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Łukasz Furman*
Witold Furman
Paweł Marzec
Iwona Przychocka

The Role of Historical and Philosophical Foundations in Shaping Modern Public Finance Policies

ABSTRACT

The history of public finance shows how states gradually transitioned from in-kind taxes and feudal levies to modern tax systems, budgets, and debt markets. Centralization of power, the development of fiscal administration, the rising costs of war, and the emergence of institutions such as the Bank of England played a key role in this process. The philosophical foundations of public finance – especially Rawls's theory of justice, Nozickian libertarianism, and the concept of the common good – provide moral justifications for tax progression, redistribution, or limiting the role of the state. Conflicts between these approaches shape contemporary tax systems and fiscal rules. Contemporary fiscal policy combines the goals of social justice, macroeconomic stability, and efficiency. It includes, among others, progressive taxes, a global minimum corporate income tax (CIT), green levies, social investment, and the digitalization of

* Correspondence regarding this paper should be sent to Łukasz Furman (ORCID: 0000-0002-9156-8165), Faculty of Law and Economics, Jan Długosz University in Częstochowa, e-mail: l.furman@ujd.edu.pl; or Witold Furman (ORCID: 0000-0002-3982-6921), College of Economics and Finance, Krakow University of Economics, e-mail: witold.furman@uek.krakow.pl; or Paweł Marzec (ORCID: 0000-0003-0105-3131), Institute of Economics and Finance, John Paul II Catholic University of Lublin, e-mail: pawel.marzec@kul.pl; or Iwona Przychocka (ORCID: 0000-0002-6328-9193), Faculty of Security, Logistics and Management, Military University of Technology, e-mail: iwona.przychocka@wat.edu.pl.

tax administration. Given challenges such as aging societies, climate change, and globalization, stable institutions, transparency, and the state's ability to respond to crises become crucial. In each of the areas studied, recurring relationships were found, indicating that contemporary public finances are directly shaped by historical institutions and philosophical debates regarding justice, the role of the state, and the distribution of wealth. Therefore, the hypothesis was confirmed.

KEYWORDS: public finance history; fiscal philosophy; tax justice

INTRODUCTION

Public finances are one of the most important instruments for the organization of social and economic life. It is through their prism that societies decide what is a fair distribution of burdens and benefits, how to finance public goods and how to shape intergenerational solidarity. Contemporary disputes over rates, thresholds, and deficits have historical and philosophical roots, stemming from a long process of institutional learning and from disputes about the nature of justice, the common good, and the role of the state. As Goetzmann (2016, p. 45) notes, the history of finance is also the history of civilization, because without fiscal tools, there would be no sustainable political institutions.

The aim of the article is to show how historical experiences and philosophical concepts have shaped and continue to shape modern public finance policies. The scope includes a synthetic overview of the history of public finance from antiquity to the present; discussion of key philosophical positions (liberal-egalitarian, libertarian, republican and communitarian) and their impact on taxation, spending and budgetary rules; an analysis of the interpenetration of these bases in practice (tax systems, institutional frameworks, redistribution); and an overview of contemporary examples inspired by tradition and theory.

Understanding the basic principles is necessary to be able to assess the financial policies of the state. For example, disputes about what tax progression should look like (that is, how different income groups are taxed) refer to historical experiences, such as increased tax mobilization during wars. Similarly, they refer to Rawls's principle, which states that the justice system should use the worst-off in particular to improve their conditions (Rawls, 1999, p. 75). Criticism of the welfare state comes from libertarians who believe that the state should not interfere in the lives of citizens (Nozick, 1974, p. 198). On the other hand, contemporary approaches to justice emphasize the importance of abilities and equal opportunities for all people (Sen, 2009, p. 56; Sandel, 2020, p. 144).

This article uses comparative analysis as its research method. It helps verify the following hypothesis: historical experiences and philosophical concepts of justice permanently shape contemporary public finance policies, influencing the tax system, fiscal rules, and social acceptance of taxes.

1. HISTORICAL FOUNDATIONS OF PUBLIC FINANCE

The history of public finance dates back to antiquity. At first, countries such as Egypt and Mesopotamia used taxes in kind (e.g., grain, cattle) and compulsory labor to finance the administration and construction of irrigation canals (Alston, 1995, p. 58). In the Greek polis, the custom of liturgy was developed, i.e. voluntary donations from wealthier citizens for public purposes, which combined financial obligation with prestige (Davies, 2001, p. 117). In ancient Rome, both during the times of the republic and the empire, a complex tax administration arose, using indirect taxes and levies from the provinces (Hopkins, 1980, p. 101).

