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INTRODUCTION

Taxation is hardly a peripheral subject in sociology. Our canonical texts describe taxation as one of the most important factors that can foster or impede capitalist economic development and the reproduction of class inequality (Marx & Engels 2012 [1848], Weber 1978). Sociologists today regularly assign our students nineteenth-century texts that recommend progressive taxation as a means of "revolutionizing the mode of production" (Marx & Engels 2012 [1848], p. 60) or ameliorating the "abnormal" division of labor (Durkheim 1984 [1893], p. 310). Yet few of us train our students to follow these leads. It is not an exaggeration to say that the fields of development studies and stratification research ignored taxation altogether as they developed in twentieth-century American sociology (cf. Grusky 2008). This neglect not only severed sociology from some of its theoretical traditions, it also marginalized sociological discourse about poverty and inequality by cutting it off from the most salient policy debates about these issues in our time.

Our goal in this review is to introduce sociologists to important contributions of the recent empirical literature on taxation. We focus on research conducted since Campbell's (1993) review in this journal. In the intervening decades, tax policy debates have assumed increasing public prominence, and more sociologists have begun to contribute to the burgeoning interdisciplinary literature on taxation and social change. Although we refer to this field as fiscal sociology, we do not limit our attention to scholarship by sociologists. The term fiscal sociology was popularized by the economist Joseph Schumpeter (1991 [1919]), who argued that public finance was the key to understanding the development of modern societies. Schumpeter's essay on the tax state focused on the contribution of taxation to the emergence of constitutional governments in early modern Europe, and comparative historical sociologists have made several important contributions to the study of taxation and state building in early modern Europe. We focus this review instead on the contributions fiscal sociology can make to the study of poverty and inequality in the twentieth and twenty-first centuries, with the aim of demonstrating the relevance of fiscal sociology to concerns that are central to the broader discipline. (For an earlier review on the comparative historical sociology of taxation, see Martin et al. 2009.) It is our impression that many sociologists who study poverty and inequality ignore the effects of taxation not because they think those effects unimportant but because they think them so obvious as to need no investigation. We hope to show the effects of taxation are not only too important to ignore but also, in some cases, too surprising to be assumed. Sociologists who ignore recent scholarship on taxation will misunderstand the causes of poverty and inequality and the means to address them.

The scholarship on poverty and inequality is bifurcated into a literature on poverty and inequality within rich countries and an essentially separate literature on development in poor countries. The structure of our literature review follows this conventional division. The next section of this review examines the persistence of poverty and inequality in rich countries, and the section following that examines development in poor countries.

TAXATION AND INEQUALITY

Two recent social changes have primed sociologists of inequality to devote more attention to the effects of taxation. The first is the spectacular growth in the income share of the top percentile since the 1970s. This increase in income inequality at a time when other dimensions of stratification have been growing more equal has led sociologists to abandon composite models of socioeconomic status in favor of modeling income directly (see Hauser &

Warren 1997, Morris & Western 1999). Much recent attention has focused on the top incomes database compiled from tax data by Atkinson et al. (2011), which documents a U-shaped pattern of income inequality in many countries over the twentieth century (for comparisons to other data sources, see also Brandolini 2010). Piketty & Saez (2003) observe that this U-shaped trend of income inequality in the United States resembles the inverse of a graph of top marginal income tax rates, and the recent rise in inequality coincided with the period of neoliberal tax policy. Until recently, however, the evidence for the effect of taxation was impressionistic (McCall & Percheski 2010).

New quantitative estimates strengthen the conclusion that tax policy has had some influence on the increasing income share of the rich. Volscho & Kelly (2012) use a time-series regression model to show that decreases in the top marginal tax rates on personal income in general, and capital gains in particular, are correlated with subsequent increases in the market income share of the top percentile, although the effects are modest and apparently sensitive to the specification of the regression model (cf. Mollick 2012). Stronger evidence of causation comes from comparative studies that exploit cross-section time-series data to construct plausible control groups. Atkinson & Leigh (2013) analyze five rich, English-speaking democracies and report that the top marginal tax rate on labor income is negatively correlated with the market income share of the top percentile. Roine et al. (2009) analyze a larger sample of 16 countries and show that increases in the marginal tax rate faced by the richest percentile are associated with slight decreases in their share of market income. These studies collectively present a strong case that tax cuts in the top brackets have increased the market income share of the rich. The mechanisms by which these tax cuts increase the market (or pretax) incomes of the rich, however, are not yet fully understood (Kelly 2005).

