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The history and future of the tax state: Possibilities for a new fiscal politics beyond neoliberalism

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A B S T R A C T

Neoliberalism is marked by fiscal austerity. Yet, in response to the COVID-19 crisis states again, briefly, began to exercise fiscal discretion. We reflect on the potential for a more enduring shift in fiscal politics beyond neoliberalism by placing recent developments in the historical context of the 'tax state'. We make two claims. First, we argue that different phases of capitalism are reflected in, and can be understood through, changes in fiscal accounting practices that demarcate public and private, and mark turning points for the role of the state within capitalism. Charting the unravelling of the Keynesian welfare state, we propose a fiscal understanding of neoliberalism in which asymmetric applications of capital accounting practices facilitated the financialisation of the state. Second, we argue democratic pressures are giving rise to forms of 'fiscal hybridity' that reassert accounting symmetries between public and private wealth to potentially create 'fiscal space'. We examine how the fiscal actions taken by states in response to COVID-19 express hybridity, reflecting contestation over neoliberal policy models that was emerging prior to the pandemic, as fiscal politics shifts the state's focus to its role as creditor, underwriter and investor.

1. Introduction

The COVID-19 crisis produced a radical reorientation of fiscal and monetary policy. Limits on state action were replaced by a surge of public spending and a flood of liquidity. While much of the spending was temporary, the scale of fiscal policy and the shift in monetary policy suggest a break with the period of neoliberalism so closely associated with fiscal constraint. Adam Tooze (2021b) summed up this sentiment in the New York Times, arguing that the pandemic had revealed that "Budget constraints don't seem to exist; money is a mere technicality. The hard limits of financial sustainability, policed, we used to think, by ferocious bond markets, were blurred by the 2008 financial crisis. In 2020, they were erased."

Critical accountants have offered important insights into both the development of capitalist modes of accumulation in general, and to the rise and organisation of neoliberal capitalism (Catchpowle et al., 2004; Chiapello, 2007, 2017). In the wake of COVID-19, we bring these critical accounting perspectives into conversation with state theory from political economy, fiscal sociology and economic geography to analyse the relationship between accounting, capitalism and statecraft over time, and reflect on future possibilities. We argue fiscal accounting practices, that is practices used to track, account for, or quantify the exercise of fiscal power, have formed a crucial element of statecraft. Fiscal accounting practices mediate between pressures to maintain both democratic legitimacy and private accumulation by managing the boundaries between public and private finance. As political economists, we understand

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accounting practices to include a range of actions that translate economic ideas into ways of governing, including but not limited to formal accounting standards. We do not argue accounting practices cause shifts in governance, but rather that changing accounting practices reflect broader changes in the political economy as an integral component of new forms of statecraft. These 'fiscal reflections' are a useful lens to understand the changing role of the state in capitalism. At a time when COVID-19 has radically reshaped boundaries between public and private, we focus on changes in fiscal accounting to explore key turning points in fiscal history and understand contests over emerging forms of fiscal power. We analyse processes taking place across the OECD, led by Anglo-American capitalism, which has maintained an outsized though uneven influence on shifts in fiscal accounting and politics.

Our analysis develops in five steps. First, following other scholars of neoliberalism and the state, we introduce Joseph Schumpeter's (1991) fiscal sociology and his concept of the 'tax state' as a framework for connecting changes in fiscal practice to turning points in the reorganisation of the state's role within capitalism. Schumpeter centres the state's fiscal methods in his understanding of both capitalism and the state, which manifest in the tax state's ability to make 'public' claims on 'private' resources. Second, we connect Schumpeter's public/private distinction to explanations of the rise of the welfare state and macroeconomic management, supported by changes in state accounting practice. While Schumpeter (1991, p. 100) understood state finances as a 'collection of hard, naked facts', we draw on critical accounting scholarship to identify how Keynesian fiscal accounting and budgeting practices defined and reorganised public and private spheres, facilitating new fiscal strategies by unions and social democratic parties to protect the reproduction of labour. The fiscal tools of the welfare state fostered a 'peace formula' to mediate between pressures on the state to maintain private accumulation and to maintain legitimacy through public action in response to democratic demands. Third, we develop a fiscal understanding of neoliberalism by exploring how neoliberal reforms asymmetrically applied capital accounting conventions and concepts within state finances to constrain the tax state. Reforms were asymmetric, we argue, in how they selectively incorporated economic ideas of market value, investment and wealth into fiscal accounting practices to exaggerate fiscal constraints. By applying market conventions to state finance asymmetrically, neoliberal budgeting constrained overtly democratic, public fiscal tools, while facilitating less visible fiscal methods.

The final two sections examine ongoing fiscal politics that work with and contest the tools of neoliberal governance. Fourth, we argue that the financialised state created by neoliberal restructuring has neither resolved nor negated democratic pressures. Rather, capital accounting helps to redirect these tensions away from struggles over the overt use of taxation and spending powers, and towards the use of financialised fiscal tools, grounded in logics of assets and debts, which combine elements of public and private finance. Asymmetric accounting reforms, often advanced by private financial actors, limit the ability of the 'tax state' to respond to citizens by imposing fiscal discipline via market creditors. New accountabilities to market creditors instead produce a 'debt state', while facilitating 'hidden' forms of state support to capital.

Lastly, we identify how democratic pressures are being reflected in emerging forms of 'fiscal hybridity' that apply symmetry between public and private wealth to create new areas of 'fiscal space'. This trend, already evident through the Global Financial Crisis, intensified through COVID-19, and is continuing even as austerity returns. In the fifth and final section, we reflect on fiscal responses to COVID-19 that have applied fiscal hybridity in ways that were conditioned by, but potentially represent a break from, neoliberal governance. We identify examples in which states, particularly the Federal Government in the United States, exercised fiscal power in hybrid forms using categories of private finance, including as creditor, underwriter and investor. We connect these apparently financialised policy models to earlier forms of resistance to neoliberal governance to reflect on the implications for contesting and renegotiating the advance of asset-based logics towards more democratic ends.

