapters in this section prove that political and economic elites have been central to tax policy in the United States since at least the 1930s. The bigger change has been in the role of ordinary citizens. Compared to the middle of the twentieth century, the public pays more attention to taxation, and elected officials care more about what the public thinks (Campbell, Chapter 3). The politics of taxation is no longer limited to the rich and powerful; it involves the entire population, with special attention to those who are politically active.

**PART TWO. TAXPAYER CONSENT**

6 The Politics of Demanding Sacrifice: Applying Insights from Fiscal Sociology to the Study of AIDS Policy and State Capacity

Evan S. Lieberman

**INTRODUCTION: INSIGHTS FROM THE TAX STATE**

Joseph Schumpeter's stirring conclusion in a 1918 text, that "the spirit of a people, its cultural level, its social structure, the deeds its policy may prepare - all this and more is written in its fiscal history," serves as a mantra for a large body of fiscal sociological scholarship. However, the statement is, of course, hyperbole. Even the most ardent student of fiscal history could not read, as if off a tarot card, all of a state's or a society's actions or the content of its culture from its fiscal system. Among other reasons, this is true because the development of tax systems are largely path-dependent processes - once developed, they are resistant to significant change, even when the initial conditions that produced those outcomes no longer exist. And although the extent of citizen consent or resistance to fiscal demands from the state likely to indicate a state's overall authority, the challenges of taxing are distinct and independent from other aspects of governing. This chapter seeks to understand the extent to which insights gleaned from fiscal sociological analyses can provide theoretical and empirical guidance for explaining the development of other state capacities requiring a substantial degree of citizen compliance and consent.

There is prima facie evidence to suggest that the study of taxation may provide only limited insights into the rise of other state powers. Specifically, many states that tax well do other things poorly, and vice versa. Indeed, the motivation for comparing the development of taxation capacity to other state capacities in this chapter was generated from seeming contradictions in the body of my own scholarly work. One research project investigated the rise of the tax state primarily in the cases of Brazil and South Africa (Lieberman 2001, 2003), and another focused on government responses to the human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) pandemic (Gauri and Lieberman 2006; Lieberman 2009). Retrospectively, one can find a reversal of outcomes across the two studies: Although South Africa's tax state was found to be far more

1 See Campbell 1993 for an excellent review of an earlier generation of scholarship.
2 Thanks to Deborah Nash and Nancy Bermeo for pushing me to explicitly account for these seeming contradictions. However, the motivation for the study also forces me to be shamelessly self-referential in the text, for which I apologize in advance.
progressive and efficient than Brazil’s, Brazil developed one of the most impressive and aggressive responses to AIDS in the world, whereas South Africa became known for its lagard and backward approach to the epidemic. If a country’s tax system is such a good indicator of state capacity and authority, why would these sets of capacities develop in such different ways across the two countries? Compounding the puzzle, both studies identified social boundaries as a central explanatory variable, highlighting the effects of the two countries’ quite distinctive approaches to racial heterogeneity.

I use the specific puzzle of these contrasting findings to answer the larger question of the potential for fiscal sociology to serve as a general foundation for exploring the origins of consent. It is organized into three sections: First, I specify a basic typology for theorizing about the state: Both taxation and AIDS policy share a demand for sacrifice from citizens, as distinct from many other types of policies. The state’s ability to elicit sacrifice is a distinctive set of capacities from those related purely to service delivery or disbursement. Second, I identify a set of factors that shape the likelihood of sacrifice based on prior research on the tax state. Specifically, I focus on the effects of political communities and the boundaries of social identities. Third, I present a brief meta-analysis of studies relating social boundaries to taxation and AIDS capacities in Brazil and South Africa, which allows me to identify more nuanced conclusions about the social and political determinants of state development.

I do not attempt to provide a single or complete explanation for the relative successes and structures of modern states. And yet, fiscal sociology, as envisioned by Schumpeter and as expressed by the various chapters contained in this volume, does provide some foundational insights. For example, some leading assumptions about the nature of state behavior are clearly incomplete: Coercion or predation alone cannot account for the relative success in overcoming the free rider and collective action problems of gaining consent; successful states require a strong degree of quasi-voluntary compliance from citizens (Levi 1988). Moreover, citizens ought not to be conceived purely as utility-maximizing individuals making self-interested calculations, but as members of social groups affected by the psychosocial motivations of group-based competition. Rather than conceiving of fiscal relations as akin to a set of market transactions, fiscal sociology suggests we ought to study the rise of the state in terms of social relations. Information, preferences, and strategies are all constrained by the nature of social ties and divides. In turn, these affect the content of what political philosophers refer to as the “social contract” that is negotiated between the state and society.

UNPACKING STATE AUTHORITY: DISBURSEMENTS AND SACRIFICES

Scholars of comparative politics have long pursued the Weberian agenda to understand the rise of the modern state, including questions about state efficacy, and the sources of success and failure in broadcasting and maintaining authority over large numbers of people. And although a variety of bureaucratic functions and indicators of state capacity have been examined, arguably the most illuminating approach has been the study of taxation, or the rise of the “tax state.” Building on the foundational observations of fiscal sociologists Joseph Schumpeter and Rudolph Goldscheid, more recent scholarship has taken on the challenge of explaining differences in levels and structures of taxation (Chaudhry 1997; Cheibub 1998; Herbst 2000; Ross 2004; Kato 2003; Brownlee 1996a; Campbell and Allen 1994; Levi 1988; Steinmo 1993; Lieberman 2003; Kasara 2007), patterns of avoidance and evasion (Slemrod 1992; Lieberman 2002b; Feldstad 2006), and the allocation of tax capacities across levels of government in federal or partially decentralized policies (Treisman 1999; Choi 2006).

