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Public credit, capital, and state agency: Fiscal responsibility in German-language Finanzwissenschaft

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Abstract

I discuss the evolution of German views on public debt 1850-1920, referring to three strands of secondary literature: (i) German retrospectives on public finance, (ii) the historical literature with a public choice perspective, and (iii) contributions to public/constitutional law, mainly referring to Lorenz von Stein.

The skeptical view of public debt endorsed by authors of the second half of the period is shown to be related to politico-economic issues of state agency combined with new state functions – rather than to the rejection of Dietzel's proto-Keynesian macroeconomic reasoning.

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1. Introduction

In their seminal study on "Democracy in Deficit", James Buchanan and Richard Wagner (1977, p. 3) refer to Adam Smith's (1776.IV.ii.12) famous dictum, according to which "what is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom". Buchanan and Wagner re-invigorated the "classical" doctrine on public debt thus associated with Smith[1]. Based on a specific framework and specific premises of political economics, they criticize Keynesian views which considered public debt a major instrument of fiscal policy aiming at macroeconomic stabilization. This critique could not be easily dismissed and eventually led to political moves inducing constitutional constraints regarding levels of public debt ("debt brakes"). The politico-economic argument of "Democracy in Deficit" had some plausibility, given that the Keynesian mainstream in the decades after World-War II had not developed sufficient theoretical resources for embedding fiscal policy in a politico-economic framework.

In this paper, I am dealing with a German-language tradition offering a third way apart from the Keynesian mainstream and the "classical" view. This tradition developed a view of public credit based on a comprehensive view of public revenues and expenditures, with public credit as a systemically relevant element in capitalist market economies. According to this tradition, its relative advantages as a tool of public finance depend on the type of expenditure as well as the empirical (lack of) relevance of crowding-out arguments. However, the relevance of such specific "technical" arguments can only be assessed by considering the systemic context of which public credit is a part of. Pertinent discussion hence was embedded within a comprehensive *theory of the state sector*, referring to specific questions of administration as well as general principles, including politico-economic challenges later cropping up in a different political-historical context in Rudolf Goldscheid's and Joseph Schumpeter's fiscal sociology (see Goldscheid 1917a/b and Hickel 1976) and – in a specifically interesting and

[1] Smith (1776.IV.ii.12) uses this formula in an international trade context.

agenda-setting[2] way – in Knut Wicksell's "New principle of just taxation" (1896) on the basis of quid-pro-quo.

Put briefly, this German tradition *combined* a politico-economic perspective (the key element in Buchanan/Wagner) with some elements of reasoning underlying the macroeconomic role of credit in fiscal policy associated with Keynesian traditions. Pertinent secondary literature in the history of economic thought does not elaborate much on the nature of this *combination*. Instead, public finance retrospectives referring to this tradition from the 1940s onward mostly portrayed Carl Dietzel (1855) as the earliest German "forerunner" of Keynesian fiscal policy (Neumark 1958/59, p. 46) and perceived the subsequent developments after Dietzel, including scholars such as Lorenz von Stein and Adolph Wagner (see e.g. Dettweiler 1968), as successive moderation without much innovation. However, relevant elements and backgrounds of the *politico-economic dimension of the public sector* in the German tradition come to the fore in specific ways in two quite different contexts of historical discussion, apart from the mentioned public finance retrospectives.

First, the politico-economic problems dealt with by von Stein and others are a prominent starting point for highly influential literature at the interface of constitutional/public law and political theory, as exemplified by Ernst-Wolfgang Böckenförde's (1976, pp. 146-184) and Carl Schmitt's (e.g. 1940) concern with Lorenz von Stein. In those writings, the nature of the politico-economic challenges underlying the problem context of public administration and Finanzwissenschaft are a main theme. Most notably, Böckenförde (1976) lucidly grasps the way in which von Stein's perception of challenges is triggering an *eminently systemic role of* Finanzwissenschaft*:* the multi-volume textbooks on Public Finance and Staatswissenschaften (as teaching material for future public servants staffing the administration which is the key element in the implementation of those schemes) are pivotal for the answer to those challenges. Put another way, comprehensive public economy schemes informed by Public Finance (including the systematic and responsible use of instruments of public credit) are the non-revolutionary response to problems, challenges and tensions expounded in von Stein (1847; 1850) and Wagner (1887a/b), i.e. in the more "political" writings by those authors.

