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Sociology of Finance – Old and New Perspectives

by

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"Finance – les nerfs de l'État" (Bodin)
"Le premier mobile d'un État" (John Law)

In their chapter on "Money, Banking, and Financial Markets" in the Handbook of Economic Sociology, Mark Mizruchi and Linda Brewster Stearns resume the tradition in studies on money, banking and finance by sociologists like Marx, Weber and Simmel. This tradition was not continued, they maintain, until Parsons and Smelser attempted to redefine a sociology of the economy in 1956. It seems hard to believe, however, that "financial issues received little attention from sociologists for several decades after Weber and Simmel". Is it true, that "despite the promising leads of classical thinkers, sociologists generally ignored the topic of money and banking in the post World War II period"? (Mizruchi/Stearns 1994:313, 316). It is not. There is a special European tradition of sociology of finance which should not be ignored because it still has an enormous cognitive potential. In the following paper, I will first give a preliminary overview of this tradition, some of the issues it has raised, and its methods ("Looking backward") and, second, of the sociological possibilities it suggests for further studies ("Looking forward").

Looking backward: Scholars and studies in sociology of finance

The term "Finanzsoziologie" was first used by the Austrian economist Rudolf Goldscheid, who in 1917 wrote a widely known book Staatssozialismus oder Staatskapitalismus. Ein finanzsoziologischer Beitrag zur Lösung des Staatsschuldenproblems. Goldscheid, a pacifist and socialist, supported the restoration of the old discipline of *Finanzwissenschaft* (fiscal economy), which, in his eyes, should be replaced by a *Finanzsoziologie.* Finanzwissenschaft merely provides the knowledge for getting enough tax contributions for the state, but does not give any perspective on the society as a whole. What is needed is a sociology which delivers more than technical knowledge of fiscal matters, that is, a sociology of finance. Finance is the key to state and society, and money is per definitionem debt of the state. He develops a whole anthropological program: states begin with war – as princes cannot pay the costs of warfare without raising taxes, tax raising for warfare is the foundation of the system which we call the state. As social beings, animals know struggles for survival, but they have no problems of war finance – as far as is known, they have no money circulation. This is not the place to follow Goldscheid on his path to a "Menschenökonomie" (Economy of man, see e.g. Fleischhacker 2000). Irrespective of his anthropology, Goldscheid has to be regarded as the founder of this tradition of Finanzsoziologie. His theory of the "Expropriation of the state" is linked to the new view on the state in the post-Marxian social democracy in continental Europe: while Marx and Engels saw the state merely as an instrument of bourgeois class politics, they neglected its integrative mission as provider of welfare (which began after the death of Karl Marx in 1883 with the introduction of social security in Germany). Bernstein saw this disposition of the state as a mediator of the class struggle and focused the social democratic program on the state as redistributor of social wealth. Goldscheid was impressed by the enormous potential of the national state to create a huge motivation for cooperation and productivity during the war, which could never have been attained by any private entrepreneur.

As long as the early principalities had enough resources from their domains, citizens benefited. At the moment when the costs of war exceeded the financial power of the territorial domains, the prince was forced to collect contributions from the citizens – the prince who had granted benefits now put claims against the same citizens. The status of the citizens changed from beneficiaries to taxpayers, the state arose out of the war. The evolution of the state was followed not only by the creation of a sphere of law but also by a redistribution of wealth: war ended with the enrichment of a few private citizens, who made profits out of the state expenses and out of lending capital to the state. For Goldscheid, who wrote this in 1917, it was clear that the First World War would end with the greatest redistribution of all times. Goldscheid argued along two lines: the political argument was that a poor state, which is a prisoner of the capital owners, can never be a legitimate constitutional state of justice because its sovereignty is secondary and not based on an autonomous financial power. The fiscal argument was that a state debt, which could never be managed by means of tax collecting, must lead to a revolutionary re-appropriation by the state of the main financial resources of the state.

Goldscheid' s article was widely debated as an argument for the historical necessity of the socialisation of the economy. His basic argument is undisputed: from its very beginning, the state is a huge distribution machine, invented in continental Europe originally as collector of taxes for warfare. Kings and dukes had to fill the gaps of their war-thesauri by collecting taxes from the estates, and mainly from the cities. By the end of war, they refused to cut the tax collecting for two reasons: installation of a permanent force for warfare, the standing army, and granting a living for the demilitarised soldiers.