Fiscal sociologists argue that when a government can convert private resources into public ones, it has demonstrated substantial power within its territory, providing a basis for further exploration. In this volume, for example, Kiser and Sacks (Chapter 11) pose larger questions about the relative weakness of African states to broadcast their authority in terms of tax capacities, and they generate testable hypotheses about the role of agents and monitoring costs. Einhorn (Chapter 9) explains the relative capacity of American states to tax as a function of the scope of two institutions: democratic government and slavery. These studies pose deep questions about the rise of governments, and because tax policies and collections can be measured with some precision, they are posed in a manner that is amenable to social science analysis, reflecting the promise of fiscal sociology more broadly.

To what extent can insights from these studies be extended? To answer this question, we must identify a relevant theoretical descriptor that could encompass a broader range of activities than just taxation. Increasingly, government bureaucrats and global governance authorities such as the World Bank have been describing and measuring virtually all aspects of state action in terms of service delivery, assessing performance in terms of the degree to which key tasks are completed. Such an approach might suggest that collecting taxes is no different from removing refuse or paying out Social Security benefits. Ironically, some modern tax collection agencies have begun to refer to taxpayers as “clients,” suggesting that the agency is providing a “service.” Yet such rhetoric cannot hide the fundamental tension implied by efforts to tax: collectors aim to extract money from individuals and private entities and those agencies provide nothing of value in return. Tax collectors have the unpleasant task of asking people to do something that they inherently do not want to do. Tax agencies may advertise the benefits governments provide, but for the most part, such goods and services are wholly beyond the control of the taxing authority. This is the crux of disaggregating state power: Specifically, we can think of a great many government policies as being of one of two types: disbursements and sacrifices.

Disbursements are transfers of public resources into goods and services that citizens almost universally want. In most cases, disbursements can be understood as

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3 This is far from an exhaustive typology. For example, many government policies involve procedural issues about policy making and conflict resolution. My goal here is simply to distinguish sacrifice policies from their obvious counterparts.

4 Of course, certain sets of citizens will oppose the provision of such goods in particular circumstances, such as a major road next to one’s home, or cutting right through it, but even such individuals tend not to oppose roads in general.
primarily usable or consumable goods, such as roads, schools, water and sanitation systems, or unemployment insurance, but they can also be symbolic or informational goods, such as messages of national pride, or information about the value of education. They may be public goods or selective goods. Most people want to consume such goods most of the time, and at the very least, they almost never object to their provision (setting aside the issue of who pays). That does not mean everyone supports policies to provide them – in fact, proposed disbursements are routinely resisted for a variety of reasons, including concerns about available resources, and priorities. All else being equal, citizens and organized interests are likely to try to prod governments to provide the disbursements that they value the most. Disbursement policies primarily involve government giving, spending, or enabling citizens, and in the absence of budget constraints, we would expect governments to provide more and more of these. When state agents carry out these tasks as planned, their work is generally appreciated. Although competition over disbursements can be central to political life, the state's ability to provide these goods – holding constant available financial resources – says little about the nature of the state's authority or power over the citizenry.

By contrast, sacrifices are policies and practices that seek to convert private resources into public ones. Most notably, this is done through the payment of taxation. Scholarly interest in the state's ability to tax tends to be motivated either implicitly or explicitly by a prior assumption about human behavior – that under ordinary circumstances, individuals are unlikely to give up substantial portions of income or wealth without some guarantee of some direct benefit in return. And yet, demands for taxation are legally compulsory, made as unrequired payments to the state (World Bank 1988: 79). Moreover, there is often a substantial time lag between the collection of new resources and the public return in terms of how such resources are used, requiring substantial trust on the part of citizens that the state will use resources wisely and as promised (Ide and Steimmo, Chapter 7). Why would any citizen or group of citizens consent to paying? Indeed, responses to demands for taxation have varied widely across time and space; in some polities, income earned pay a full half of their annual income over to the state with little protest. In other places, people revolt. And in still others, they merely ignore the state's demands, or they remain completely unaware of the obligation in the first place.

Although taxation is the most consistent form of sacrifice demanded, it is not the only one. Other examples include military conscription and recruitment (Levi 1997), as well as policies that involve private restraint or behavior change that serve the public good, such as curtailment smoking, driving within speed limits, or restraining from colluding with competitors (antitrust laws). These may be directly economic/fiscal in nature, or behavioral/regulatory in nature. Sacrifice policies may involve cultural change, such as the learning of a new language, or the revelation of embarrassing facts in the sense that certain behaviors are identified as causing public harm. The state may demand sacrifices of individual privacy, liberty, or autonomy, with its requests for private information. Holding all else constant, sacrifices are intrinsically and initially desired by almost no one, and state leaders try to avoid their imposition. Nonetheless, they may be demanded or supported by those with faith in their consequences or understanding of their necessity for fiscal balance. Parents may willingly send their children off to war – possibly to make the so-called ultimate sacrifice – but presumably only because they believe the war is just. Citizens may willingly learn the dominant language because they believe it will provide long-term opportunities, but the near-term burdens of conformity are clearly a form of sacrifice.