[2] The agenda are multifarious and partly related to the sphere beyond the "Wicksell equilibrium", which Wicksell (1896) leaves deliberately and explicitly open. Inter alia, Wicksell is a starting-point of two quite different traditions, public choice à la Buchanan and public economics à la Musgrave. See section 4 below and Sturn/Dujmovits (2018), Sturn (2010).

Second, the literature on the historical background of public choice theory discusses issues of state agency in a way which is illuminating for the questions dealt with here. While pertinent foundational concepts put forward by von Stein, Wagner and other protagonists of German tradition seem far away from public choice theory, three strands of literature *closely related to that tradition* are discussed by Richard Wagner, Jürgen Backhaus and others in various writings, highlighting a common aspect of the understanding of state agency[3], despite significant differences: (1) the cameralist heritage, (2) political economics in the wake of Wicksell (1896) and (3) Rudolf Goldscheid's fiscal sociology. Wicksell and Goldscheid were strongly influenced by certain aspects of the German Finanzwissenschaft tradition considered in the present article and were major innovators on the basis of that tradition.

For understandable reasons, the retrospectives by public finance scholars with historical interest in the 20th century had a different focus. The problems and challenges as perceived by von Stein, Wagner and others (to which public administration informed by Finanzwissenschaft is a response, as explained by Böckenförde, 1976) were not center stage. This includes economists with a broad perspective on the public sector such as Richard Musgrave (1993; 1996/97), who perceptively discussed the conceptual achievements of the "Triade of German Finanzwissenschaft in its Golden Age" regarding (1) the theoretical integration of revenues and expenditures and (2) the way in which private and social needs and wants are (or ought to be) balanced by comparing respective benefits (see also Sturn 2006; 2010). However, Musgrave's ensuing remarks on the underlying theories of the state only tangentially refer to the perception of politico-economic challenges motivating the overarching theoretical program of Finanzwissenschaft as well as the modes and schemes of practical implementation. Musgrave and many others usually refer in a general way to the organic character of associated theories of the public sector and the gap which (the mentioned conceptual advances notwithstanding) still exists between them and Wicksell's (1896) grand achievement of a thoroughly individualist conception of public goods and their provision by means of a collective choice mechanism respecting individualist values. Sturn's (2006, 2010, 2015) pieces on the German-language roots of public goods and merit wants also belong to that strand of literature, specifically focusing the way in which German traditions from Kant onwards conceptualized the relation between private and public sphere. Discussions include the complementarity of the spheres,

[3] See e.g. Moreover, the diagnosis of the nature of underlying politico-economic problems in terms of the German state-society distinction (leading to influential discussions in the Weimar Republic on the state being captured by interest groups, with Alexander Rüstow and Carl Schmitt as prominent protagonists) has significant analogies with Buchanan's views on the problems of democracy.

views of their co-evolution, and the concepts developed for understanding the economic rationale of genuinely public sphere, eventually culminating in conceptions of non-private goods.