One possibility is that tax cuts in the top brackets may have simply revealed preexisting market inequality by reducing rich people's tax avoidance. Many high-income taxpayers are executives with considerable freedom to adjust the form and timing of their income; the more income they take in the form of taxable earnings or dividends on the books, the more income may appear in databases compiled from published tax data (e.g., Gruber & Saez 2002, Piketty & Saez 2007, Gordon & Slemrod 2000, Alm & Wallace 2000). There is some evidence that top-bracket tax cuts reduce tax avoidance, but the long-run increase in measures of inequality in many countries, including the United States, appears to exceed what could be explained by changes in tax avoidance alone (Atkinson et al. 2011).

Another possibility is that income tax cuts may increase pretax incomes by encouraging the rich to work or allowing them to invest more than they would otherwise. Estimates of the labor supply elasticity of high earners with respect to the top tax rate vary; many studies suggest that this elasticity, at least among men, is indistinguishable from zero (Moffitt & Wilhelm 2000), but in some professions and among the self-employed, the effect of tax rates on hours worked may be substantial (Thurston 2002). Reductions in corporate or personal income tax rates increase the profits available for reinvestment and may thereby have substantial effects on the capital gains of individual investors when compounded over the long run (Piketty & Saez 2003).

A third possibility is that income tax cuts encourage rent-seeking behavior by executives. Piketty et al. (2014) present evidence that executive pay rose most quickly in countries in which the top tax rates were cut the most deeply, especially in firms whose directors have little ability to monitor or control executive pay. These authors argue that low tax rates induce executives to strike compensation bargains that reward them at the expense of the firm's shareholders and workers. This argument is clearly compatible with recent work by sociologists on executive pay (Tomaskovic-Devey & Lin 2011, Weeden & Grusky 2014).

The recent turn toward tax policy as an instrument for alleviating poverty has also brought tax policy to the attention of sociologists. The last decade of the twentieth century saw the adoption or expansion of earnings-conditional tax subsidies to alleviate working poverty in a majority of developed democracies (Kenworthy 2011). The Earned Income Tax Credit (EITC) expanded dramatically in the past two decades to become one of the largest federal antipoverty programs in the United States. The EITC is a credit against personal income tax liability that may be claimed by parents who have earned income below a threshold amount. Benefit levels phase out gradually with rising earnings to avoid marginal tax rates in excess of 100%. If the amount of the credit exceeds a claimant's income tax liability, then the EITC functions as a negative income tax—in effect, a transfer payment that is administered by the Internal Revenue Service (IRS) and processed as if it were a tax refund. The EITC now distributes more cash than any other means-tested federal or federal-state antipoverty policy, including Temporary Assistance to Needy Families (TANF). Indeed, it is sometimes suggested that the expansion of the EITC in the 1990s may help explain why the welfare reform of 1996 did not immediately increase poverty, as many sociologists expected it would (Lichter & Jayakody 2002).

The question of whether the EITC alleviates poverty, however, is more complex than is usually understood. The tax credit has no direct effect on official poverty statistics because the Census Bureau excludes tax credits from income when calculating the official poverty rate (the new Supplemental Poverty Measure remedies this oversight). Simply observing the contribution of the EITC to the budgets of many near-poor families is a common but incorrect way to estimate the causal effect of the EITC on total income because many recipients might adjust their behavior in other ways if the tax credit were not available. Better-identified estimates of the effects of the EITC indicate that it does increase the income of the typical recipient but by less than the amount of the credit (Eissa et al. 2008, Eissa & Hoynes 2011, Rothstein 2008).

Much of the literature on the EITC is less concerned with its effects on poverty than with its effects on the labor supply and family formation of the poor. Benefit levels and eligibility thresholds differ for married and single parents, but scholars have found little evidence that the financial incentives created by the EITC affect decisions to marry (Ellwood 2000) or divorce (Dickert-Conlin and Houser 2002). By contrast, several studies show a substantial effect of the EITC on single mothers' decisions to participate in the labor market, although it has little effect on hours worked once they are employed (Eissa & Hoynes 2006, Hotz & Scholz 2003). The aggregate effects may be substantial: Noonan et al. (2007) find that increasing EITC benefit levels (rather than TANF work requirements or the availability of jobs) account for the greatest share of the increase in single mothers' employment from 1991 to 2003.