2. Fiscal sociology and the rise of the 'tax state'

We build our analysis from Joseph Schumpeter's (1991 [1918]) account of the 'tax state'. The essay was published in the aftermath of WWI when states confronted a similarly sudden expansion in fiscal demands, one year before Schumpeter was appointed as Finance Minister in the new Austrian Republic (Musgrave, 1992, p. 90). Schumpeter's pioneering work developing 'fiscal sociology' has been an important reference for theorists of neoliberalism and the state (Streeck, 2014, pp. 70–72; Jessop, 2016; Whiteside, 2021; Cameron, 2006), and can inform how we interpret the apparent sudden shift in fiscal and monetary norms accompanying COVID-19. Schumpeter not only identifies the importance of public finance to state power, but also the distinction between public and private finance as central to the organisation of market economies. This 'dynamic interface' between public and private finance is central to state theoretic accounts of the relationship between democracy and capitalism, and the possibilities for political alternatives (August et al., 2022).

The rise of market capitalism reflects changes in economic organisation and rationality. Critical accountants have focused attention on the role of accounting innovation within the rise of industrial capitalism (Carruthers & Espeland, 1991), exploring how accounting and management practices advanced together through industrialisation (Bryer, 2005). Much of this work centres the role of double-entry bookkeeping in facilitating the practices of profit making required for capitalist modes of accumulation (Chiapello, 2007). As Weber (1978, p. 91) outlined, 'capital accounting' developed as 'peculiar to rational economic profit-making', with its focus on valuing 'opportunities for profit' and verifying 'profit-making activity' over time. Tracing and quantifying profitability facilitates the expansion of 'economic advantages' (assets) controlled by a budget unit, and thus the imperatives of accumulation within the private sector (Weber, 1978, p. 89). However, sociologists claim it was not only changes within private business that facilitated a new mode of production, but also the construction of 'public' alongside 'private' economic spheres.

Schumpeter argues the distinction between public and private finance lies at the heart of capitalism's social organisation. It is the state's fiscal powers, that is, the ability to make legitimate 'public' claims over 'private' resources, that underpins state power. While taxes pre-exist capitalism, Schumpeter (1991, pp. 100–101, 106–108) outlines how the rise of a general tax power, rather than rulers making specific claims for specific purposes, transformed the feudal prince into the modern state, and made public budgets the record of the most significant aspects of national history. Schumpeter (1991, p. 110) argued, 'the expression "tax state" might almost be considered a pleonasm'. Although taxation is the archetypal tool of public finance, the boundaries of the tax state are not set by formal taxation powers, but rather the 'limits of its fiscal potential' (Schumpeter, 1991, p. 111). His use of 'fiscal' is therefore broader than taxation and the conventional definition of fiscal policy. Schumpeter's definition rests on a distinction between private finance managed by individual actors via market contract and disciplined by competition, and public finance reflecting state actions governed by social and political logics. For example, state incomes produced through public ownership (1991, p. 116), and inflation generated by publicly authorised monetary expansion (1991, p. 121), are equivalent to taxation, in that they represent state or 'public' claims on 'private' finances. Following this approach, our use of 'fiscal power' refers generally to the exercise of state power over the distribution of resources.

Schumpeter argued that by making fiscal claims on private resources, the tax state not only constructed its own power; it also facilitated the rise of market economies within a distinctly 'private' sphere. Schumpeter's account of the rise of capitalism is associated with the formal separation of economic life from political life through modernity (cf. Wood, 1995). A distinctive feature of bourgeois society is that production is primarily organised to individual ends, in which 'what is produced is produced for the purposes of the private economic subjects' (Schumpeter, 1991, p. 112). The tax state consolidated this private sphere because 'tax brings money and calculating spirit into corners in which they do not dwell as yet' (Schumpeter, 1991, p. 108). Yet while capital accounting assists business owners to maximise those private gains, fiscal claims are explicitly concerned with appropriating and redistributing resources, and are grounded in a separate, collective logic. Because the state appropriates from other private interests, it cannot be seen to act for itself, but rather 'only as a machine for the common purpose' (Schumpeter, 1991, p. 110). It is precisely the state's claim on resources for general purposes, rather than specific expenditures, that simultaneously justifies state finance in terms of collective benefit and opens space for a private economic sphere of bourgeois rationality.

'Public' claims on 'private' resources by the tax state reinforced the operations and interests of the latter. Yet, the state's 'common purpose' increasingly became subject to forms of popular sovereignty and democratic legitimation. Taxation is directly linked to politics, as citizens use their status as taxpayers to advance claims for representation. At the same time, the separation of public and private finance demands limits to the tax state because private gain is the driving force of the economy. Therefore, 'the tax state must not demand from the people so much that they lose financial interest in production' (Schumpeter, 1991, p. 112). The state, then, is subject to conflicting imperatives, to act for the common good, and to constrain itself to facilitate private profit-making and accumulation. While Schumpeter saw this conflict as irresolvable, leading inevitably (and disappointingly) to socialism, public finance instead became central to the (re-)negotiation of capitalism and democracy. As Jessop (2016, pp. 99–100) summarises, 'the tax state must be able to adapt public finances, in their fiscal (revenue) and expenditure dimensions, to the demands of accumulation as well as to those of political legitimacy'.

In this article, we focus on how changes in state accounting practice broadly align with the periodisations used by political economists to understand macro-economic change. To do so, we follow Schumpeter's crucial methodological point that public finances not only directly mediate social contests, but are symptomatic of much wider historical 'turning points' (Cameron, 2006). As the role of the state changes, so states exercise fiscal power in new ways. Thus, political-economic shifts 'always involve a crisis of the old fiscal methods…insofar as everything that happens has its *fiscal reflection*' (Schumpeter, 1991, p. 101 emphasis added). To analyse shifts in public finance across the Keynesian and (post-)neoliberal eras, we place Schumpeter's theory of the tax state in conversation with theories of the state from Polanyian and Marxist political economists. Despite coming from different political positions to Schumpeter, these approaches have similarly analysed crises and reorganizations of the state in terms of tensions between capitalism and democracy (O'Connor, 1973; Offe, 2018; Polanyi, 1944). Indeed, economist Joan Robinson went as far as describing Schumpeter as 'Marx with the adjectives changed' (Harcourt, 2007, p. 56).