In medieval Europe, the state's finances were based mainly on revenues from the king, customs duties, and special tributes that required the consent of the estates (Ormrod, 1999, p. 142). As power became centralized, fixed indirect taxes became increasingly important, and the financing of wars fostered the development of the public debt market in Italian cities. In England, parliament began to control the king's finances, which initiated the parliamentary nature of the state's finances.

In feudalism, the ruler's main source of income was landed goods, as well as tributes and feudal benefits. The royal courts derived their income from the lands belonging to the crown, as well as from obligatory peasant tributes, court fees or the so-called "feudal aids" (Latin *auxilia*). These were extraordinary tributes imposed on vassals on specific occasions, such as the wedding of a ruler's daughter or a crusade (Musgrave & Musgrave, 1989).

With the development of cities and trade, as well as increasing military and administrative needs, rulers began to introduce new forms of taxation. In the twelfth century, *the poll tax* appeared in England, and in France – the so-called taille (direct tax on the population) (Tilly, 1992). Rulers needed more and more funds to wage wars, which contributed to the increase in the importance of fixed taxes.

In the Middle Ages, the first institutions responsible for financial management were established. An example is the English *Exchequer* (Chamber of Revenue), which functioned as early as the twelfth century and dealt with the collection of royal revenues and the control of expenditures (Ormrod, 1999). Although there was no budget in today's sense, these institutions were the nucleus of modern financial administration.

The period between the Middle Ages and the Industrial Revolution (i.e. from about the fifteenth to the eighteenth century) was a time of profound political, economic and social changes, which had a huge impact on the development of public finances. Key events were the rise of nation-states, the emergence of standing armies, the centralization of power, and the beginnings of modern taxation and public debt.

With the collapse of the feudal system and the development of absolute monarchies, rulers began to gradually take control of finances, centralizing income and expenditure in the hands of the state. In the sixteenth and seventeenth centuries, monarchies such as France, Spain and England were of particular importance, which developed tax administration, created ministries of finance and consolidated sources of public revenue (Bonney, 1999).

During this period, the role of fixed taxes increased – both indirect (e.g. excise duties) and direct taxes (e.g. land taxes). The rulers stopped relying solely on royal domain revenues and feudal benefits, which meant a transition to a more modern model of state financing (Schumpeter, 1954).

One of the main reasons for the development of public finances in this period was the rising costs of the war – financing the army, fortifications or navy. To cover these expenses, countries began to resort to loans. In sixteenth-century Spain or seventeenth-century France, banks and merchants financing monarchs played a huge role (Kindleberger, 1990).

The most advanced system of public debt was developed in England after the financial revolution of 1688. The first institutions of the modern financial market, such as the Bank of England (1694), were established there, which enabled the state to take out long-term loans on favorable terms (North & Weingast, 1989).

In the eighteenth century, the development of economic theory led to the creation of the foundations of the modern science of public finance. Classical economists such as Adam Smith analyzed the role of the state in the economy, taxation, and public spending. In his work *The Wealth of Nations* (1776), Smith proposed four principles of a good tax system: equality, certainty, convenience and efficiency (Smith, 1776/2007).

The Industrial Revolution brought about the unification of the state budget, the professionalization of the administration and the appearance of income taxes. In the 19th and 20th centuries, increasing spending on education, health and social welfare contributed to the creation of the welfare state model. The Great Depression showed the importance of countercyclical politics and opened the way to thinking about the economy according to the principles of Keynesianism (Keynes, 1936, p. 124; Eichengreen, 2019, p. 210).

The establishment of modern financial institutions, such as the Banco di San Giorgio or the Bank of England, enabled states to manage debt, issue bonds, and better control their finances (according to Kindleberger, 1993, p. 88). In the nineteenth century, the state budget began to serve as a tool for planning and supervision, and the principles of budget transparency and coherence became common (according to Schremmer, 1989, p. 301).

Economic shocks and crises, such as the 2008-2009 financial crisis and the COVID-19 pandemic, have tested the debt limits of countries and the flexibility of existing fiscal rules (according to International Monetary Fund, 2025, p. 32).

In conclusion, history shows two important conclusions: first, the fiscal capacity of the state (i.e. its financial capacity) develops thanks to appropriate institutions and social trust; Second, crises often accelerate reforms, but can also lead to the entrenchment of ineffective reliefs and exceptional solutions that can undermine the sustainability of public finances.

2. PHILOSOPHICAL FOUNDATIONS OF PUBLIC FINANCE

The philosophical foundations of public finance, including John Rawls's concept of justice, are of key importance for justifying and shaping tax systems and the redistribution of goods in society. In his theory of justice, the aforementioned researcher is based on principles that are to ensure fairness and balance in the distribution of resources, especially in the context of public policy and public finances. Justice according to Rawls, described as impartiality, is based on the principle of difference. This principle provides a moral justification for progressive taxes and strong funding for basic goods, because the rules we choose from behind the "veil of ignorance" (i.e., without knowledge of our own social situation) are intended to protect the most disadvantaged people (Rawls, 1999, pp. 72–76).