Scholars have also begun to examine whether tax credits for the poor have different effects from traditional cash welfare policies. One possible difference concerns social stigma. The EITC is generally assumed to be relatively nonstigmatizing, both because it is conditional on labor force participation and because applications are handled through the income tax administration—thereby associating receipt with the valued social statuses of worker and taxpayer (but see Brown 2007). As Mendenhall et al. (2012, p. 371) note, "At H&R Block and its competitors, an EITC claimant is no longer a recipient but a customer." According to Mettler & Stonecash (2005), many high-income survey respondents report incorrectly that they receive the tax credit, which is consistent with the hypothesis that EITC receipt is a nonstigmatizing status. In a regression analysis of data from the National Longitudinal Survey of Youth 1979

(NLSY79), Caputo (2010) found no evidence that EITC receipt suppressed civic engagement, as other stigmatized programs do. Brown (2007), however, presents textual evidence from Congressional debates to show that EITC recipients have not wholly escaped the stigma associated with welfare receipt and argues that this stigma accounts for the disproportionate scrutiny that EITC claimants appear to receive from IRS auditors.

Another difference from traditional cash welfare is that most EITC recipients opt to take the benefit in the form of an annual lump-sum payment, often treating it as a kind of forced savings with advantageous effects for their mobility out of poverty. Recipients often earmark the credit for debt reduction, savings, or purchases that enhance social mobility, such as a car or a security deposit on an apartment (Mendenhall et al. 2012, Romich & Weisner 2000, Smeeding et al. 2000). Studies also find that the EITC is disproportionately used to invest in children's human capital (Romich & Weisner 2000) and that EITC benefits increase children's academic performance (Dahl & Lochner 2012).

Targeted tax credits may also have some perverse effects. By inducing more low-skill workers into the labor market, for example, tax credits like the EITC can increase competition for low-wage jobs, thereby depressing wages (Kenworthy 2011). Leigh (2010) estimates that the negative effect of the EITC on wages may be sufficient to cancel the net benefit of an EITC increase for the average high-school dropout. Rothstein (2010) computes that employers of low-wage labor in the United States may reap as much benefit as the direct recipients of the EITC and that both may benefit primarily at the expense of ineligible poor people. The net distributional effect of the tax credit also depends on the counterfactual distribution of the foregone revenue. The EITC may require higher taxes on nonrecipients or lower government spending than would otherwise be the case, and the distribution of these costs is unknown. The literature broadly supports the view that the EITC ameliorates poverty on average, but it is a policy with winners and losers, and some of those losers are also poor.

In addition to targeted tax credits, taxes may also impact poverty and inequality indirectly by raising revenue for transfers to the poor; tax policy choices may also affect which transfer programs are possible. Accounting comparisons of pretax, posttax, and posttax-and-transfer income distributions in rich countries generally show that the distributional profile of social spending is more egalitarian than the distributional profile of taxes (Rainwater & Smeeding 2003, Kenworthy 2011,). But calculating the difference between pretax and posttax income is not the same as measuring the effect of taxes. Pretax is an accounting term for market income, which results from transactions between buyers and sellers who typically have some knowledge of tax policy parameters that precede the transaction and who may adjust their behavior accordingly (Rainwater & Smeeding 2003). Accounting comparisons therefore do not tell us much about the redistributive effects of particular tax policy choices, which may include their indirect effects on the market income distribution and the generosity and redistributive profile of transfer spending. To measure the effect of tax policy, as with the causal effect of any other public policy, we need a comparative, quasi-experimental, or regression-based research design. The point is elementary, but even some otherwise excellent descriptive contributions to the comparative sociology of poverty and inequality occasionally make a misleading reference to the pretax/posttax difference as the "effect" or "impact" of taxation (e.g., Smeeding 2006, p. 79; Kenworthy 2011, ch. 8).