Schumpeter's theory of the tax state did not explicitly address accounting. While he viewed the rise of public (and private) finance as central to understanding capitalism, he also viewed public accounts as neutral documents: a 'collection of hard, naked facts which yet remain to be drawn into the realm of sociology' (Schumpeter, 1991, p. 100). We therefore draw on critical accounting scholarship to analyse the importance of the categories used to differentiate and govern public and private finance – categories operationalised through accounting practices. Following Schumpeter, public and private finance are archetypally defined by fiscal relations – the 'public' claim of states on resources controlled by 'private' individuals – that are made visible and governable through accounting. Accounting practices always make only some things visible while obscuring others, but in doing so produce organisational and social realities (Broadbent, 2002). Accounting, as statecraft, is thus central to demarcating between public and private, which become imbued with different kinds of structures and rationalities as purportedly political and non-political spheres (Jessop, 2016, p. 47). Miller (1990) argues that these 'political rationalities' of the state are in a reciprocal relationship with the 'technologies' governments use to calculate and enact – technologies that, following Schumpeter, are the 'fiscal reflection' of changing social relations.

3. The 'peace formula' of the post-war welfare state

Schumpeter's (1991) analysis of the tax state sought to identify how states burdened by enormous debts after the Great War could sustain themselves alongside private economies. However, Schumpeter's view of the tax state as an 'economic parasite', reflecting his political leanings, led him to diagnose a tendency towards its collapse under the weight of increasing social demands for public expenditure (Schumpeter, 1991, p. 112). His later analysis became even more pessimistic over the fate of capitalism and its tax state, believing the uncertainties of 'creative destruction' would see the state expand and eventually replace capitalism with socialism (Schumpeter, 1943).

Instead, the crisis-prone capitalist economies of the early twentieth century gave way to a period of unique stability and growth in market production, at least for advanced capitalist economies. Capitalist economies sustained expansions of the public sector well beyond that which Schumpeter thought possible (Musgrave, 1992). This was underpinned by the rise of Keynesian welfare states, which we argue accompanied a different understanding of state finance linked to changes in fiscal and national accounting. Drawing on Karl Polanyi's account of the double movement, social policy scholars saw the welfare state providing a 'peace formula', where public finance acted to decommodify labour, land and money while maintaining market control of other commodities (Offe, 2018). We argue this formula can be usefully understood as distinguishing and embedding distinct public and private logics of economic integration (Polanyi, 1957). Keynesian inspired national and fiscal accounting facilitated democratic contestation by distinguishing public and private finance, clarifying the political choices states and citizens faced.

Polanyi (1944, pp. 71–80) argued the ravages of early industrialisation reflected the expansion of the market to the 'fictitious commodities' of labour, land and money. These inputs are unlike 'real' commodities, in that they are reproduced outside market relations rather than being produced for sale. Families do not produce children for profit, yet their reproduction is the basis of the future workforce and labour supply. As factors of production, land, labour and money must be incorporated into market prices to allow the economy to be 'self-regulating'. Because they are reproduced through different social and ecological logics, commodification undermines their reproduction, reducing people, the planet and social trust to the price nexus. Unlike Schumpeter or Marx, Polanyi did not see these dynamics seeding the demise of capitalism. Instead, he envisaged a 'double movement', in which 'the extension of the market organisation in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones' (Polanyi, 1944, p. 76). The double movement echoes the chaotic dynamics of Schumpeter's creative destruction, while viewing the state, not as the harbinger of a socialist end to capitalist accumulation, but a moderator of capitalist crisis.

Polanyi's analysis of the double movement underpins the account of the welfare state as 'decommodifying' labour (Esping-Andersen, 1990; Offe, 2018), and echoes the Keynesian focus on macroeconomic policy to address the perils of private finance. Welfare state scholars understand policies such as social insurance, public healthcare and wage regulation as a response to the social costs of fully commodifying labour, reflecting a double movement to decommodify labour 'to the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation' (Esping-Andersen, 1990, p. 37). Environmental regulation and central banking can likewise be understood as public institutions with the potential to decommodify land and money by mediating their reproduction according to socially, rather than market, determined principles. In Claus Offe's (2018, p. 147) terms, the Keynesian welfare state represented a 'peace formula' between the imperatives of private business and the demands of mass publics. Offe described this formula as directed towards 'limit[ing] and mitigat[ing] class conflict, to balance the asymmetrical power relation of labour and capital, and thus to overcome the condition of disruptive struggle and contradictions that was the most prominent feature of pre-welfare state, or liberal, capitalism' (Offe, 2018, p. 147). Offe's peace formula had its fiscal reflection in new modes of macroeconomic management and public financing, which in turn required new accounting tools for both the national economy and government budgets, built to reflect the macroeconomic aims and understandings of its Keynesian architects (Rollings, 1988; Suzuki, 2003).

Welfare state politics was facilitated by new practices of statecraft tied to economic expertise (Mitchell, 1998; Tooze, 2001). Over the twentieth century states developed accounting practices that were distinct from the private sector, which were formalised in different international accounting standards and separate international accounting bodies (Barton, 2005). Where private firms adopted forms of what Weber had called 'capital accounting', states generally adopted models focused on changes in annual revenues and expenditures, based on methods of cash accounting (Barton, 2007). These differing methods reflected different purposes. Capital accounting identifies profit and the accumulation of stocks of wealth within the firm, enabling private control of resources. In contrast, cash accounting techniques, more suited to state imperatives, track flows of income to and from the private sector and across their borders over a given time. The welfare state grew alongside Keynesian public accounting tools developed to create this macroeconomic view of the state and economy.

The development of public accounting practices was an integral component of the 'Keynesian revolution' (Rollings, 1988). The alignment of state accounting practices and Keynesian theory is not simply a coincidence, nor solely the result of Keynes describing an existing reality. As Suzuki's (2003) and Rollings' (1988) meticulous accounts of the UK's public accounting systems demonstrate, many of those driving the development of new public sector accounting systems were committed Keynesians, self-consciously embedding his ideas. National accounting systems aligned to Keynesian macroeconomic categories were developed in the UK, US and other advanced capitalist countries from the 1930s, and were entrenched by the 1950s. Accounting played a critical role in constructing the very idea of the macroeconomy as an object of state management (Suzuki, 2003). To realise these goals, governments also needed a Keynesian revolution in fiscal accounting. The Keynesian understanding of aggregate demand, reflected in national accounts, included income flows between households, firms and governments. Keynesian budgeting was needed to distinguish between the public and private sectors that make up the national economy, and assess the net addition or reduction in aggregate demand from flows between public and private spheres. Rollings (1988, pp. 292–294) shows that from the 1940s there were a series of budgetary reforms in the UK designed to account for the impact of the budget on aggregate demand. These and other similar reforms (for the US parallel, see Barber, 1996, p. 88) helped create the fiscal techniques governments could use to manage inflation and promote full employment, a goal enshrined in many countries through the successful and contentious politics of union movements.