The main points of consistency between Rawls's philosophy and public finance are:

I. The principle of equality and social justice: Rawls postulated that justice requires that the social and economic system be structured in such a way that the most privileged groups do not gain undeserved benefits at the expense of others. In public finances, this means that the tax system and the redistribution of goods should serve to level the playing field and minimize inequality. Decisions regarding the structure of society should be made from the perspective of the "veil of ignorance", i.e. without knowledge of one's own social position. This encourages the creation of systems that are fair for all, regardless of their future situation, which is reflected in the principles of fairness in public finances.

II. The Principle of Difference: Rawls recognizes that inequality is permissible only if it benefits the most disadvantaged members of society. In the context of public finances, this means that fiscal policy should aim to improve the situation of those most in need, e.g. through social transfers or progressive taxation.

III. The purpose of public finances: According to Rawls, the main goal of public finance is to ensure a fair distribution of resources and opportunities, not just to minimize expenditure or maximize economic efficiency. This approach emphasizes the moral dimension of fiscal policy and its role in shaping a just society (Rawls, 1971).

Libertarianism, according to Nozick's thoughts, emphasizes that property rights are inviolable, and the principle of entitlement means that people have a right to what belongs to them. Taxes beyond the minimum costs needed to protect these rights are a coercion for libertarians (Nozick, 1974, pp. 169–201). The dispute between egalitarians (striving for equality) and libertarians is about how large corrective taxes (e.g., health taxes) can be and whether it is better to avoid tax evasion or avoid avoidance (Saez & Zucman, 2019, p. 73).

The concept of the common good is understood as the quality of social order that allows individuals and groups to develop their capabilities. From this perspective, the financing of public goods is an investment in cooperation and an increase in the productivity of society (Sen, 2009, pp. 18–21; Sandel, 2020, pp. 144–149). The Republican approach emphasizes that civil liberty requires a reduction in both economic and political dominance.

In the Thomistic tradition (based on the teachings of St. Thomas Aquinas), the state is responsible for the common good, which justifies redistribution and taxation for public purposes (Finnis, 2011, pp. 112–118). Contractors such as Hobbes, Locke and Rousseau justified the obligation to pay taxes in exchange for ensuring security and order. Contemporary philosophy influences the principles of transparency and financial responsibility of the state, as well as the so-called golden investment rule, i.e. the principle of responsible management of public funds.

3. THE INFLUENCE OF HISTORICAL AND PHILOSOPHICAL FOUNDATIONS ON MODERN POLITICS

Modern tax systems try to find a balance between fairness, efficiency and simplicity. That is, they aim to make the taxation of income progressive (those who earn more pay more), as well as to make the taxation of economic rent (profits from owning property) and assets effective. In addition, broadening the VAT (Value Added Tax) tax bases helps to combine equity objectives with the neutrality of the system (i.e. that the system does not distort economic decisions). (OECD, 2024b)

At the global level, minimum corporate tax rates (CIT) are being introduced, as well as reforms for the digital economy to prevent tax base erosion – that is, when companies avoid paying taxes by shifting profits to tax havens (OECD, 2024c, p. 7; Stiglitz, 2024, p. 12).

New rules are emerging in law and financial institutions that are of a medium-term nature. It is about setting limits on state spending and creating independent fiscal councils to prevent excessive indebtedness and pro-cyclical actions (i.e. those that deepen business cycles). In the European Union, the new rules focus on controlling spending and debt stability to avoid excessive economic volatility (European Commission, 2024a, p. 18; European Parliament Research Service, 2024, p. 6).

In the field of redistribution and social solidarity, social investments such as early childhood education, healthcare or active labour market support are increasingly being relied upon. Social democratic and liberal models differ in how they implement this, but they are increasingly moving closer to the concept of a "fiscal contract", i.e. linking taxes to the quality of public services (Kenworthy, 2019, pp. 94–98; Esping-Andersen, 1990, p. 67).

Climate and health policies increase the importance of corrective taxes (e.g. CO2 emission levies) and investment subsidies that support environmental and health objectives. Faced with challenges such as the energy transition and an ageing population, it is necessary to prioritize spending and seek stable sources of financing that will support long-term development goals (Mazzucato, 2021, p. 61; World Bank, 2025 p. 141).