Comparative studies suggest that the indirect effects of tax policy on the distribution of social spending may be substantial. Recent studies have established that tax policy and social spending covary in a surprising way: The most solidaristic welfare states, including those that accomplish the most poverty reduction, also rely the most heavily on regressive taxes (Steinmo

1993, Kato 2003, Beramendi & Rueda 2007, Prasad & Deng 2009; but see Newman & O'Brien 2011). Large welfare states may rely on regressive taxes because this tax mix is conducive to economic growth (e.g., Lindert 2004 and see studies cited below); because progressive taxes undermine the political consensus in support of the welfare state at either elite or mass levels (Beramendi & Rueda 2007; Hays 2003; Wilensky 1976, 2002; Kato 2003; but see Martin & Gabay 2013); because progressive taxes may be more prone to tax preferences (Prasad 2012); and because progressive taxes are less likely to provoke capital flight (Ganghof 2006). The last of these mechanisms has received the most sustained attention in the literature. Early predictions that globalization would undermine the welfare state by leading to a "race to the bottom" in capital income tax revenue were not supported (Swank 1998; Swank & Steinmo 2002; Hallerberg & Basinger 1998; Kiser & Laing 2001). Top tax rates also have very little effect on interstate migration in the United States (Young & Varner 2011). Nevertheless, recent studies find some evidence that the liberalization of international capital markets in rich democracies does lead to reductions in top statutory tax rates on capital income (Swank & Steinmo 2002, Swank 2006, Ganghof & Genschel 2008), shifts in the taxation of income from capital to labor (Ganghof 2005, Hays 2003), and convergence—though not an average reduction—in the average effective tax rate on capital income (Hays 2003, Genschel and Schwarz 2011). The implication of this literature is that some tax structures are indeed more functional than others for sustaining expensive welfare states in world markets, but controversy remains over the precise political mechanisms by which large welfare states come to be financed by regressive taxes.

Other tax policies may exacerbate poverty. Scholars of means-tested welfare programs are familiar with the idea that the implicit income tax on benefits paid to participants near the eligibility threshold may create a so-called poverty trap: Participants in such programs are said to be trapped in poverty when they cannot increase their work hours without losing more benefits than they stand to gain in earnings. As Hout (1997) observes, the EITC benefit schedule was designed precisely to avoid such poverty traps, but as Romich et al. (2007) point out, when it is combined with other means-tested programs, the EITC may still cause some low-wage workers to face implicit marginal tax rates in excess of 100%. Romich (2006) reports longitudinal ethnographic data on how poor people respond to the implicit marginal tax rates associated with exit from means-tested programs and shows that such taxation is often experienced as an unintelligible, uncontrollable, and arbitrary imposition. This qualitative finding may help to explain the common quantitative finding that the number of hours worked by the poor is inelastic with respect to marginal tax rates (Moffit & Wilhelm 2002): Many poor people respond to high implicit marginal tax rates by paying the tax and suffering, rather than by opting out of work. Heavy tax burdens borne by the poor may, in turn, have a variety of negative consequences. Newman & O'Brien (2011) report small but measurable effects of poor people's tax burdens (net of the amount of social spending) on the annual, state-level rates of various events—including property crime, violent crime, high-school dropout, and births to unmarried mothers—that may contribute to the reproduction of poverty. There are obvious opportunities to follow up on these aggregate correlations with microlevel studies, both quantitative and qualitative. Taxation appears to be a favored policy instrument for influencing the behavior of the poor, and we have much more to learn about how taxes affect the lives of poor people.

In the past two decades, scholars have also drawn attention to how taxation structures categorical inequalities of gender, sexuality, and race. Although the US federal income tax code is formally gender-neutral, several analytically distinct biases favor single-earner married couples in which one spouse participates in the labor market and the second spouse provides caring labor at home, or that create a bias against the secondary earner (see McCaffery 2007, 2009). Cain (2000) enumerates biases against unmarried couples—including, at the time of this writing, same-sex couples in most US states—in the federal personal income tax. Moran & Whitford (1996) calculate that many of the most lucrative federal income tax deductions and exemptions are disproportionately unavailable to black income tax payers. Examples include the deduction for home mortgage interest, which favors high-income people with expensive homes, and the tax exemption for income that takes the form of employer-provided health care and pension benefits (see also Fischer et al. 1996, p. 138). Oliver & Shapiro (2006) note that the tax preference for capital gains income also favors white over black income tax filers. Brown (1999) calculates that African American couples are most likely to face marriage penalties, whereas upper-income white couples are most likely to face marriage bonuses. Much more research needs to be done to quantify the contributions of these and other tax inequities to the durable inequalities that structure modern American society.