Keynesian accounting facilitated the rise of the welfare state peace formula by asserting clear boundaries between private and public. These distinctions institutionalised what Polanyi (1957) termed different 'forms of economic integration' between a private sector based on market exchange and a public sector based on state redistribution (see Bryant & Spies-Butcher, 2020). Accounting both crystalized the distinction between private exchange and public redistribution and was used to resolve tensions that arise between them. The welfare state addressed conflict over the most acute instances of Schumpeter's capitalism-democracy tension, decommodifying aspects of land, labour and money by placing them into the public, political sphere, while supporting expanded commodification in a growing private sector (Esping-Andersen, 1990; Offe, 2018). As Mudge (2018) argues, Keynesian-inspired 'economistic' leftism displaced explicit socialism and played a crucial role in welfare state settlements. It was Keynesian 'economist theoreticians' that mediated between capitalist economics and democratic politics, allowing publics to understand the choices they could make between taxation and spending, facilitating social democratic demands to expand the tax state (Mudge, 2018).

The tools of public budgeting reflected the political imperatives of nation building, playing an analogous role to capital accounting for private firms and accumulation within the development of industrial capitalism. Keynesian accounting facilitated analysis of flows of income and, thus, 'economic management'. The 'public' was constructed in accounting terms to capture revenues collected and expenditures paid in each period, allowing a calculation of the net stimulatory or contractionary impact of fiscal policy, but also the boundaries of public finance. Unlike private capital, public money was subject to an explicitly democratic logic, grounded in social needs, which facilitated various combinations of redistribution and decommodification. By clearly separating 'public' and 'private', citizens could understand trade-offs and democratically determine the bounds of the tax state.

Challenging Schumpeter's parasitic conception of public finance, Marxist political economists emphasised the necessary role of the state in materially supporting private accumulation. Yet, mirroring Schumpeter's earlier pessimism, these accounts similarly diagnosed a tendency towards crisis arising from democratic claims on public finance. Offe foresaw a crisis of the peace formula that underpinned the welfare state. He ([1984] 2018, pp. 148–149) argued that 'the very diversity of the forces that inaugurated and supported the welfare state could not be accommodated forever within the institutional framework which today appears to come increasingly under attack.' O'Connor (1973) identified the same tendency driving a 'fiscal crisis of the state', anticipating the 1975 debt crisis in New York City which was a forerunner to broader neoliberal austerity. As populations demanded greater protection, the tensions underlying the peace formula generated renewed conflict. Drawing on O'Connor and Schumpeter, Streeck (2014) argues this tendency for the size of state finances to grow over time, partly in response to democratic pressure to protect citizens from market risk, drove a political movement to reassert fiscal limits on the state, and thus limits on democratic (rather than private) control of resources. Prompted by a number of interconnected economic crises that simultaneously produced high unemployment and inflation throughout the 1970s, most countries moved, unevenly, from Keynesian welfare to neoliberalism. Governments liberalised labour and capital markets to reinforce market norms, producing patterns of rising inequality and relative wage stagnation (Cahill & Konings, 2017).

4. Asymmetric neoliberalism and fiscal austerity

Neoliberalism challenged the Keynesian fiscal order by attempting to constrain democratic control over state finance. Overt retrenchment of the welfare state, however, has proven difficult in advanced capitalist democracies (Pierson, 2001). Instead, neoliberal reform restructured the state along market lines, 'encouraging elected representatives and public servants to think and act as if they are business entrepreneurs' (Morales et al., 2014, p. 424). Neoliberalism blurred Keynesian distinctions between public and private to undermine the former as a sphere of democratic politics, while legitimating private accumulation. These changes applied the imaginary and conventions of capital accounting to the public sector to construct apparent limits to the fiscal (public) powers of the state, making the state more 'market-like' and 'business-like' (Bracci et al., 2015; Christensen et al., 2019). By asserting market forms of equivalence on the state, the neoliberalisation of public budgeting was another instance of capitalist accounting facilitating 'ever deepening commodification, into the heart of social life' (Catchpowle et al., 2004, p. 1041). As critical accountants note, such application was often asymmetric and incomplete (Ellwood, 2003; Ellwood & Newberry, 2007), precisely, we argue, because its goal was to limit the scope of democratic claims on public finance, rather than state power generally. Changes to accounting rules were advanced both by economists explicitly committed to advancing market competition over democratic control (see discussion of Buchanan in Ellwood & Newberry, 2007) and by large private accounting firms, which benefited from market reform and privatisation (Arnold & Cooper, 1999).

Enforcing limits on the state's fiscal capacity became a key site of political struggle from the 1980s, leading to what Brenton (2016) calls a 'politics of budgetary surplus'. In the United States, constitutional limits were successfully introduced in California to prevent increases in taxation, and rules limiting the issuing of debt (the 'debt ceiling') were (re-)introduced nationally in the 1990s. In Europe, conditions of the Maastricht Treaty placed limits on debt finance, while other changes within European economies limited the discretion of state agencies to manage debt and conduct monetary policy, restructuring administrative decisions within bureaucracies as contractual arrangements managed by private markets (Lemoine, 2017a, 2017b). Structural Adjustment Programs were enforced on the Global South to create selectively strong fiscal limits on emerging tax states (Ruccio, 1991). Streeck (2014) argues that these and other reforms heralded a transformation of the state from tax state to 'debt state'. Under the debt state, the democratic politics and citizen accountability of the tax state was replaced by the imposition of discipline on the state via threats from ratings agencies and bond vigilantes to raise the costs of debt, or from international financial institutions to impose conditionality on loans.