4. EXAMPLES OF CONTEMPORARY PUBLIC FINANCE POLICIES

Examples of contemporary public finance policies include a variety of actions aimed at ensuring economic stability, social justice and environmental protection. One of them is progressive taxation of assets and inheritances, which involves imposing higher taxes on people with higher incomes. This is justified by the fact that it helps to ensure equal opportunities for all and corrects the situation when some people reap a large part of the profits (Piketty, 2020, pp. 523–531; Saez & Stantcheva, 2018, pp. 121–126). Examples of Scandinavian countries show that a broad tax base and transparency in the tax system make high tax revenues more acceptable and more legitimate (Steinmo, 1993, p. 53).

Another important tool is the golden investment rule, i.e. the principle that expenditure on the development of the country should be carried out within the set financial limits. This helps to maintain financial stability while supporting economic growth (International Monetary Fund, 2025, pp. 55–58).

Climate taxes and emissions trading schemes are increasingly playing a role in the context of environmental protection, which aim to take into account the costs of environmental damage. This makes companies and consumers pay for pollution, which promotes environmental protection and the common good (OECD, 2024a, pp. 34–38; World Bank, 2025, p. 141).

Modern technologies also play a key role in tax administration. Electronic invoices, real-time reporting and data analysis help increase tax collection and make the system more transparent. Importantly, such solutions reduce compliance and anti-fraud costs (OECD, 2024d, pp. 22–30).

Modern public finances are not only a matter of collecting revenues and controlling expenditures – it is a strategic tool for shaping society and the economy. In times of global challenges, such as social inequalities, climate change or digitalisation, fiscal policy is taking on more differentiated and targeted forms. This is about, m.in things, progressive taxation and redistribution.

Progressive taxation of assets and inheritances, based on the principle “the more you have, the more you pay”, is seen as a tool to reduce wealth inequality, which has significantly worsened in recent decades. Thomas Piketty (2020) points out that a return to progressive capital taxation is essential to restore social justice and economic democracy. Emmanuel Saez and Gabriel Zucman (2019), on the other hand, argue that without bold tax reforms, the richest will continue to avoid taxation thanks to loopholes and tax havens.

Some countries – especially the Scandinavian ones – effectively combine high taxes with wide access to public services, which builds citizens' trust in the state. The high level of tax acceptance stems from transparency and the widespread belief that the state works for the common good (Steinmo, 1993).

When conducting fiscal policy and development investments, the state takes into account the principle of the "golden rule" in public finances, which assumes that investment expenditures – e.g. on infrastructure, education or research – can be financed by debt, as long as it does not lead to structural deficits. This approach combines fiscal responsibility with the need for long-term development (International Monetary Fund, 2025; Boivin & Darvas, 2025). The European Commission also recommends the use of fiscal rules that differentiate between consumption and investment spending, highlighting the need for flexibility in the face of economic shocks (European Commission, 2024b).

Environmental protection is increasingly included in the scope of fiscal policy. Carbon taxes, emissions trading systems (ETS) and subsidies for green technologies are tools that are intended to internalize the negative externalities of economic activity. The OECD (2024a) stresses that expanding the greenhouse gas emissions tax base is crucial to achieving climate goals. The World Bank (2025) notes that well-designed green taxes can support a just transition, as long as their impact on the poorest groups is offset by a system of social transfers.

The digital transformation of tax administration is one of the most dynamic trends. The introduction of electronic invoices, e-declaration systems or big data analysis allows for a significant reduction in the tax gap and improved compliance with regulations. The OECD (2024d) indicates that digitalisation contributes to reducing tax compliance costs for both administrations and taxpayers. Technologies such as artificial intelligence or blockchain are increasingly being tested to monitor financial flows and prevent fraud (Gupta et al., 2024).

CONCLUSIONS

To sum up, modern public finance policies are based on a variety of tools and solutions that aim to ensure social justice, financial stability and environmental protection, while using modern technologies to increase the efficiency of the tax system.

Today's fiscal systems, or ways of managing public finances, are the result of a long history of institutions and disputes about what standards are right. The philosophy of justice helps assess whether taxation and public spending are fair by complementing technical efficiency analyses (Stantcheva, 2021, pp. 5–8). Modern financial policies seek to combine stable fundamentals with the ability to respond flexibly to crises. In order for them to be socially accepted, they must be transparent and effective in solving real social problems.

Faced with challenges such as ageing populations, energy transition, geopolitical tensions and rapid technological developments, public finance planning requires a rethinking of the common good, equal opportunities and debt limits. Understanding historical paths and normative bases helps to avoid pro-cyclical actions, i.e. those that deepen the cycles of growth and contraction, and to create tax systems that are simple and fair. It is also important that public support for the necessary public investments is maintained.

In the future, it is worth investigating how different spending rules affect the long-term effects of public finances, how technology and tax competition affect tax progression, and how international cooperation on minimum corporate tax (CIT) can be improved. Additionally, deliberative experiments, or discussions with citizens, can help to increase the legitimacy of tax systems (Stantcheva, 2021, pp. 5–8).

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