The literature we have reviewed so far assumes the existence of a certain level of economic development and a functioning and democratically controlled tax state that can be used to alleviate poverty. But recent literature indicates that tax policy itself may be one of the causes of development, and attention has therefore turned to the question of how to establish such a tax state. We turn now to the literature on development, which is understood to include economic growth and responsive political institutions.

TAXATION AND DEVELOPMENT

Scholars of taxation suggest that fiscal capacity can be a cause of political and economic development, not merely a consequence of it. Indeed, some scholars identify this proposition with the phrase fiscal sociology (Moore 2004). We organize our discussion of the literature around three questions: How does taxation affect development? What do we know about establishing effective taxation regimes? And does foreign aid undermine development by undermining tax collection?

Research on whether and how taxation affects development has had two primary foci. First, economists have conducted dozens of studies on what levels and structures of taxation are most conducive to economic growth, with mixed conclusions. Second, sociologists and political scientists have developed a research tradition showing that taxation affects state capacity and governance. There is as yet little research on how taxation affects factors such as infant mortality, life expectancy, education, and other indicators of social development (but see Newman & O'Brien 2011), but the literature to date nevertheless makes a strong case that taxation is a central issue in development.

In the economic literature on taxation and economic growth, the main difficulty has been isolating the effect of taxation itself from the effect of the spending those taxes finance. A secondary issue has been separating the effect of levels of taxation from that of the structure of taxation. The field has made the most progress in identifying which taxes are conducive to economic growth. Economists almost unanimously agree that consumption taxes are more successful than income taxes at generating growth and, likewise, that progressive taxes do less than regressive taxes to increase growth (e.g., Summers 1981, Pecorino 1993, Pecorino 1994, Kneller et al. 1999, Jorgenson & Yun 1986, Widmalm 2001). Given the lack of consensus in most areas of economics, the agreement on this finding is remarkable.

If there is consensus on the question of tax structure, however, there is little agreement on whether high or low levels of taxation are better for growth. Some studies find that increasing tax rates reduces growth, but others find that this applies only to developed countries or countries with high tax levels and that increases in taxes are associated with increased growth in developing countries (e.g., Carrère & de Melo 2012, Miller & Russek 1997; see Nijkamp & Poot 2004 for a review and meta-analysis).

Many researchers find that if taxes finance certain kinds of spending, economic growth will benefit. Particularly important is a reduction of debt-financed spending: Countries can often increase economic growth if they lower their budget deficits and public debt (Adam & Bevan 2005; for an overview, see Gupta et al. 2004). Spending on education, health, and transport and communications infrastructure may also benefit growth (Bose et al. 2007, Easterly & Rebelo 1993, Gupta et al. 2004, Nijkamp & Poot 2004).

Thus, a provisional conclusion from the economics literature is that if all else were equal, lower taxes might be more conducive to growth than higher taxes, but the structure of the tax system seems to be more important than the level. Specifically, consumption taxes are more conducive to growth than taxes on income, and high levels of taxation may benefit growth if the revenue is spent on education, health, infrastructure, lowering excessive public debt, or other productive investments.

Another argument for taxation affecting development comes from sociologists and political scientists who study state capacity, quality of governance, and democracy as aspects of development. Charles Tilly (2007) revived the tradition of early twentieth century fiscal sociology (Schumpeter 1991 [1919]) for contemporary historical sociologists. Tilly argues that democracy arose in the European context when the state moved from controlling production itself to depending on taxes from private economic actors for its revenue. These private actors then demanded control over how their taxes would be spent, initiating the bargaining process that would eventually result in the establishment of representative institutions and the full flourishing of democracy. For example, scholars have argued that democratic milestones, from the Glorious Revolution of 1688 to the American Revolution of 1776 to the convening of the Estates General in France in 1789, were driven by the demands of states for new taxes (Mann 1980, North & Weingast 1989, Draper 1997, Hoffman 1994).

Does the association between taxation and representation still hold today? Michael Ross (2004) has provided the best large-sample test of the claim that taxation leads to representation in the late twentieth century, arguing that this is only the case when and where governments do not spend tax revenue on services—that is, taxpayers are most likely to demand representation where they feel their tax money is being wasted (but see Herb 2005). Bräutigam (2008) shows that an export tax in Mauritius led planters to create a Chamber of Agriculture in 1853, thus directly building state capacity. Baskaran & Bigsten (2013) find fiscal capacity affects the quality of governance in sub-Saharan Africa, and Altunbas & Thornton (2011) find that taxation strengthens governance in 117 developed and developing countries. Scholars in this tradition argue that taxation represents and makes possible a social contract between citizen and state, with positive consequences for the ability of the state to finance the public spending necessary for development.

