

Historically the democratic state has been offering the conditions for legitimately levying and collecting taxes. Tax revenues have been securing the democratic sovereign's ability to act, the policy aims pursued through taxation have been the outcome of a democratic process and the coercion backed institutions levying and collecting taxes have enjoyed the status of democratic legitimacy. But a twofold dynamic associated with financial globalization is challenging this status quo. States have come under pressure to address challenges to which global taxation, e.g., an international financial transaction tax, seem to be the most promising response. And phenomena like capital mobility and high levels of sovereign debt impose constraints on the state's ability to permissibly and effectively use the policy instrument of taxation. Under what institutional arrangements could taxation be maintained as a justifiable policy instrument? And given the challenges to the democratic tax state, what should future institutional arrangements of public finance look like?

I answer these questions by defending four claims. I shall argue that taxation is subject to a threefold justificatory requirement (section 1) and explain how the democratic tax state ensured that all three requirements could be met simultaneously (section 2). I then identify a threefold predicament (section 3), arguing that financial globalization threatens both the institutional configuration of the democratic tax state and the possibility of effectively and permissibly using the policy instrument of taxation. Finally, I identify and discuss three strategies for dealing with this predicament (section 4), putting forward a pessimistic, a modest and an ambitious solution.