The present paper attempts to look at the Finanzwissenschaft tradition from different angles suggested by *three different strands of secondary literature*. It selects public debt as a subject which (situated at a most complex interface of private and public economies) is well suited for discussing the characteristic combination of technical issues of public finance and politico-economic aspects. Von Stein and Wagner are pivotal dramatis personae of the present paper, which is organized as follows. In the second section, I summarize a few characteristic features of the German tradition, combined with a pertinent overview of heterogeneous discussions in the secondary literature informed by perspectives of (i) German public finance, (ii) public choice à la Buchanan, and (iii) public law. Taking those multiple backgrounds on board, Carl Dietzel, Lorenz von Stein and Adolph Wagner – who for good reasons are the three main characters in Dettweiler's (1968) and Holtfrerich's (2013; 2014) works on the German public credit tradition – are discussed in the third section. In the fourth section, some subsequent developments are discussed, specifically dealing with two starkly different currents whose main protagonists were clearly influenced by Adolph Wagner. They shed light on some implications of the third way regarding the theory of public credit: Rudolf Goldscheid's fiscal sociology and Knut Wicksell's (1896) "New principle of taxation" both suggest new theoretical concepts dealing with the interdependencies (including possible tensions) between the organization of public revenues, the pattern of public expenditures/state functions and public choice – both ending in a fairly skeptical view of public credit. Their general outlook on public debt starkly differs from what is suggested by Dietzel and von Stein. It is important to see that this is caused by different theoretical and historical contexts in which state functions and concomitant challenges of state agency are considered, not so much by different macroeconomic theories.

2. German-language public finance and its theoretical context: Common ground, divergent perspectives

In this section, I will provide a sketchy characterization of German theories of the public sector as far as they are relevant for the systemic role of public credit. This includes two tasks: (1) Highlighting some common tenets including the architecture of public finance as well as the theory of the state. (2) Indicating some of the specific differences and specific overlaps with other positions. The latter goes along with a more detailed account of the different strands of secondary literature which are useful for a proper understanding of the writers under consideration and their context.

Common ground. The German-language tradition is fairly diverse in various respects. This diversity applies to the authors of German Finanzwissenschaft in a more narrow sense, and obviously becomes more dramatic when including the two strands which can be seen as innovative combinations within the German-language tradition, i.e. Goldscheid's fiscal sociology and Wicksell's seminal contributions to public choice and public economics. The common ground shared by those different currents is all the more remarkable:

1) The modern state is neither an appendix to the market economy nor a residual mechanism combating occasional market failure. The state is systemically interrelated with the private economy and with society (including intermediary institutions) in a co-evolutionary development. In view of that, the general classification of state services as unproductive is problematic.
2) More specifically, the modern state – including the rule of law ("Rechtsstaat") *and* Sozialstaat, according to von Stein – is the basis of a *genuinely public* (i.e. not privilege enhancing) sector. The latter is historically emerging together with (and not in opposition to) a genuinely free private market economy, which cannot prosper under a regime distorted by power and privilege.
3) The state/government is not a detached agency setting goals and/or implementing policies independent of the forces of society and private economy. As stressed by Richard Wagner and Jürgen Backhaus (2005a/b), the state is not a player regulating the economy "from outside", as some conceptions of rational government would have it.
4) As the state needs to be responsive to problems triggered by socio-economic dynamism, slogans of a minimal state (which practically would isolate the state from this dynamism) provide no helpful guidance in neutralizing distortive influences of those forces.
5) The state is neither isolated from the dynamism nor from the tensions and struggles of society and economy. Developing the state as a genuinely public sector (as opposed to a privilege-enhancing sector) is a permanent major challenge in modern society. Ingredients of a "strong state" (including "social monarchy" – in the specific German historical context to which Wagner and von Stein refer) and a competent, reliable administration are historically contingent instruments of coping with those challenges,

as are thoughts about (semi-)public intermediate institutions embedded in overall public law arrangements.