Legal limitations on state borrowing and taxing powers had their fiscal reflection in fiscal strategies that mimicked and combined with forms of market exchange, such as public private partnerships and marketisation – strategies facilitated by new accounting techniques that applied principles of capital accounting to state finances. These accounting changes shifted the imaginary of the state from one grounded in Keynesian macroeconomic management to a conception of the state as pseudo corporation focused on (in) solvency. As Ellwood and Newberry (2007) outline, these changes were influenced by public choice theories and were explicitly developed in opposition to Keynesian economics. Accounting reforms sought to apply capital accounting standards from the private sector to public sector activities, ostensibly to facilitate 'a level playing field' between public and private finance but which favoured forms of privatisation (Christophers, 2018, pp. 199–203). These reforms included the adoption of accrual accounting practices from the private sector by government agencies (Olson et al., 1998). However, the application of these principles to the state is not straight forward. The state does not generate a profit and its ability to operate (trade) in the future is not based on a store of assets, but grounded in its claim of sovereignty and capacity to levy taxes and issue currency (Barton, 2005). Thus, budget reforms proved both partial and contradictory, because the debt state remained predicated on the tax state.

Critical accountants identify two types of accounting changes that shaped processes of liberalisation, both of which were advanced to reconfigure state activity along market lines. First, market advocates argued that public services should be forced to account for their capital costs and do so on market terms (Bracci et al., 2015; Christensen et al., 2019). In many countries, capital expenditures associated with public services were undertaken by public works departments, accounted for and organised separately from service delivery. Neoliberal reformers argued incorporating the costs of capital into public service provision on a market basis would facilitate a level playing field between public and private providers (Ellwood & Newberry, 2007). Because states can access lower cost finance, the changes also inflated the apparent cost of public provision. The changes obscured the macroeconomic role of public infrastructure spending, often leading to substantive reorganisation of budget control, allowing contracting out and facilitating corporatisation and privatisation of publicly run activities. The same principles of capital accounting were implemented unevenly. Reformers sought to equate public costs to private costs, negating the unique macroeconomic benefits of public spending. However, the full logic of capital accounting – that is the expansion of 'economic advantages' controlled by the budget unit (Weber, 1978, p. 89) – was not applied to expand public wealth. Instead, 'pragmatic privatisation' had the effect of reducing budget deficits despite running down government net worth (Aulich & O'Flynn, 2007, p. 159).

Second, new accounting techniques reconceptualised expected public spending in the future (such as pensions and healthcare) as liabilities (Zorn, 2009, pp. 71–75). 'Liability budgeting', as Baker et al. (2020) call it, focused attention on a future fiscal crisis. For example, Generational Accounting (GA), calculates future spending based on demography, but calculates future tax revenues as a fixed proportion of GDP, reflecting an ideological commitment to fiscal constraint (Spies-Butcher & Stebbing, 2019). Fixing revenues as a proportion of the economy both underestimates increases in tax revenues caused by the combination of rising real incomes and progressive tax rates, and obscures the cost of fiscal welfare used to subsidise private provision.

The asymmetric nature of neoliberal accounting reforms is highlighted by attempts to both enforce 'a level playing field' between public and private sector capital costs, and frame future public spending as a liability. As critical accountants note, these reforms were designed to promote austerity by enforcing fiscal discipline on democratic politics while denying the discretion afforded to private actors by market-based accounting rules (Arnold, 2009; Barton, 2009). Constrained from substantively rolling back the state, neoliberal reforms had instead adopted 'roll out' strategies that reconfigured fiscal powers so they were less visible and thus less subject to democratic accountability (Peck & Tickell, 2002). While state activities were reorganized along market lines, private activities remained heavily embedded in the fiscal powers of state distribution. Neoliberal budgeting rules conceal the fiscal commitments involved in, for example, public–private partnerships and tax concessions, legitimating inequalities as if they are the result of free exchange (Ashton et al., 2012; Tapp, 2019). The increasing size of state spending over the neoliberal period demonstrates that neoliberal budgeting rules were applied selectively and failed to impose fiscal discipline in general (Cahill & Konings, 2017). Budgetary asymmetries and the related strategies of private accountancy firms instead allowed the tax state to mobilise its fiscal powers to systematically redistribute wealth upwards (Hacker & Pierson, 2010; Sikka, 2015).

5. The financialisation of the state and fiscal hybridity

The financialisation of capitalism in the neoliberal period had its fiscal reflection in an increasingly financialised state. Market-based accounting conventions in the public sector were themselves financialised. Rather than the distinctive public and private spheres of the Keynesian era, fiscal questions were increasingly posed in financial market terms. As we explore in this section, financialised budgetary practices shift fiscal power away from democratic politics, facilitating inequality. However, they have also created new political terrain for contesting fiscal space, through strategies that challenge the asymmetries of neoliberal budgetary rules that selectively imposed fiscal constraint. We argue that this has given rise to 'hybrid' forms of fiscal power in which democratic claims, rather than being fully quashed, are redirected, mediated and advanced through financial tools and logics. Fiscal hybridity, we argue, is central to understanding the dynamics of the tax state in the 21st century, and reveals possibilities for contesting neoliberalism and building a more democratic post-COVID statecraft.

Critical accounting scholarship has demonstrated that the financialisation of capitalism in the neoliberal era was mutually constituted by the financialisation of accounting standards and practices (Chiapello, 2015). Key here were changes to financial accounting standards, in particular the emphasis on fair value accounting for asset values, which were originally designed to account for the value of assets such as financial derivatives on corporate balance sheets (Müller, 2014; Perry & Nölke, 2006; Zhang & Andrew, 2014). As these changes filtered through to the corporate accounting rules adopted by states, state budgeting processes were financialised. Fiscal activities were increasingly shifted from conventional fiscal accounts using 'off budget' and 'off balance sheet' techniques such as loan guarantees and special entities (Merton et al., 2013). Financial market accounting practices broke down the distinction between public and private finance by restructuring fiscal power in forms that evaded traditional budget accountability processes, facilitating the (re-)commodification of money in Polanyian terms.

The financialisation of the state (Aalbers, 2017; Peck & Whiteside, 2016) extends new modes of governance based on financial logics and practices into new domains, including social, environmental, infrastructure and monetary policy (e.g. Bryant, 2019; Cohen et al., 2021; Lagna, 2016; O'Neill, 2017). Identifying the emergence of the 'financialised state', Bryan et al. (2020, p. 262) argue that, taken together, these 'apparently discrete policy changes…can be seen to involve the strategic management of leverage and liquidity and embed a logic of financial derivatives.' Reflecting the key metric of private finance, the management of risk, especially in times of crisis, is now central to how states maintain both legitimacy and accumulation.