Sacrifices may be reminiscent of costs and disbursements of benefits, but I avoid these terms because they imply a short-term and individual/consumer-based market logic that rarely holds true at the level of public policy. The sting of sacrifice is evident far before any benefits can be observed, and because many of the benefits are public goods, even those who have not sacrificed may consume what is provided. As a result, unlike in the case of market exchange, there exist cooperation and collective action problems particularly when sacrifices are initially demanded. The politics of making initial demands for sacrifice policies involves convincing large swaths of society or political elites within society that a significant new need truly exists, and that there is a moral or normative obligation to contribute to or to comply given one's status as member of a community. This is why the most revealing periods for analysis are during the policy making and original implementation stages, when information about the long-term effects of such policies for oneself and for society at large are still uncertain. I am not suggesting that delivery is irrelevant: In later stages of state-building, both the extent and the quality of goods and services provided are likely to influence the trajectory of policy making and compliance. Moreover, the state's monitoring and coercive powers may have a strong influence on levels of compliance. Nonetheless, during critical early periods when state leaders attempt to establish new functions, they require a substantial degree of societal consent that they can legitimately make such demands.3

AIDS POLICY AND TAXATION AS VARIETIES OF SACRIFICE

Ordinarily, AIDS policy and taxation are not immediately recognizable as similar types of policies. The former is more typically recognized as fitting within the domain of health policy, and the latter in public finance and economic policy. Taxation has been at the core of the modern state, whereas AIDS policies are only a recent invention in response to an epidemic that became visible in the early 1980s. Revenues generated from taxation may easily be used for a wide variety of purposes, whereas the fungibility of AIDS-related policies is limited to a more narrow range of public health concerns beyond this particular disease.4 However, as the basis for relationships between states and societies, AIDS policy and tax policy share important similarities in that at the core both involve significant

3 Levi 1988 introduces the critical idea of "quasi-voluntary" compliance, identifying the state's need for citizens to comply even beyond the threat of coercion. I extend this notion more generally to consent in order to capture citizen acceptance of policies demanding sacrifice.

4 I am grateful to the editors and an anonymous reviewer for making this point. However, the ultimate effects of AIDS policies on more general patterns of state-society relations remain to be seen. Where citizens have actively complied in such programs, the state may have new information and resources to influence family planning and sexual behaviors as well as new access to personal information about citizen health and the prevalence of disease.
demands for sacrifice. Both sets of policies aim, at least in part, to provide certain
types of public goods. (In this sense, public health policies designed to curb the
spread of infectious disease are quite distinct from policies that might pay for the
treatment of particular health conditions, such as heart disease.) Recognizing
similarities in the political challenges of AIDS policy as akin to taxation sheds
light on how and why these important capacities vary so widely across countries.
Major decisions about policy are rarely the product of some "pure" scientific or
technical justification, but a question of politics and political interpretations. As
stated in Chapter 1 and echoed throughout this volume, the extent of enacting
and implementing such policies has depended largely on deeper social structural
conditions.

Although it would be tempting to assume that everyone would want aggressive
AIDS policies to protect themselves from a deadly epidemic, widespread examples
of state and societal resistance to such policies demand further explanation. In
fact, most AIDS policies can easily be understood as involving significant
sacrifices (see Table 6.1). Because the predominant mode of transmission of HIV is

7 See Epstein 1996 on the characterization of AIDS policy as "impure science" in the United States.

8 Most recently, however, new scientific evidence has shown that exclusive breast-feeding reduces the
chance of HIV transmission more than the mix of formula-feeding and breast-feeding.

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<th>Table 6.1. Understanding the initiation of taxation and AIDS policies as forms of sacrifice</th>
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As part of the process of developing its capacities, states require a great deal of
information about citizens. In the case of taxation, states require information about
the extent of property, wealth, and financial flows; and in the case of HIV/AIDS,
they require information about the incidence and prevalence of infections within
society, as well as the prevalence of behaviors and social structures that affect the
likelihood of further transmissions. Both sets of information require that the state
closely monitor people within society, and members of society may not trust the
state to use such information for their benefit.

Both for taxation and for AIDS, the initial development of state capacities is
largely dependent upon the willing or voluntary acceptance of and compliance
with demands for sacrifice. Again, I do not believe that citizen inclinations to
comply with these types of government policies can be modeled through reliance
on a logic of consumer demand and supply. The fact that we may be able to find an
abundance of compliant taxpayers in places where government services are good,
or perceived to be good,\textsuperscript{9} or to find that AIDS prevention and treatment services are successful where people actively and openly highlight the threat of AIDS, are merely post hoc observations of the results of deeper social processes that required sacrifice prior to state action or the observable benefits of compliance.