6) The functional capacity of the state depends on sound (economically rational) public finances. Notably, in a capitalist world public credit tends to be a systemically relevant part of financial regimes. Public debt constitutes an intricate interface between public and private economies. Modern principles of sound finance cannot be developed unless different kinds of public revenues and financial instruments are considered *in the context of the portfolio of different types of public expenditures viz. state functions.*

It will be argued here that not only von Stein, A. Wagner and Dietzel, but also (in their specific way) Goldscheid and Wicksell fit into the tradition characterized by such tenets. Notice in particular that stressing the increasing scope of the state (in terms of functions) and pertinent instrumental requirements does not imply that the state (in terms of agency) should be construed as a detached and a priori sovereign entity. Quite to the contrary, institutional safeguards and the rational schemes and mechanisms of Finanzwissenschaft and Staatswissenschaft are all the more needed to prevent the state being captured by parochial interests of groups or the major classes[4] of the capitalist system. In particular, a proper theory of the expenditure side (including concepts of public goods/needs) is needed in order to develop the public sector and to (1) provide guidance for the development of state activities in view of changing needs, (2) avoid the pernicious paths of Marxist socialism, and (3) to prevent an irrational expansion of the state sector, keeping also a clear distance from the unsystematic eudaemonistic welfare policies of cameralism with its ad hoc-interventionism (for pertinent critique see e.g. Wagner 1887 a/b).

Secondary literature. As indicated by way of introduction, a combination of three rather disparate strands of secondary literature will be taken into consideration in order to make explicit the specific differences of those “German” theories of public finance and its implication for the problems of public credit.

(1) The German literature on the history of public finance related to public debt in the 19th century is well summarized in recent overview articles by Holtfrerich (2013; 2014). This strand of historical literature starts with Preiswerk (1942) and Stettner (1944; 1948), an Austrian emigrant and assistant of Alvin Hansen in Harvard. In those writings the perspective of an anticipation of Keynesian fiscal policy is looming large (see also

[4] There is a remarkable continuity (including von Stein, Wagner *and Wicksell*) regarding the potential domination of the political process by either capitalists or the property-less classes. Both cases are considered dangerous!

Neumark 1958/59). Carl Dietzel (who is also discussed by Glaeser 2003, Haller 1959 and 1985, and Schueler 1961) appears as the most remarkable author, as suggested by Dettweiler's (1969) encompassing and fairly detailed retrospective on the contributions of 19th century German Finanzwissenschaft to public debt (1969). Von Stein and Wagner are mainly discussed as authors paying due tribute to (or making use of[5]) Dietzel's bold paradigm shift, while at the same time introducing elements of moderation and qualification. Those qualifications are becoming more stringent in later stages of the careers of von Stein and Wagner who, as suggested by Dettweiler (1969), shows stronger fiscal conservative tendencies than von Stein. Grossekettler's (1990) thorough reconstruction of von Stein's views on public debt confirms the general tendency of increasing moderation after a bold start, a tendency which is also visible in other authors discussed by Dettweiler (1969), such as Georg von Schanz (otherwise mostly known for his seminal ideas related to the comprehensive income tax), Erwin Nasse and Albert Schäffle.

(2) The literature in political theory and adjacent discourses in constitutional and state law, for which 19th century thinkers, notably Lorenz von Stein, are crucially important references. This literature includes pieces stressing the interdependence of state, society and economy in their co-evolution with fiscal institutions, while occasionally addressing issues of public debt as a part of the bigger picture. Along those lines, a recent volume edited by Huhnholz (2018) brings together pertinent views of classics such as Hobbes, Rousseau, Montesquieu, and Alexander Hamilton with the fiscal sociology of Schumpeter and Goldscheid (Sturn/Dujmovits 2018). With regard to the German tradition under consideration, attempts to shed light on specific aspects of von Stein's and Wagner's intellectual background should be mentioned, such as Saint-Simon's influence on von Stein (see Koslowski 2017) or Wagner's roots in specific natural law traditions (Corado/Solari 2010). However, the most relevant source for that perspective is the strand of literature beginning with the debates on state, democracy and constitution in the Weimar Republic of the 1920s: as expounded in Blasius (2004; 2015), important references to von Stein are made by Carl Schmitt. To the best of my knowledge, the most succinct and informative account of von Stein's contributions to a modern theory of the state is provided by E.W. Böckenförde (1976). I will come back to the central challenge identified by this tradition – which implies a core criterion for