We argue that the financialisation of the state has both closed off previous spheres of democratic politics while opening new sites for contestation. Most critical analyses of the financialisation of the state emphasise negative implications for democracy (cf. Streeck, 2014). According to Karwowski et al. (2020), the financialisation of the state reduces democratic accountability, necessitating a program of 'de-financialisation' to rebuild democracy. Such perspectives recognise that neoliberalism threatens democracy not by the retreat of fiscal power, but by its reconfiguration. Financialised accounting practices make certain kinds of fiscal activity look less 'state-like' in order to avoid fiscal constraints on spending and debt, and expectations of democratic accountability. The financialised state only appears to retreat because fiscal power does not neatly align with traditional (accounting) measures of 'public' control in government budgets. This potentially undermines democracy because those 'public' actions of states were previously demarcated as spheres of legitimate political influence subject to normative principles such as social need.

Reconfiguring fiscal power can obscure opportunities to impose democratic accountability, but it does not remove democratic pressures. As economic geographers have shown (Ashton et al., 2016; Beswick & Penny, 2018), ongoing democratic pressures produce new forms of political contestation over financialised statecraft. The political constituencies of established welfare state institutions resist retrenchment, even as neoliberal budgeting practices appear to make retrenchment inevitable, while previously excluded populations demand new protections (Esping-Andersen, 1999; Pierson, 2001). Rather than revert to the pre-welfare state nineteenth century, the 'disembedding' nature of neoliberal budgeting is met with constant pressure to 're-embed' financialised state action in the social (Broadbent, 2002), creating a distinct fiscal politics.

The financialisation of the state effected a shift from Keynesian models of managing the social risks of the present, to new forms of governance and fiscal tools that are focused on managing future financial risks. While the former was focused on labour market incomes in order to manage aggregate demand, the emphasis of the latter is on liquidity in order to manage the solvency of indebted households. This analysis parallels Adkins et al.'s (2020) recent distinction between the Keynesian and Minskyan household linked to the increasing role of asset-based logics in the structure of capitalist society. These asset-based logics have their fiscal reflection in the reconfiguration of fiscal power through the advance of capital accounting within the state, which elevates the fiscal management of wealth – both household wealth and public wealth – as the key focus of the tax state. Fiscal power is now being exercised through financialised policy tools, not simply as a means of financing state activity, such as by issuing bonds, but in the structure of social, economic and environmental policy itself. Crucially, these tools have become sites of contentious politics over the management of public and private wealth as a means of redistributing resources and reorganising risk.

We argue that resistance to the financialisation of the state has given rise to forms of fiscal hybridity. Hybridity refers to the way 'markets coexist with other forms of integration, usually in awkward and contradictory ways' (Peck, 2013, p. 1557), combining state and market forms of economic integration. New financial modes of governing citizens and the economy are hybrid when they combine distinctive elements of public (redistribution) and private (contract) finance. Rather than subsuming public finance into private finance in the imagined neoliberal model, fiscal hybridity responds to the practical constraints of neoliberalism by finding ways to exercise fiscal power through the categories of private finance. Conventional tools of public finance, such as taxation, may be redefined as private expenditure, while private financial instruments, such as loans, may be used by states to expand the fiscal base (Bryant & Spies-Butcher, 2020; Tapp & Kay, 2019). Fiscal hybridity is often a pragmatic or technocratic response to real political economic pressures, such as democratic politics and economic crises, like that which coalesced with COVID-19. Such pressures make fiscal austerity untenable, forcing state actors, who cannot simply return to the Keynesian era, to create fiscal space in new ways.

The financialised state mobilises fiscal hybridity as a mode of governance, drawing on, and modulating between, different categories of public and private finance (Jessop, 2016, pp. 171–178). Fiscal powers to increase or mitigate inequality, or privatise or socialise risk, remain but are redirected and exercised via financialised policies. Neoliberalism demanded the asymmetric application of capital accounting rules within the state. Asymmetries ensured that in forcing the state to act like a firm, capital accounting rules reduced democratic control over fiscal power, facilitating state support for the accumulation of private (rather than its own) wealth. Fiscal hybridity maintains this orientation to wealth, but reflects a reassertion of politics over how wealth should be governed. Instead of returning to Keynesian tools such as nationalisation, fiscal hybridity increases fiscal discretion by asserting symmetry in the application of the capital accounting rules extended to states by neoliberal reformers. In the final section of this paper, we identify emerging forms of statecraft that create fiscal hybridity through more symmetrical applications of financial accounting logics in budgetary practices. We focus on how neoliberal accounting asymmetries have been challenged as the relationship between democracy and capitalism is contested and negotiated within financialised policy models.

6. The asset state: New fiscal spaces in the age of COVID-19

COVID-19 created fertile conditions for a turning point in fiscal politics, understood through the Schumpeterian lens of managing the boundary between public and private finance. States responded to the health threat by enacting a sudden and far-reaching contraction of the private sector, partly compensated by an unprecedented, though temporary, expansion of the public sector. The latter self-consciously built from both the experience and lessons of the 2008 financial crisis. Chief among these was the enhanced coordination of fiscal and monetary policy, which saw central banks shift from key enforcers of fiscal discipline in the neoliberal era, to key financers of government deficits through quantitative easing (QE) programs focused on buying government bonds (Gabor, 2021a; Tooze, 2021a). Indeed, this so-called 'fiscal QE' makes Schumpeter's expansive understanding of the tax state's 'fiscal' powers, encompassing both fiscal and monetary policy, more visible. These moves, as Gabor (2021a) and Tooze (2021a, pp. 146–149) emphasise, were primarily motivated by the aim of stabilising global financial markets and managing 'systemic risk' (see Özgöde, 2021 on the history of the latter). To the extent that this was successful, the wave of liquidity inflated asset prices across equity and housing markets, exacerbating wealth inequalities (Adkins et al., 2021).

However, the pandemic response also intensified the emergence of new forms of financialised fiscal politics across a wide range of policy domains. Highlighting examples from the United States, we identify three kinds of hybrid state action that operate through asset-based categories of private finance – as creditor, underwriter and investor – to explore how hybridity is expanding fiscal space. While examples of each of these actions long pre-date COVID-19, we argue their expansion signals an emerging ‘asset state’ that potentially counters the asymmetric fiscal discipline of the neoliberal debt state. Thus, debates over pandemic recovery plans are a fiscal reflection of continuing contestation and uncertainty over the nature of COVID-19 as a potential turning point. Our comments are necessarily provisional and speculative, however we connect our analysis to trends that were already underway (see e.g. Alami & Dixon, 2021 on the institutionalisation of “state-capital hybrids”), which have been accelerated by the unique and far-reaching crisis conditions of the pandemic.

