On the sociological approach to public finance

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The sociological study of credit in political economies is useful entry point for understanding what economic sociology can bring to the study of public finance. In this research note, I want to highlight one aspect of this, namely how a sociological focus on the political economy of credit enables an approach to public finance that is both critical and expansive.

In the wake of the 2008 economic crisis, research on the circulation of credit in political economies has flourished. Scholars such as Crouch (2011), Streeck (2014), and Soederberg (2014) have shown that in an era of global financialization and neoliberalism, easy credit has shifted the costs of consumption from governments to families. As this process has unfolded, family debts have expanded and the financial sector has reaped a windfall. In a similar vein is Krippner's (2011) work on the origins of financialization in the United States. Krippner found that policies crucial for the financial turn, such as market deregulation, were an attempt by lawmakers to avoid openly rationing resources at time of economic contraction and mounting fiscal pressure.

In all of these works, matters of public finance, such as fiscal crises and balanced budgets, are addressed as part of a larger story of the transformation of capitalism itself. As such, they contain lessons for what it means to think about public finance sociologically. Sociologists do not start with strong assumptions about markets as efficient resource allocators, or with any pristine definition of the nature of public goods. Instead, sociological engagements with public finance reflect a broader set of commitments at the heart of economic sociology. This includes a recognition of markets as sites of exploitation, domination, and extraction. It also includes a recognition of public goods not merely as collective action problems, but rather as the stakes in an ongoing political battle over the very nature of citizenship, solidarity, and social obligation. The task of the sociologist is not to elaborate a formalized model of efficiency in the public or private sectors, but rather to explicate how various groups adjudicate who gets what and how.

We can extend this further with a closer look at the case of credit in the US political economy. Scholars such as Logemann (2012), Trumbull (2014), and Prasad (2012) have shown that in the United States access to credit has long served the functions of social policy, insofar as families have relied on credit to smooth consumption, ride out hard times, provide economic resources in old age, or secure core goods such as health care and education. This is consistent with the finding of comparative housing scholars such as Kemeny (2001), Castles (1998), and Schwartz and Seabrooke (2009), who observe that government support for home loans – mortgage interest deductions and mortgage insurance and guarantees – are a form of social policy. For many Americans, credit-fueled homeownership is a primary mode of savings over the life course.

In *American Bonds: How Credit Markets Shaped a Nation,* I built on this work by looking at the rise of federal credit programs. These programs direct the flow of credit to specific groups and industries by issuing, buying, selling, insuring, and guaranteeing loans. Tracing these programs from the founding era through the 1960s, I found that credit programs have been a widely used and highly consequential tool of American statecraft, especially since the New Deal. Credit programs supported the growth of powerful industries, from railroads and farms to housing and finance. They have been used for disaster relief, foreign policy, and military efforts. And they have been essential institution builders, leading the way in the promotion of amortized mortgages, consumer lending, business lending abroad, venture capital investment, and mortgage securitization. Today the US government owns or guarantees $8.5 trillion in loans.

How does this relate to questions of public finance? Researching these programs, I found that the US government has repeatedly turned to federal credit

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programs to avoid the open redistribution of wealth through taxing and spending. Lawmakers have also used credit programs to circumvent a veto-ridden, highly contested budgeting process. American lawmakers have long understood that credit programs could yield big results while having a relatively small impact on budget totals. Guarantees of loans, for example, were popular in part because, before 1992, they showed up as a major expense on the budget only once there was a default in the underlying loan. Public–private partnerships (such as mortgage giant Fannie Mae, which was partially privatized as early as 1955) could even be removed from the budgeting process altogether. Why was mortgage giant Fannie Mae "spun off" in 1968, its stock sold to private firms? Because of a fight over the debt limit in the midst of a Vietnam war era fiscal crisis.

When I looked closely at why the US government authorized the newly spun-off Fannie Mae to issue mortgage-backed securities in 1968 – setting in motion what would become a revolution in global financial markets – I found a particular political logic in play. The underlying assumption of the policy was that the right kind of financial engineering or risk management could improve general wellbeing with minimal economic redistribution. This was not the government leaving the middle class to suffer the whims of an unchecked market. This was government officials actively trying to reshape the mortgage market to achieve desired ends. My point here is not to deny the importance of financial interests and social groups in setting financial policies, but rather to call attention to part of the story that has to do with public finance that is too often overlooked: that when, why, and how credit allocation is used is structured around core fiscal and institutional concerns.

Interestingly, researchers examining the European Central Bank's recent promotion of securitization found a similar pattern: The ECB turned to securitization in search of an economic jolt large enough to obviate the need for more costly and divisive political solutions (Braun 2018; Engelen and Glasmacher 2018; Braun and Hübner 2018). This suggests that what I found in the United States is relevant to other nations, albeit in very different ways.

The approach I took to public finance was shaped by my training as an economic sociologist. In the tradition of Block (2008), I saw the government as an essential, active participant in markets. In the tradition of Padgett (1981, p. 76), I approach the budget as a place where researchers can examine "the articulation between state and society." And in a tradition that goes back to Durkheim, I see social rules not as constraints but as something profoundly generative. Fiscal pressures and budget crunches do not necessarily stop government officials from exercising power. Sometimes limitations inspire alternative forms of governance, such as public–private partnerships, tax expenditure, "nudges," and credit programs. We should not confuse an absence of government spending with an absence of government action.

There are many facets of a sociological approach to public finance that this reflection does not touch on. There are more lessons to be learned from work in other arenas, especially work on participatory budgeting and fiscal sociology. But even a brief overview such as this one can speak to the expansive and critical perspective on public finance that comes with a sociological perspective. Sustained attention to social dynamics, to power asymmetries, to institutions and accounts, all of these and more come into focus with a sociological lens.

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