[5] Dettweiler (1969, p. 61) wrongly states that von Stein never referred to Dietzel (for a prominent textbook reference, see von Stein 1886, pp. 42-43)

the way in which public credit should be used: Preserving/enhancing (rather than inhibiting or destroying) the capacity of the public economy to perform its necessary functions as a genuinely public sector in a pluralistic *world where class and factional interest are part of the game and cannot be smoothly aggregated into social choices*. One could add: preserving the vital functional capacities, whatever it takes, as so-called "staatswirtschaftliche Gründe" (public economy considerations) are invoked in various contexts and often dominate other concerns (see e.g. Grossekettler 1990, p. 50). However, this may vary according to empirical contingencies and the functional profile of the state, which in turn (as stressed by Wagner 1887a/b) undergoes substantial modifications in the historical evolution of market economies.

(3) In multiple and partly intricate ways, the historical literature informed by the public choice perspective as developed by James Buchanan (who owes much to Knut Wicksell and related Italian traditions on a conceptual level, as is well known) is of great interest. As already indicated, discussions of public debt are looming large in that strand of literature (Eusepi and Wagner 2011; 2017), albeit not directly referring to the German tradition under consideration here. However, a second aspect is even more important: in particular, some pieces (co-)authored by Richard Wagner and Jürgen Backhaus highlight an aspect of state *agency* which is *common ground across an otherwise highly diverse family of continental authors on the public economy*, in marked contrast with Anglo-Saxon government house utilitarianism (a term used by the philosopher Bernard Williams) and much of the literature employing concepts such as "Social Welfare Functions" or the Pigovian "social dividend". More specifically, Backhaus and R. Wagner (1987; 2005a/b; 2004) are interested in thinkers who did *not endorse views of the state/the government as an exogenous machinery* (detached from economy and society), either for correcting market failures or for implementing arbitrary goals (see also Wagner 2006). They find such thinkers in the cameralist tradition (Backhaus/Wagner 1987), in Wicksell (1896) and Italian antecedents of public choice, and also in Goldscheid's fiscal sociology (Backhaus 2005).

The relevance of the second and the third strand of literature for the purpose at hand are less straightforward. Therefore I expand on its pertinent relevance in greater detail here. This will shed some light on foundational "German" ideas concerning state agency in relation to state functions[6]. German-language contributions regarding *state functions* are known from the literature in the wake of "Wagner's law". Moreover, Wagner is one of the forerunners of public good theory (see Wicksell's, 1896, in-depth discussion of Wagner and Emil Sax and Sturn 2006). The theme of *state agency* is made explicit in Wicksell (1896), invoking the context of parliamentary democracy. It is tangentially referred to by Musgrave and, with more emphasis, in the mentioned strand on the history of public choice. However, the horizon of politico-economic problems concerning Wagner and von Stein often remains somewhat unclear. Wicksell's (1896, p. 102) remark that authors before him dealt with fiscal problems on the political premises of absolutism is often taken at face value. However, von Stein and Wagner theorized the "modern" political challenges of the late 19th century in interesting ways. This becomes clearer when considering writings of German public law tradition (e.g. Böckenförde 1976). The "German view" acknowledges (more than other traditions) a foundational tension inherent in modern market societies: the proper functioning of the modern state in a market economy requires a specific kind of sovereignty, authority and neutrality; however, the state does not (and must not be assumed to) stand "above" or "outside" economy and society. It is a subsystem functioning according to specific principles, interacting and co-evolving with other subsystems – notably with the private economy. However, it cannot properly perform its functions when being "colonized" by dominant forces of other subsystems. Put another way: despite (and partly even because) the sometimes emphatic view of the state and its expanding functions, the state is *not* a priori conceptualized as exogenous agent whose effectiveness can be taken for granted when supported by the right expertise, as ironically summarized in Robert Sugden's „The economics of rights, cooperation and welfare":