In his article "Die Krise des Steuerstaates" (Schumpeter 1976/18), Schumpeter praised the merits of Goldscheid's view on the history of finance, and appreciated his sociological approach to look at the budget as the "skeleton of the state", dismantled of all ideology. The history of finance of any nation, Schumpeter maintained, is a substantial part of its history and the way in which the taxes are appropriated has an essential influence on the fate of peoples. He gives a series of examples to demonstrate the necessity of reviewing history under the auspices of finance and taxation and confirms Goldscheid's reflection on the coming into existence of states as a consequence of war costs, but he refutes the idea that the World War would imply the end of the tax state and the private economy. The limits for state debts are as wide and as narrow as the state's facilities to earn money or draw taxes. And the change of a private economy to a socialist economy does not automatically follow from a transgression of any debt limit, but only by the political will of the citizens: if they would decide for a socialist economy and against private property, the time would have come for a change into a state economy and the tax state would come to an end (Schumpeter 1976:350).

We know, that the end of the First World War brought about many changes – from monarchy to democracy, from currency stability to high inflation. Industrial relations have been reformed through the legalisation of trade unions as tariff partners, and through the newly established labour laws, but the core property rights as "the driving forces of social life" (Schumpeter 1976:346) were not changed. The welfare state worked as a mediator of class relations, not as general entrepreneur. Nevertheless Austria and Germany lost main parts of their sovereignty. Not only was their military power strongly limited, their fiscal autonomy was limited as well, as the Allies sent supervisors to Berlin and Vienna who had to check the decisions of the Central Banks which were separated through the Versailles treaty from politics. The state of Weimar as legal successor of the Kaiserreich was urged to pay huge reparations, thus piling up huge sums of state debts. This lead to a forceful resentment against the "westernisation" and the republican government, and reduced its political support during the economic crisis of the thirties. As Schumpeter pointed out: "Wir haben die innere und äußere Politik der Staaten mit havariertem Geldwesen in dieser Zeit vom Zustand ihrer Währungen abhängig gesehen. Und die desorganisierende Wirkung der Währungszerrüttung auf den Volkscharakter, die Moral und auf alle Verästelungen des Kulturlebens" ("We saw the politics of states as dependent on their currencies, and observed the destructive effects of damaged currencies on the character of nations, on their morals and on all aspects of their cultural life" – Schumpeter 1970:3).

After World War I, the sociology of finance ("Finanzsoziologie") emerged in Austria and Germany as a new discipline. During the twenties and again after World War II, the new discipline was taught by German, Austrian, French, Italian, Spanish and American scholars, amongst them Julius Landmann, Horst Jecht, Gerhard Colm, Robert Michels, Vilfredo Pareto, Herbert Sultan, Hans Ritschl, James O'Connor and, last but not least, Fritz Karl Mann, who taught in Cologne and later on in his US-Exile (see Prisching 1986: 240,ff). Some of them were socialists. Although none of them worked in the exact sense of Goldscheid, they all saw the necessity to widen the field of Finanzwissenschaft. Finanzsoziologie became a sub-discipline of Finanzwissenschaft, altering its perspective from the viewpoint of the state to the broader viewpoint of the social scientist. As Schumpeter claimed, Finanzwissenschaft had to enlarge to a sociology, dealing with the links between the economy and the state: finance was this link. The sociology of finance has to analyse financial relations in societies and we owe some pieces of high interest to this line of research.

It was Julius Landmann, for example, who pointed to the early professionalisation of high finance families in 11th and 12th centuries Italy. Landmann showed that the collection of contributions for the crusades in the 11th century by the Roman Catholic church was about to create the high finance (Landmann 1933). The contributions for the crusades, together with the possibility to give money for the letters of indulgence (someone, who was uncomfortable in taking part in the crusades, could dissolve from the obligation by giving money) finally made up the church tax and created the basis of a system of collecting money by a group of professionals that soon began to deal with the money by giving credits and lending parts of the sums to church members and to states. These high finance professionals formed the beginning of the European banking tradition, as it was incarnated by Italian families such as the Bardi, the Spini, Abbati, Peruzzi and others. High Finance, which began with the imperial church and developed with the state, remained connected to the tax state until roughly World War I. That is for as long as states were more or less private properties of monarchs. With democracy, things altered – although perhaps not as much as is often assumed.

From Fritz Karl Mann, to mention another figure, we have various small but brilliant essays, among them one on the financial backgrounds of the French revolution, and his masterpiece on the "Ideas of tax justice" ("Ideale der Steuergerechtigkeit"). Herbert Sultan gave a lesson on the theoretical impact of the sociology of finance in his entry in the Handbuch der Finanzwissenschaften (1950), and Hans Ritschl was occupied with the public firm and creator of the journal of public firm ("Zeitschrift für Gemeinwirtschaft"). These are only a few examples of fruitful research in this field.