First, states responded to COVID-19 by acting as a creditor for an economy facing a sudden and severe crisis. The fiscal response to the pandemic was notable for the extent to which it relied on off-budget measures designed to secure liquidity for banks, firms and households. IMF data show that, between March 2020 and September 2021, the average additional on-budget fiscal response (i.e. ‘above the line’ fiscal expenditure) in advanced economies of 11.7 per cent of GDP was matched by an average of 11.4 per cent of GDP in off-budget measures. These off-budget measures included ‘below-the-line’ equity injections, loans, asset purchases and debt assumptions, and contingent liabilities including loan guarantees and the ‘quasi-fiscal’ operations of special government entities (International Monetary Fund, 2021). In the United States, for example, the Coronavirus Aid, Relief, and Economic Security (CARES) Act of March 2020 included both direct loans for distressed business and a Treasury backstop for Federal Reserve purchases of corporate bonds (International Monetary Fund, 2021). These moves both increased fiscal space, and raised new political questions about how the state should act as a creditor, including what risks it should be exposed to and how this should be decided (Tooze, 2021a, pp. 127–128).

Questions about the role of the state as a creditor are playing out through ongoing debates, spurred on by COVID-19, about student loans, where formal public sector accounting practice is most explicitly implicated in emerging forms of fiscal hybridity (Bryant & Spies-Butcher, 2020). The expansion of student loans reflects the neoliberal reimagining of higher education as an investment in human capital (Feher, 2009). However, the ongoing politics of accessing higher education as a right, and the financial risks involved in private debt markets for student loans, has led to forms of state intervention to provide credit to otherwise risky student borrowers. Changes in public budgeting rules from cash to accrual accounting facilitated the expansion of government student loan schemes, particularly in Anglophone university systems (McGettigan, 2013; Shireman, 2017; Spies-Butcher & Bryant, 2018). The changes allowed governments to treat loans as an asset on the government’s balance sheet rather than a recurrent cost. In the US, these changes saw the Obama administration shift from guaranteeing private bank loans for students, to directly providing student loans, the value of which represents over one-third of the Federal Government’s assets (US Department of the Treasury, 2021).

The hybrid construction of student loans opens space for citizens to contest what kind of creditor the state should be. The loans take the form of a debt for the student, but are issued by and ultimately repaid to the state, challenging the asymmetric focus on government as borrower under neoliberalism. The COVID-19 pandemic saw the Trump administration pause student debt repayments on federal loans, a policy significantly extended by the Biden administration. This signalled a shift away from treating student debt as a private contract, to something that is a tool of macroeconomic management and redistribution in a time of crisis and subject to democratic politics. The pause on loan repayments was an explicit fiscal response to the pandemic-induced crisis in the labour market, akin to the role played by more conventional automatic stabilisers. Student debt cancellation operates on a similarly ‘public’, macroeconomic terrain to that of pausing repayments. Proponents argue that cancellation is a means to reduce racial and other wealth inequalities, while opponents question the progressivity of the move, or the potential to create inflation (Gandel, 2022).

Second, COVID-19 witnessed an expansion and shift in the role of the state as underwriter of economic and social risk. Neoliberal budgeting facilitated the rise of ‘asset-based welfare’, particularly in Anglophone liberal states, shifting social risks once assumed by states and corporations onto households (Bryant et al., 2022; Hacker, 2019). States subsidized private asset ownership as an alternative to secure employment while making welfare increasingly conditional (Stebbing & Spies-Butcher, 2016). The global financial crisis, however, revealed the limits of this model, not only for households whose wealth was threatened by a crisis in the housing market, but for a financial sector dependent on household debt repayments. States responded asymmetrically. On one hand, through a series of bailouts for private banks, states developed their capacity to underwrite Wall Street via novel and ‘off book’ fiscal and monetary policy. At the same time, millions of homes in the US and elsewhere were foreclosed and indebted governments imposed austerity on citizens (Bieler & Morton, 2018; Cahill & Konings, 2017).

The onset of the pandemic witnessed a reorientation of the underwriter state in the vein of the hybrid fiscal model. States did not renege on their role as underwriter for capital (Gabor, 2021a; Konings, 2022; Tooze, 2021a). However, signs of a different kind of underwriter state also emerged that sought to extend liquidity support to households, countering the asymmetry of the financial crisis bailout model (though with continued inequalities in which households were bailed out). These state responses made use of both conventional, on-budget, above the line fiscal tools, and off-budget, quasi-fiscal powers. As economies locked down, governments around the world enacted wage subsidies, increased unemployment benefit rates while reducing conditionality, and made other relatively universal cash payments to households (Adkins et al., 2022; Gentilini et al., 2020; Spies-Butcher, 2020). In the United States, the CARES Act passed at the onset of the pandemic increased unemployment payments by $600 per week while expanding eligibility. Complementing on-budget measures in the CARES Act was loan forbearance, which allowed homeowners to suspend payments on federally backed mortgages. Prior to the pandemic, mortgage forbearance had been extended to particular communities affected by natural disasters, but never on an economy-wide basis (Loewenstein & Njinju, 2022). Rather than stimulate demand, these measures primarily sought to underwrite the liquidity households needed to repay debts and remain solvent, or allow insolvent households to keep their assets, preventing the widespread delinquencies and foreclosures seen in the global financial crisis (Dettling & Lambie-Hanson, 2021). These policies signal an emerging politics of who and what the state should underwrite. In the hybrid fiscal model, indebted households have political leverage to demand social protection in the interests of financial stability, contesting fiscal accounting distinctions between public and private welfare.