For all these reasons, creating reliable taxation regimes has become a key part of the current development agenda, and scholars have begun to examine how countries establish a strong tax state. In Europe, strong revenue collection regimes were born during wartime. This argument is again associated primarily with the research of Tilly (2007), who argues that wars give an impetus for building tax administration on the part of the state, an impetus for compliance on the part of taxpayers, and an evolutionary process by which states that do not succeed in building tax regimes are absorbed by states that do. There is strong support for the argument that warfare had this effect on tax regimes in developed countries (e.g., Campbell & Allen 1994, Steinmo 1993, Hobson 1997, Scheve & Stasavage 2010, 2012). However, there is no consensus on whether this theory can be applied to contemporary developing countries. Miguel Centeno (1997, 2003) casts doubt on the general claim that wars necessarily lead to state development by arguing that wars did not do so in Latin America. Rather, he argues that for wars to lead to state building, some level of state organizational capacity must already be in place, and this capacity depends on the existence of an alliance between a political institution and a strong social sector. Another reason why contemporary wars may not have the same historical effect on state building is that civil war is the most common form of war today, and civil wars may actually undermine state building and economic growth by disrupting domestic markets and destroying domestic productive capacity (e.g., Collier et al. 2003; but see Rodriguez-Franco 2012). Cameron Thies (2004, 2005, 2007) has attempted to reformulate this argument for developing countries. He acknowledges that wars may no longer have the hypothesized effects on state building because international intervention prevents states from absorbing one another as they could in early modern Europe and because the existence of international credit markets and foreign aid provides alternatives to internal taxation. However, Thies argues that enduring rivalries short of war still provide an impetus for state building.

Another strand of the literature attempts to inductively identify the factors that lead to better administration and compliance in developing countries today. Marcelo Bergman (2009) compares tax-evading Argentina with tax-complying Chile, which have similar levels of economic development and tax administration capacities. He suggests that there is a virtuous spiral in tax administration, such that Chileans perceive the possibility of getting caught to be very high and therefore do not cheat. Because cheating is therefore so rare in Chile, cheaters are easily apprehended by the tax administration, reinforcing the perception that cheaters will get caught. In Argentina, the sheer number of cheaters overwhelms the tax administration, and they get away with it. Bergman finds experimentally that social messages are crucial: Messages that the average compliance rate is high improve compliance, and messages that the average compliance rate is low reduce compliance. This research is an empirical demonstration of Margaret Levi's (1988) arguments concerning the importance of punishing free riders in generating compliance; Bergman extends her work by showing that where there is high noncompliance, it becomes difficult to punish free riders, increasing noncompliance and resulting in a vicious cycle. A historical explanation is therefore needed to explain how Chile first got onto the virtuous path and Argentina onto the vicious one, but Bergman stops short of conducting such an investigation. Others have suggested that the answer lies in the particular character of Argentine federalism, which made the central government beholden to the provinces (Melo 2007). Still other researchers have studied the specific political strategies by which the elite can be induced to pay taxes (Fairfield 2013, Abelin 2012).

Further research focuses on the relationship between state and taxpayer. Several scholars argue that revenues rise when there is a fiscal contract between state and citizen; that is, when states use tax revenues to benefit citizens broadly and offer citizens representation in governance. For example, Timmons (2005, 2010a,b) argues that if taxation reflected predation by the state, the groups that pay taxes would not be the ones that benefit from services. He finds that the groups that pay tend to be those that benefit. He therefore concludes that tax regimes do indeed develop as a kind of negotiated fiscal contract between the state and the taxpayer.

Because taxation is so important to development and democracy, a number of researchers have wondered whether the choice to rely on foreign aid instead of taxation may weaken the impetus for democracy and development. These researchers hypothesize that states that receive significant amounts of foreign aid may thereby escape the need to bargain with their citizens for tax revenue . The strongest version of this claim comes from Djankov et al. (2008), who argue that recipients of foreign aid see large and significant declines in democracy. Deborah Bräutigam & Stephen Knack (2004) find that aid leads to lower tax revenue in African countries, and Kiren Aziz Chaudhry's (1997) historical research shows that the rise of an economy dependent on foreign aid and remittances in Yemen had effects strikingly similar to the rise of an economy based on oil in Saudi Arabia: In both cases, tax institutions were dismantled.