The already mentioned example of Landmann shows the typical method of the sociology of finance. It was historically and process oriented, considering the financial interests and burdens of the main social groups (supposing not rational homo economicus, but the fact that not all social groups are actually aware of their financial burdens). The sociology of finance looks at the power struggles between different groups, their different modes of competition, their different ways of formulating interests and opposing imputations, their various relations to the state and its clerks. It looks at the financial perspectives of people of different social strata, e.g. their ways of saving and their mode of caring for the old age, seeking typologies of group interests and their changes under institutional dynamics and political steering. The sociology of finance is a genuine sociology, as it looks for the actual interests, power struggles and motifs of people's acting, with the state budget as the primary focus and the "fundamental part of the political process" (Gerhard Colm).

It is not the place here to answer the question of why this field more or less disappeared as a discipline, as was the case in Germany during the 1960s. Too little is known about the scholars involved, their careers and their work. But the questions they raised are still on the agenda, both inside and outside the discipline, and it might be time to reconsider this kind of work again.

Looking forward: new perspectives

Democracy in continental Europe began with the control of the budget by the parliament. Until the end of World War I, only citizens who paid taxes were allowed to elect representatives for the parliament. Now all citizens of 21 years and older elect their representatives, and the most debated items of parliaments are budget questions. The budgetary potentialities include the potentials of empowerment and entitlement of citizens. As more and more financial means run through the channels of parliaments, an increasing number of questions of participation are at stake. This includes the implications of these questions for the life chances of individuals. On the other hand, the more the state looses and the more private finance dominates the capital markets and the conditions of lending, the more the state seems an enemy of private interests of money collecting (Schumpeter 1976:345).

The state is the distributor of collected tax money and its legitimacy depends on the purposes to which it dedicates the money. Every budget is a clear mark of the political power relations in a society: who gets what, who pays for whom, which economic party is most represented in the political system, which one is not well represented – questions that decide the fate of every part of the population. Is there still a special class of professionals that one could call high finance? If so, how much influence do they have on governments?

It belongs to the discoveries of the sociology of finance, that the state is not merely a technical institution, but lays in the heart of the national contests about infrastructural priorities, subsidies, taxes, fees, customs, duties, tariffs, tolls and even the conditions under which private banks can lend money from the central banks. All these conditions of life, work and commerce are the outcome of political contests between the different groups and interests in a nation (and between nations), which are promoted through the state. The state budgets are only representations of the different forces of the specific interest groups, which form the political and the economic nation. Budget positions, budget restrictions and budget expansions are part of more or less open power struggles in the nation state.

With the English school of liberal economics, the state vanished as an economic actor: for Adam Smith, the state was not part of the production process. To this Goldscheid complained that the state is seen only as juridical phenomenon, not as an active economic actor. But it is obvious that even in the USA, where the state was not very advanced until the twentieth century, the necessity of building a welfare state during the Great Depression in the thirties created the professional civil servant and the potential of a state like continental Europe, which covers more and more fields of general interest. From foreign policy tasks in the military and diplomatic realm, building protection shields for oil access or property rights interests in foreign countries, to social security aims, medical aid and not least originally civil movements like consumer protection or workplace protection, the duties of governments are expanding, not diminishing. The binding force here is finance.

It seems curious that many economists close their eyes to the obvious economic power of the state, claiming that market forces are the only preference selection factor. From the American Revolution on, which started under the slogan "no taxation without representation" (that meant, political participation due to the money power), to figures like Charles Merrill, who made a fortune by selling tax redempted pension schemes to middle class people in the 1930s, to the most powerful actors in financial markets today, the pension funds, we find not only changes in the lives and hopes of people for security and changing attitudes in the finance sector, but also changes in the dominance of professional finance groups, made possible or initiated by special state laws. Pension funds are backed by tax laws. That puts them into their strong position as the "backbone of Wall Street": pension funds are growing through permanently streaming flows of money from savers of pension schemes, which collect claims from these funds for their old age. Without the tax redemptions, they would maybe give their money to other securities. Pension funds are steering the fate of the same firms where their clients may work, and they are steering the steps of rationalisations for the sake of more profits. Pension funds work for the pensioners, who can gain a better living by raising share values while the payers may loose their jobs. So the power of pension funds might be called the rule of gerontocracy. The gerontocratic interest in raising the shareholder value helped bring into existence a huge mass of lawyers and judges fighting for the distribution of profits to the pensioners, and gaining themselves high provisions.

Finance systems are a prominent field in the currently dominating economic formation in the western countries: the audit revolution, booming merger and consulting culture, or the implementation of funds managers as successors of the production firm bosses. All this might be seen as new economic formation, a new epoch in the economy following the period of Fordism. For the understanding of these changes, it seems to be fruitful to reconsider the research which has been done in the tradition of "Finanzsoziologie".

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