The flip side of compliance is resistance, and states are more likely to develop strong capacities when they do not meet significant resistance to their claims to authority. Often, such resistance is not even expressed by constituents, because leaders make calculations about likely resistance based on their own knowledge of social and political dynamics. Citizens will willingly accept sacrifice only when they are convinced of its potential benefits or the moral rationale of the demand. They resent and resist such sacrifices if they believe they and the people they care about are unlikely to face such calamity. People will be particularly resentful if they believe that the very risk itself arises through the deliberate and avoidable actions of others, and it is not merely randomly produced. They will also resist sacrifice if they do not trust that the resources will be used as intended (Levi 1988, 1997; Braithwaite and Levi 1998).

Of course, citizen willingness to comply with state demands is not the only determinant of state efficacy because states, by definition, maintain a coercive apparatus. Although violence or threat of violence and incarceration are often effective tools for gaining compliance and are central pillars of authority (Weber 1968), coercion is costly and can be self-defeating in the case of taxation (Levi 1988: 50; Sheffrin and Triest 1992; Kinsey 1992) and has been increasingly discarded as a tool in the AIDS epidemic with most international authorities recommending noncoercive measures. Coercion in the form of quarantine continues to be used for certain modern public health concerns (such as severe acute respiratory syndrome [SARS]), but for HIV/AIDS, it has been considered impractical, particularly because most people do not present with symptoms until they have been infected for seven to ten years. There has been increasing international consensus that such quarantine would be both a human rights violation and ineffective as a policy strategy.\textsuperscript{10} Nonetheless, some coercive measures, including mandatory tests for entry and exit across national borders, as well as punishments for knowingly putting others at high risk of infection through sexual contact, remain widespread.

Thus, both taxation and AIDS policies promise uncertain future benefits that are likely to improve the collective welfare if cooperation and compliance are widespread. There are, however, key differences: Individuals who practice safe sex, for example, are likely to avoid infections, and HIV-positive individuals who begin drug treatment, are likely to enjoy a marked improvement in quality of life directly associated with their own actions that is not typical for individual taxpayers, for which there is no quid pro quo. Tax-evading citizens may be able to enjoy a free ride off other taxpayers, but HIV-positive individuals cannot take a free ride off someone else getting tested and taking pills. However, HIV-negative individuals could potentially get a free ride off the protective strategies of others—enjoying a largely infection-free environment without modifying behavior. And more generally, the prior steps in getting citizens to follow this logic, and to support (and not resist) incursions into their private lives require that they be willing to accept the fundamental narrative of the threat of HIV/AIDS. In this sense, it is similar to getting citizens to believe that war or a significant security threat is imminent. Indeed, as Feldman and Slemrod demonstrate in Chapter 8, war does help to increase the willingness to sacrifice on the part of citizens, helping to overcome the free rider problem posed by taxation.\textsuperscript{11} More generally, states require a plausible narrative to demand sacrifice, whether those demands are to accept the need for a massive AIDS campaign or to pay taxes.

\section*{Theorizing About the Determinants of Sacrifice: The Role of Boundaries}

What explains patterns of sacrifice? If, as I have argued, the political challenge of imposing a strong government AIDS program is truly similar to that associated with tax extraction—even if far from identical—there is good reason to believe that similar types of factors would influence the development of capacities across time and space. Several factors are likely to matter, including international trends and influences\textsuperscript{12} and the particular sets of resources available within a country at a moment in time. A central idea is that citizens are more likely to support demands for sacrifice when they perceive a strong duty to act associated with sentiments of duty or patriotism (Scholz and Pinney 1995; Levi 1997). Major expansions of state capacity tend to follow precipitating crises that motivate the demand for sacrifice. The classic statement of this argument is, of course, Tilly's (1975, 1992) notion that "wars make states," a notion that is empirically examined in Chapter 8 in the cross-country analysis of tax collections by Feldman and Slemrod.

However, the interpretation of the extent of threats, including war, and the associated appropriate level of sacrifice are not clear-cut, and this suggests we ought to investigate the bases of collective fear and concern. Even war— as is abundantly clear in the contemporary "war on terror"—is a social construction created out of the political manipulation of risk (Lastick 2006).

Although largely neglected by political scientists, scholars from other fields, including sociologists, anthropologists, and psychologists, have gone a long way toward demonstrating that perceptions of risk, and in turn the state's bargaining power to impose sacrifice, are socially constructed—the product of objective factors and their translation in the political arena. In a series of essays spanning several

\textsuperscript{9} See Lieberman (2002b), which demonstrates that the positive correlation between individual-level satisfaction with services and inclinations toward tax compliance in South Africa falls away once individual attitudes toward other race groups are incorporated in a statistical model.

\textsuperscript{10} The Cuban quarantine program was an obvious exception to the human rights/AIDS paradigm. That program was initiated extremely early in the epidemic, and Cuba now has the lowest rate of HIV infection in the western hemisphere. In response to international condemnation, the Cuban government discontinued this program but continues to have an extremely active and effective AIDS capacity.

\textsuperscript{11} See also Kiser and Linton 2001.