There is thus some evidence for the claim that taxation leads to state building and that foreign aid can undermine development by undermining tax collection. But there are also reasons to doubt this claim. First, much of this literature is built on instrumental variable regressions in which other variables are used as instruments for aid. The robustness of the claims depends on how good these instruments are, but there is reason to be skeptical on this score. For example, Djankov et al. (2008) and Bräutigam & Knack (2004) both use the strategic interests of donors as one of their instruments for aid, a common instrument in research on aid effectiveness. But the kind of aid that is proxied well by the strategic interests of donors is likely to be the aid least likely to help developing countries, as strategically oriented donors will give to projects that benefit themselves rather than projects that truly address the needs of the recipient country (Bearce & Tirone 2010). Second, there are historical examples of cases in which massive amounts of foreign aid did not lead to lower tax collection, e.g., Japan after World War II (Prasad 2013). If aid does not inevitably undermine tax collection, then we need to identify the conditions under which it does, rather than giving up on aid altogether. Third, in some cases, scholars seem to leap ahead of the evidence, as when any instance of tax protest is assumed to indicate state building, even if the result of the protest goes no further than reduction of the tax (Fjeldstad & Therkildsen 2008, Gallo 2008). And finally, some scholars and policy intellectuals have derived policy advice from these arguments that is, on closer reflection, somewhat troubling: These researchers argue for strengthening tax administration to increase democratic accountability (Organ. Econ. Coop. Dev. (OECD) 2008, Prichard 2010, Fjeldstad & Heggstad 2011, Bräutigam & Knack 2004), which amounts to an argument that democracy should be encouraged by taxing people until they rebel.

There is an urgent need for more research on the relationships between aid, taxation, and democratic governance. The claim that foreign aid undermines democracy by undermining taxation can have real-world consequences if this leads to less foreign aid flowing to the developing world.

CONCLUSION

The studies we review here show substantial progress in our understanding of the relationship between public finances and society in the 21 years since Campbell's (1993) review. We now know, for example, that globalization did not cause a "race to the bottom" in capital tax rates but that it may indeed have led to some convergence in tax structures; that reductions in top tax rates have increased inequality since the 1980s; that earnings-conditional tax credits may be particularly effective at alleviating poverty for some poor people; and that a particular tax mix is associated with the size of the welfare state. Pressing questions now concern how these particular associations arise. In the area of development, we now understand that taxation need not be a hindrance to growth if the revenues raised are spent productively. We also know that taxation played a role in democratization and state building in Europe. However, there is disagreement as to whether taxation contributes to state building in contemporary developing countries and whether foreign aid undermines democracy by undermining taxation. These questions are sites of considerable current research.

Our review also indicates other opportunities for progress. Scholars have barely begun to investigate the relationship between tax policy and social development, including such classic dependent variables as public health, public education, generalized trust, and violence. We need a better understanding of exactly how robust tax regimes are built. Regressive taxes may burden the poor, but cross-sectional studies show regressive taxes may sometimes raise more revenue for transfers to low-income people. Longitudinal studies of top income shares show that progressive rates may reduce inequality, but progressive taxes may also undermine political support for redistributive spending. To make sense of this evidence, the next generation of studies must move beyond unconditional statements about whether particular tax policies matter for particular outcomes; they must also theorize the conditions under which particular policies may influence particular outcomes and clarify the policy implications that derive from this research.

Progress toward this end will depend on more social scientists taking tax policy seriously as an independent variable in its own right. Sociologists who wish to measure the redistributive effects of taxes and transfers must move beyond naïve comparisons of pretax and posttax income and instead take this question as seriously as they take any other problem of causal inference. This means thinking carefully about counterfactuals and research design. Sociologists who wish to join this enterprise also will need to attend to the literature in allied disciplines, which are now addressing some of sociology's classic concerns. Fiscal sociology has always been a disciplinary border area and is likely to remain one, but it is one to which sociologists surely have much to contribute.

This research is worth doing because it promises to shed new light on some of the central problems of our discipline, including the causes of poverty and inequality in rich nations and the persistence of underdevelopment around the world. If sociologists continue to ignore the effects of tax policy, we will miss central dynamics of poverty and inequality in the twenty-first century and condemn our discipline to the margins of political discourse on these subjects.

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