

Section 5.4 is translated from Günter Schmölders, *Das Irrationale in der öffentlichen Finanzwirtschaft: Probleme der Finanzpsychologie*, Hamburg: Rowohlt 1960 (Rowohlt’s deutsche Enzyklopädie 100), pp. 73–9.

Section 5.5 ‘Tax mentality in international comparison – an overview’ was first published under the title ‘Survey Research in Public Finance – a Behavioral Approach to Fiscal Theory’ in *Public Finance*, 25 (1970), pp. 300–6. The last paragraph was turned into a footnote by the editors.

Section 5.6 ‘A theory of incentive taxation in the process of economic development’ was first published in *Il Politico*, 31 (1966), pp. 788–800.

5.1 Fiscal psychology: a new branch of public finance*

Two important results of some 1958 surveys conducted in Germany under the auspices of the Cologne Centre of Empirical Economics Research in the new line of research on fiscal psychology are: (1) that fiscal policy, the idea of deficit spending in a depression and surplus hoarding in a boom, has hardly any chance of practical application

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because of the general lack of understanding among members of parliament and administrators of the underlying economic and monetary processes; and (2) that ‘tax-dodging’ is something quite unfamiliar to 90 per cent of the German population.

For the first time in history, a representative sample of a whole national parliament, the Deutsche Bundestag, was tested by modern methods of opinion research as to the economic knowledge of its members (67 interviews). In addition, all the members of its finance committee were also examined (27 interviews). At the same time, the attitude of the general public towards taxation was analysed in a modern survey investigation, carefully conducted by one of the leading public-opinion research institutes of Western Germany. Even this latter type of research, digging down deeply into the motivational and emotional layers of the mind of taxpayers and other citizens, seems to have no precedent in traditional public finance.

In the Old World, the roots of this new branch of public finance go back to the Machiavellian philosophy of public law. Working along these lines, some Italian authors developed, at the turn of the century, a political theory of government finance, based largely on highly cynical concepts of political and administrative power. One of these authors, Amilcare Puviani, Professor of Law at the University of Perugia, even succeeded in writing a complete ‘theory of fiscal illusions’, in which he contrasted the illusions of taxpayers concerning the noble motives of their rulers with the illusions which the latter held about the loyal feeling of their subjects. In simple hedonistic terms of satisfaction and dissatisfaction, Puviani described most of the phenomena modern fiscal psychology embraces. These include ways of camouflaging taxation under other names, or levying taxes under conditions under which the taxpayer is inclined to minimize or even fail to perceive any burden, e.g. death duties imposed upon heirs. Further, he dealt with the skilful misuse of noble feelings like patriotism, confidence and religious faith through the issue of public loans which later might not be repaid, or, if repaid, only in depreciated money. Taxpayers’ reactions against such fiscal tyranny, including some comments on the social background of revolutions, were also systematically recorded by Puviani years before modern psychology or social psychology had been developed.

Italian Fascism and German Nazism, though broadening the field of experiences, did not permit scientific research along these lines. Only after the Second World War was it possible to recount such experiences and to formulate in terms and categories of modern psychology the conclusions drawn from Mussolini’s fiscal measures and Dr Goebbels’ propaganda.