\textsuperscript{12} In the case of AIDS this is obvious, but there have always been global trends in taxation as well, including the widespread introduction of income taxes in the 1910s and 1920s and the diffusion of value-added taxes in the 1980s and 1990s.
decades, Mary Douglas has found that the public understands risks differently from experts, and it is a fallacy to think that public perception of risk is the sheer aggregation of actual dangers facing individuals in that society (Douglas 1992: 11, 40). Psychologists employing a range of experimental and survey methods have arrived at similar conclusions—that although danger may be real, risk is a far more complex sociopolitical construct (Slovic 1999; Slovic et al. 2004). In addition to rational calculations about risk, humans are likely to use heuristics of affect to make quick decisions about the riskiness of various options. The critical influence of emotion and feeling in developing perceptions of risk leave it open to political manipulation (Slovic et al. 2004). Influential members of society and polity may argue that the exact same objective dangers are small or large, concentrated or widespread, caused by random acts of nature or deliberate or immoral behavior on the part of particular actors. Presented with the exact same set of facts, two different actors may describe their understanding of the problem in completely different ways and take different actions.

So what shapes perceptions of risk or danger such that they would be induced to accept sacrifice? In prior work on the politics of taxation (Lieberman 2001a, 2003), I developed a set of theoretical propositions, which I called the model of identity and sacrifice. That model was primarily designed to account for differences in the state’s ability to collect taxes. More recently, as I have attempted to understand differences in patterns of government aggressiveness on AIDS, I have generalized this model to other forms of sacrifice. What I have found in both sets of research is that citizen willingness to accept sacrifice, which in turn allows a central government to exert its authority, depends heavily on the construction of social boundaries (Lamont and Molnar 2002; Tilly 2005: 7–9). Migdal (2004: 5) highlights that boundaries, “signify the point at which something becomes something else...at which ‘we’ end and ‘they’ begin.” In this sense, groupiness is contingent upon the existence of the formal and informal rules that help to sort out membership, providing guidelines about who is in and who is out. To be certain, such feelings of collective identity are malleable and may be shaped by the precipitating crises that motivate initial calls to sacrifice, but preexisting boundary institutions are still likely to shape the interpretation of objective dangers as posing significant risks or not.

In the earlier work on taxation, I highlighted the effects of exclusion within ethnically diverse societies characterized by high degrees of ethnic chauvinism. Exclusion of a proximate out-group helped to promote in-group cohesion, and this helped members of the in-group to view their fates as collectively pooled, and in turn, states found it easier to tax citizens of the in-group. Particularly in the early stages of developing a new state capacity, and contrary to a theory of predation, state leaders are not likely to exact disproportionate sacrifice from their political opponents, because they are most likely to resist. Rather, in times of crisis, particularly in early stages of state formation, they are most likely to make demands on their own supporters, for whom they may be able to convey credible messages of shared moral obligation and collective fate.

Based on this more limited application, and from other scholarship highlighting the relationship between boundaries of citizenship and state authority (Bendix 1964; Herbst 2000; Tilly 2005), there is good reason to hypothesize that the structure of social identities within a polity would be generally important for how citizens are likely to evaluate claims to sacrifice.13 People tend to lack good information about their own individual risk profiles and are likely to seek out information about new threats and policies as well as appropriate beliefs and civic behavior in terms of group membership.14 In this sense, the nature of intra-societal relations is critical for the state’s ability to command sacrifice. Put simply, the stronger the collective identity and the weaker the lines of internal division, the more likely it is that citizens will sacrifice as long as the benefits of that sacrifice can be credibly restricted to group members. Citizens are more willing to sacrifice when the benefits are easily perceived to go to “us.” This is quite distinct from a consumer model of behavior, because the costs and benefits are pooled, and the collective action problem is solved through a sense of moral obligation to group members. Social psychologists have consistently found that in the context of obvious in-group/out-group contrasts, group members will search for ways to improve the position and status of their group relative to the other (Tajfel and Turner 1986; Brown 2000).

In the case of AIDS, there are similarities as well as some important differences in the ways in which boundaries of social identity are likely to affect the development of state capacities. In the face of a looming epidemic, citizens should be more willing to accept the relevant demands for sacrifice when society is not clearly divided in terms of distinctive groups with differentiable risk profiles. That is, in homogeneous societies, and in heterogeneous societies where social boundaries are extremely weak or permeable, we ought to expect a citizenry that is more accepting of proposed policies. Under such conditions, reported infections within society are likely to be understood as potentially threatening to all of us, and official state demands for new sacrifices, including a recognition of the public health consequences of private acts, are likely to be considered credible. Alternatively, if a society is so divided, with strong internal boundaries, groups of citizens are likely to de-emphasize their own group’s problem: in the case of lower-prevalence groups, they are more likely to perceive themselves to be insulated through endogenous practices; and in the case of higher-prevalence groups, they are less likely to mobilize risk because the act of highlighting the problem may be perceived to bring shame to their own group.15 Strong ethnic boundaries, particularly when they fragment society into multiple groups, provide incentives for elites and citizens to resist HIV/AIDS policies, even when increasing levels of AIDS-related mortality

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13 A significant literature identifies the negative relationship between ethnic heterogeneity and public goods provision, including Easterly and Levine 1997; Alesina et al. 1999; Posner 2004. However, the mechanisms posited in those works generally apply for disbursements, in which it is assumed that preferences for particular goods vary across ethnic groups. In the case of sacrifice, all groups are likely to have intrinsic aversion to the policies, such that a better specified theoretical explanation is required.

14 Scholz and Pinney 1995: 291 refer to a “duty heuristic” that can be particularly important in low information environments.