Finally, contestation over post-COVID-19 'recovery' centred on the role of the state as (social) investor. Neoliberal budget reforms created imperatives for states to manage public investment through private markets. Public-private partnership models conceal flows of (future) public money and the socialization of the risks faced by capital. Gabor (2021b) describes this as the 'de-risking state'. In parallel, liability budgeting models for social spending create debt-like relationships between the state and its own citizens. With taxation politically constrained, this puts states under pressure to reduce liabilities by cutting expenditure. In response, states have created 'innovative' policy tools such as social impact bonds that promise to reduce state liabilities by providing opportunities for private investment in 'risky' citizens. Such bonds are attractive because the state's financialised accounts effectively move current social spending off the headline budget by contracting future public payments to private investors as a contingent liability. Typically, the financial benefits of social impact bonds are privately appropriated, while the risks of failure remain in the state (Harvie et al., 2021).

Welfare state advocates have advanced a more symmetric application of balance sheet logics within the state, calling for a 'social investment state'. Advocates reverse liability-based understandings of the costs of future public spending, and instead emphasise future fiscal returns from the welfare state, arising from higher tax revenues and avoided costs. This enables the care economy to be reframed in hybrid terms as social infrastructure that can be invested in to build public wealth. Rather than state as taxer-spender managing aggregate demand in the present, the state becomes a 'social' investor managing social value (wellbeing) over the long-term. The social investment state, developed most strongly in Northern Europe (Deeming & Smyth, 2015; Hemerijck, 2015), leverages its own fiscal base to invest in citizens over their life course in areas such as education and housing, and by managing labour market transitions. It projects future revenues from higher citizen incomes and banks savings from avoided curative and carceral spending. Calls to 'defund the police' by the Black Lives Matter movement can be understood as the inverse of the same strategy (Movement for Black Lives, 2020). The demand challenges another asymmetry of neoliberal budgeting, by applying fiscal constraint to law and order spending that is usually exempted from fiscal rules, and highlighting the fiscal benefits of 'reinvesting' this money in communities (Bryant & Spies-Butcher, 2022).

The Biden Administration's COVID-19 recovery plans attempted to leverage the role of the state as social investor, though with only partial success. Its Build Back Better plans were framed around, and explicitly connected, investment in both physical, and social, infrastructure, drawing parallels between the role of government spending on, for example, public transport and home care (Foroohar, 2021). By expanding the boundaries of 'infrastructure', the package reflected contestation over the asymmetric fiscal limits on social spending under neoliberalism, which were constrained while states found ways to hide fiscal support for private physical infrastructure. However, while a physical infrastructure bill was passed with bipartisan support, a social and climate spending bill was blocked in the Senate by Republicans and conservative Democrats, ostensibly due to concerns about rising inflation. Eventually, a more modest proposal, re-framed the Inflation Reduction Act, passed. The bill stripped away most of the original social infrastructure ambitions, but included a series of significant climate measures that were justified through a social investment logic. The Biden Administration argued that the bill would 'improve the long-term fiscal health of the Federal ledger' by 'reduc[ing] the future financial risks from climate change for the Federal Government and for taxpayers' (The White House, 2022). The primary fiscal tool used to support green investment in the package – tax credits – have long been used by governments in the US to deliver fiscal support that is not accounted for as government spending. In the Inflation Reduction Act, tax credits provided a hybrid fiscal means to deliver on this social investment logic by effectively borrowing from future tax revenue to expand private investment in the present.

While fiscal hybridity is often most visible, and useful, in a crisis, the COVID-19 response leveraged tools that were developed prior to the pandemic. Contestation over the expanding role of hybrid fiscal tools continued through the post-pandemic inflationary spike and the resulting return of austerity pressures. Biden's student loan forgiveness plans were challenged by Republican-led states in the US Supreme Court, who contested the authority of the Biden administration to act as a creditor by restructuring the terms of debt through executive power (Cowley, 2023). The bailout announced by the US Treasury, Federal Reserve and Federal Deposit Insurance Corporation in response to the collapse of Silicon Valley Bank in early 2023 ignited a debate over who exactly – depositors, shareholders or the financial system as a whole – was being, and should be, underwritten by the US government (Weisenthal, 2023). The effects of the Inflation Reduction Act reverberated beyond the United States to Europe. The European Commission responded by proposing to ease fiscal constraints on state spending, which had been temporarily suspended during COVID-19, on a more ongoing basis to allow European governments to match US subsidies (Espinoza & Fleming, 2023).

7. Conclusion

COVID-19 signalled a break in neoliberal orthodoxy, at least temporarily. Fiscal constraints seemingly dissolved while monetary policy was reorientated to expansionary fiscal goals. Placing recent developments into the context of a longer fiscal history, however, suggests the response to COVID-19 may highlight a more significant turning point that was underway before the pandemic, but became more visible in the crisis response. The politics of the tax state are anchored in struggles over the relationship between capitalism and democracy. Those struggles are mediated by accounting statecraft that demarcates and realigns public and private finance. Changes in the organisation of the state and political economy are therefore often reflected in changing fiscal methods, supported by new fiscal accounting techniques. Changes in national accounting accompanied Keynesian macroeconomic management and the rise of welfare states. Neoliberalism arose alongside forms of financial accounting in the private sector that were then applied asymmetrically within the state to narrow fiscal horizons. State responses to COVID-19, in part drawing on hybrid policy models, worked with the tools of the financialised state while challenging asymmetries in neoliberal budget rules to re-create 'fiscal space'. As the state takes on financialised roles more directly so it opens the possibility of democratic negotiation over the way it exercises its power in new, asset-based forms, such as creditor, underwriter or investor.

Changes in the state's 'fiscal reflection' potentially signal a broader change in the political economy. Keynesian tools are well suited to manage the business cycle of industrial production and the dominance of physical commodities to profitability. Asset-based logics not only reflect the advance of neoliberalism, but potentially respond to different democratic challenges. States have always acted to underwrite capitalism, but new crisis management tools such as the explicit use of quantitative easing during the financial crisis clarified the political choices being made. The movements that emerged in response demanded states underwrite households, not only capital. The COVID-19 experience suggests the political fallout from the financial crisis had some sway. Investment and liability logics have also become central to efforts at ecological transformation, where the upfront costs of climate action are routinely justified by mitigating very long run risks (Wagner & Weitzman, 2016). Finally, fiscal hybridity is potentially more compatible with economies where traditional divides between public and private, and paid and unpaid work, are being challenged by efforts to assert the value of care. None of this suggests particular outcomes, rather it points to a different terrain, or statecraft, through which the tensions between political legitimacy and capitalist accumulation will play out.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Data availability

No data was used for the research described in the article.

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