15 An argument similar to that made in the context of African American responses to AIDS by Cohen 1999.
and morbidity and external pressures from the international community provide greater incentives to accept such sacrifices.

Central governments that attempt to act on HIV/AIDS in the context of strong and multiple ethnic boundaries may inspire ethnically based political conflicts. If governments opt to tailor their messages and policies to particular high-risk ethnic groups—the equivalent of a targeted tax—they may be seen as stigmatizing those groups, generating the types of resistance described earlier. If they opt for universal as opposed to targeted appeals, they may be challenged for being careless and insensitive to group differences or to needlessly wasting resources by addressing low-risk groups. In either case, the costs of action are likely to be higher than in societies where social boundaries are not particularly important.

To be certain, a wide range of other factors also affect the development of tax and AIDS capacities. For example, scholars have demonstrated that political institutions within well-developed democracies (Steinmo 1993; Steinmo and Tolbert 1998); the mobility of assets (Bates and Lien 1985); and political geography (Herbst 2000) have affected fiscal histories in distinctive ways. Research on the development of AIDS capacities is much less well developed, but of course there is good reason to believe that the quality of public health institutions, the size of the epidemic in neighboring countries, and other social and political factors influence state and societal responses. For both sets of capacities, domestic resources and international pressures are also important determinants of capacity.

THE DETERMINANTS OF TAXATION AND AIDS POLICY IN BRAZIL AND SOUTH AFRICA

Building upon the two central points made in the previous sections—that taxation and AIDS policy are both fundamentally questions of sacrifice, and that both are strongly affected by the composition of social boundaries and the associated notions of political community—it stands to reason that we would observe strong similarities between tax capacities and the nature of government responses to AIDS. In fact, this is not always the case, and the challenge of explaining why such capacities may diverge helps to further refine our understanding of the determinants of the state’s ability to elicit sacrifice, and particularly the effect of social boundaries on such outcomes. The general logic of boundary politics, in which groups attempt to promote solidarity and esteem relative to other relevant groups, holds across policy areas. However, the effects of that logic in the development of so-called weak or strong capacities are structured by the ways in which precipitating crises get understood in particular historical and policy contexts.

In this final section, I offer a brief meta-analysis of two studies exploring the determinants of these capacities in Brazil and South Africa. Although the findings of each study demonstrates the power of boundaries as a determinant of fundamental social processes and policy outcomes, together they challenge the robustness of general theoretical assertions about the negative effects of ethnic or social diversity on the development of the state or the overall provision of public goods.16

16 As is claimed by Easterly and Levine 1997, for example.
In the case of Brazil, following the end of race-based slavery at the end of the nineteenth century, the government opted against any race-based codification of citizenship in the development of its new republic, particularly as embodied in its 1891 Constitution. In subsequent generations, governments would attempt to minimize or even outlaw racial discrimination or codification of any kind. In fact, the government and various social and political leaders have at various times promoted marriage and sexual contact across the color bar, through a strategy of "whitening" (Skidmore 1995). Although skin color has continued to be strongly correlated with income and status, and there have always been observable forms of racism in twentieth-century Brazil, race has not been a significant basis for overt social or political organization in the country—certainly not to the degree found in South Africa (or the United States). In Brazil, racial boundaries have been very weak and permeable: dozens of different labels are used (Turra and Venturi 1995; Telles 2004), and depending on context, Brazilians will describe their racial identities in very different ways.

By contrast, in the case of South Africa, race became the basis for citizenship in the formation of its new republic at the conclusion of the Boer War, as codified in the country's 1909 constitutional document. A series of draconian acts and practices would restrict suffrage, office-holding, property ownership, movement, and sexual contact along racial lines. Of course, domestic and international challenges to apartheid would lead to the dismantling of that system, the first multiracial elections in 1994, and the development of new policies and practices to integrate the country. Nonetheless, racial categories have remained particularly important for politics and the functioning of the state as part of a more general process of redressing the past. Although identities are not completely fixed in South Africa, the four central racial identities of black/African, white/European, Colored (South Africa's "mixed" race category), and Asian/Indian have remained quite consistent throughout the twentieth century, and the boundaries that divide these groups are quite strong. Unlike in Brazil, where a person might describe his or her racial identity in several different ways within the course of a year, in South Africa, racial identities tend to be far stickier, with rare adjustments within a lifetime.

Because the detailed analyses and evidence are presented in the original studies, I will not fully repeat those here, but the central arguments about how boundaries affected state capacities each depended on the construction of risk and the obligations of sacrifice relative to other groups.

Tax State

The development of the tax state in Brazil and South Africa occurred largely during the interwar period of the twentieth century. Tax structures were developed as a function of the two states' relative abilities to enact and implement progressive income taxes.

In the case of South Africa, deliberate racial exclusion allowed whites, although previously divided along linguistic and class lines, to see their fate as shared, and in particular, for wealthy whites to recognize a moral and strategic obligation to import the lot of poorer whites, to be collectively distinguished from natives or black Africans. In the context of external pressures for new income taxes, particularly during the two world wars, upper class groups accepted high rates of taxation, they paid willingly, and the state collected very large shares of total revenues from this direct tax. Once this capacity was developed, even as the state would increasingly redistribute resources to the black population, particularly after the 1994 multiracial elections, white taxpayers were already "in the tax net," and they had little ability to avoid or evade their tax obligations without relatively easy detection. Early patterns of quasi-voluntary sacrifice cast a long shadow on the future.17

In Brazil, during analogous periods of state-building, the wealthiest sectors in society lacked a strong collective solidarity (for example, one that might have been rooted in collective race chauvinism or otherwise) that might have glued them together, or to those who might benefit from their sacrifices. During the early part of the century, they were particularly divided along state (estado) and regional lines, and did not easily recognize any compelling imperative for collective action or downward redistribution. Although the state also tried to raise significant income taxes, the fundamental free-rider problem raised its head, and wealthy Brazilians resisted the state imposition of taxation by challenging new policy ideas, and by avoiding and evading the taxes that were enacted. In order to raise revenue, the state was forced to turn to less visible and more regressive tools.

AIDS Capacity

In the case of HIV/AIDS, differences in race politics, structured by early patterns of nation-building, also proved important. However, by the 1980s, when the AIDS epidemic was recognized, social boundary institutions created in these countries during the first half of the century had evolved. The apartheid model of a white South Africa was crumbling, giving way to a racially divided society and polity in an international arena that would no longer tolerate a purely racial basis for citizenship when people of multiple race groups were occupying a single territory. In Brazil, although race-based inequality and discrimination persisted into the last decades of the twentieth century, linguistic unification of the country was virtually complete and race-mixing had a long track record. These developments proved consequential for the politics of HIV, which had the additional property of being an infectious disease, transmitted largely through sexual contact.

In South Africa, the first cases of AIDS were identified among relatively affluent, white, homosexual men. Given the strength of racial boundaries that had developed in South Africa, many black South Africans initially viewed the epidemic as a "white" problem. On the other hand, once the epidemic began to explode among blacks in the 1990s, whites came to see it as a "black" problem, and used

17 To be clear, my claim is that institutionalized white supremacy had a positive effect on the tax compliance of white citizens because the state was established to restrict citizenship to whites only. In this volume, Einhorn finds that tax capacity was weak in the states of the American South—where white supremacy was also well institutionalized—but in this case, she finds that Southern elites feared that the development of a democratic state would lead to the demise of slavery. This reinforces the more general point that consent and quasi-voluntary compliance require that the state be seen as a champion of a social group's interests.
AIDS as a rationale for further protecting themselves from close contact, in some cases justifying the maintenance of separate public facilities and blood donations. Throughout the history of the epidemic, public health statistics have always been reported in terms of separate race groups, undermining the possibility of thinking about AIDS as a truly national (i.e., not experienced differently by different race groups) phenomenon.

Even as rates of infection reached the double digits, black political leaders – including state presidents Nelson Mandela and Thabo Mbeki – refrained from aggressively demanding behavior change within their constituencies, fearing that it would imply collective reputational damage to their group as somehow immoral, unpure, and so on. Early conspiracy theories, including the slogan that AIDS was an “Afrikaner Invention to Deprive us of Sex,” found a home in later denialist positions that HIV did not really cause AIDS or that traditional, African remedies could be just as effective as Western medicine. Although the danger of AIDS has been extremely visible in South Africa for a very long time, there has been a remarkably low mobilization of risk on the part of political elites, who have interpreted scientific and medical reports through the lens of boundary politics.

Substantial survey evidence has also demonstrated that citizens have not perceived or expressed substantial risks. The combination of insulation from risk and reluctance to be seen as the affected group can be interpreted as resistance to sacrifice, leading to the extremely slow development of this important state capacity.

In Brazil, where race has not been socially or politically relevant to nearly the same degree, and the state has been reluctant to collect and to disseminate information about race, the initial reporting of an outbreak came to be understood as a truly national problem. Particularly in the first two decades, no one thought about the problem as a “white” or “black” epidemic, because racial identities tend to be fluid, and Brazilians consistently report high rates of intermarriage. The fact that a white person might be infected would be equally frightening to a “black” Brazilian18 and vice versa, because patterns of intimate contact, through which the virus spreads, are multiracial in that country. Thus, when political activists and motivated public health experts mobilized and pressured the central government to respond to the epidemic – just as analogous actors had done in South Africa – there was no boundary bloc to the idea that the risk was real and shared. There were no political points to be scored by claiming that the virus was due to the immorality of one group or another, or that certain sectors were safe, and so citizens were relatively more willing to accept the sacrifices of testing, behavior change, and so forth. The stigma of AIDS could be reduced because it affected “all of us,” and a significant AIDS capacity could be developed.

Discussion

Thus, in these two sets of comparative analyses, boundary politics help to account for some of the variance in the development of state capacity through the level of sacrifice that could be expected from citizens. When the problem affected “us,” or the associated sacrifice would be beneficial to “us,” greater sacrifices were possible, allowing the state to develop a stronger capacity. Otherwise, states have been unable or politically unwilling to demand sacrifice. Yet the meta-analysis also highlights a number of important nuances to the development of the modern state.

First, timing matters. The structure of the modern tax state was formed largely during the interwar period in Brazil and South Africa, whereas responses to HIV/AIDS emerged during the last quarter of the twentieth century. If the South African or Brazilian tax states had been developed de novo in the 1990s, we would likely have seen very different results in both countries. Particularly in South Africa, it is hard to imagine that we would have observed the same willingness to make deep financial sacrifices once the glue of white solidarity was no longer available, and whites could not organize to use the resources of the state for their own collective benefit.

Second, particular state capacities are likely to develop as strong or weak depending on the willingness to sacrifice on the part of particular segments of the population relevant for that capacity. For example, the South African state’s capacity to tax was well developed only with respect to one section of the population, namely the white population. The collection of taxes from blacks has been historically quite poor for a variety of reasons, including campaigns of tax boycotts owing to unjust treatment. Yet in fiscal terms, because income and wealth have been so heavily concentrated in white hands, this has implied the successful collections of most of the available tax base. Ironically, this has meant that the black government initially found it easier to collect from whites than from blacks because of the systems of tax administration developed in previous generations. (More recently, tax compliance among black South Africans has improved substantially.) In Brazil, efforts to tax the wealthy, a stratum that also tends to be light-skinned, have largely been a failure, and it is now extraordinarily difficult to reform a complex tax system built over several generations.

Third, the nature of the precipitating threat obviously influences the meaning and interpretation of social boundaries as relevant for willingness to sacrifice. For example, the political reactions to AIDS must be understood in terms of the fact that for the history of the epidemic, the problem and the mode of transmission (sex with multiple partners, IV drug use, etc.) have been stigmatized. As a result, political leaders have been disinclined to act for fear of group association with these stigmas, and in the context of intergroup competition within societies, these apprehensions have been compounded. If the nature of HIV and AIDS had been due to completely different factors – say airborne emissions from mining operations – the political response would surely have been different.

CONCLUSION

The central contribution of this chapter has been to identify what can and cannot be learned about state-society relations through fiscal analysis. There is no doubt that comparative and historical analyses of tax systems provide enormous insights into the state’s abilities to command authority over society. Taxation is not merely
a technical matter, but a highly political one that cannot be well understood narrowly within the logic of market exchange. As such, the politics of taxation must be understood in terms of group dynamics and moral obligations, and the prism of social identity becomes particularly relevant for understanding how and why some states are better able to collect than others.

Insights about the development of the tax state can and should be extended to other relevant areas of analysis. In the contemporary era, the state’s ability to combat the AIDS pandemic is obviously of paramount importance. Cross-policy comparison highlights the various ways in which states attempt to make incursions into the most private domains of social life. Social boundaries also matter for the development of policy and capacity in this domain as calculations about risks of infection, and the potential reputational damage from association with the virus, are likely to be made in terms of group heuristics. Inclinations toward blame and shame of other groups can lead to less aggressive policy responses.

Although study of the tax state can provide great insights into politics, society, and culture, as fiscal sociologists have long claimed, we should not be wooed into believing that fiscal history provides a crystal ball for understanding all aspects of state development. As we disaggregate our investigations of the development of political authority across function and time, distinctive drivers of cooperation and compliance inevitably emerge. This helps explain why strong tax states are not omnipotent, and why tax states are not entirely ineffective in other ways. Future research ought to consider additional nuances across policy areas and to test these propositions across larger numbers of cases in space and time.

7 The End of the Strong State?: On the Evolution of Japanese Tax Policy

EISAKU IDE AND SVEN STEINMO

Japan has long been held up as a model of fiscal discipline and budget restraint. Indeed, Japan has held the remarkable distinction of being the country with the lowest budget deficits and the lowest levels of public spending of any of the rich Organisation for Economic Co-operation and Development (OECD) nations almost the entire postwar period. Even in the 1960s and 1970s, for example, when most other advanced capitalist democracies were building extensive welfare states, Japan continued to practice spending restraint while it was experiencing economic growth rates nearly double the OECD average. Many assumed that it was precisely the strength of state institutions (or the bureaucrats who populated them) that accounted for both the high levels of economic growth and the remarkable budgetary constraint experienced by this country (Borrus et al. 1982; Pempel 1979; Savage 2000; Thurow 1992). Indeed, Japan was sometimes held up as a premier example of a successful democratic “strong state” (Johnson 1982; Samuels 1994; Thurow 1992).

In the early twenty-first century, however, Japan’s position looks altogether different. Not only has the country suffered more than a decade of poor economic performance, but in addition the budget has apparently grown out of control. In 2006, for example, the budget deficit was approximately 30 trillion yen – or 6 percent of Gross Domestic Product (GDP). Even more surprisingly, the total national debt has accumulated to 160 percent of GDP.

The following figures graphically demonstrate the extent to which Japan’s fiscal situation has changed in the past thirty years (Figure 7.1) and how badly Japan has done in this regard when compared to other advanced capitalist nations (Figure 7.2).

In this chapter, we seek to explain this remarkable change in fiscal fortunes. How and why did Japan move from being a country of remarkable fiscal discipline and balanced budgets to becoming a country known for spiraling deficits? Why, indeed, is it so difficult to get Japanese taxpayers to consent to higher taxes? We submit that the answer to this question lies in the specific policy choices made by successive Japanese governments in the 1990s. During the so-called lost decade, Japan faced both political and economic crises. During these years, the government made the budget situation significantly worse by pursuing neoliberal fiscal policy that disproportionately benefited wealthy taxpayers. Much like the