> „Most modern economic theory describes a world presided over by a *government* (not, significantly, by *governments*), and sees this world through the *government's* eyes. The *government* is *supposed* to *have* the *responsibility*, the *will* and the *power* to *restructure society* in *whatever way maximizes social welfare*; *like* the *US Cavalry* in a *good Western*, the *government* stands ready to rush whenever the market 'fails', and the economist's job is to advise it on when and how to do so." (Sugden 2004, p. 3)

[6] Here it is not the place to discuss the problematic aspects of the underlying theories of the state. While the differences among the authors considered here (regarding the socio-economic and normative underpinnings of their theories of the state) will be discussed elsewhere, and the remedies suggested by various authors in view of the politico-economic challenges are certainly not without problems of their own, I focus here on those aspects which are relevant for the discussion of the political economics of public credit.

In a specifically interesting perspective, Backhaus and Wagner (1987; 2005a/b) are referring to the Continental and particularly German tradition (with roots in cameralism) which is opposed to this view:

> "The predominant theoretical presumption in the theory of public finance is that government is an acting and choosing creature that stands outside of and apart from the ordinary members of society. This Anglo-Saxon tradition of fiscal theorizing operates with a model of an autonomous state. Within this tradition, public finance is the study of government intervention into the economy to pursue objectives desired by that autonomous creature. This model of the autonomous state is not the only articulation that finds expression in the theory of public finance. An alternative to the autonomously intervening state is a model of a participative state, where government is treated as a network of relationships and a process of interactions—as a form of catallaxy. Within the contours of this model, which we denote as the continental tradition, public finance is the study of how people participate through government in the ordering of their affairs and activities. One significant feature of this continental tradition is that the topical organization of fiscal theorizing changes with changes in the patterns of institutional arrangements that govern human relationships within society; the underlying conceptual principles don't change, but the particular instantiation of those principles varies across institutional contexts." (Backhaus/Wagner 2005c, p. 3)

To avoid any misunderstanding: the German tradition does not share a contractarian view of the state "as if it were exchange" as a general overarching model. However, far beyond the authors considered in this paper[7], German-language thinking in the 19th century is deeply concerned by the vision that the state might not be capable of performing its vital functions under the pressure and conflicting demands of interest groups endogenously emerging in a society based on private property, notably the social classes which are deemed to be a natural fixed point of such a social order.

At this point we have to distinguish two levels of discussion: (1) To *what extent* does the state perform its necessary/desirable functions with the support of (quasi-)catallactic processes? (2) How far should we consider the agency of the state as situated in the catallactic environment of a society composed of classes/groups of people with partly opposing interests? It is interesting to note that reasoning related to (1) is not wholly absent from the German tradition, even though a contractarian theory of the state is not endorsed. Apart from Dietzel's (1855) specific argument related to public debt as allowing for a voluntary, contract-mediated reallocation of resources, comparisons between individual advantages from public goods and the (marginal) utility loss implies by taxation are considered even before the marginal-utility based transformation of German reasoning on social wants (see Sturn 2006). However, the aspect raised by (2) is much more important for our purpose. Seen from the point of view of the second question, views stressing the societal context of state agency systemically including catallactic

[7] This is also stressed by Non-Hegelians: a case in point is Carl Burckhardt.

elements are a key aspect of the German tradition, affecting the theories of the state and its relation to the institutional basis of individualist market society including private property. In very different ways, this is playing a major role for authors such as Lorenz von Stein and Rudolf Goldscheid. Von Stein emphatically takes up the Hegelian distinction between "state" and "society" (the latter includes the sphere of economic transactions), which is the basis of analyzing pathological cases of the mutual interpenetration of those two spheres, including pathological effects of unhealthy tendencies of "privatization" in the public sector, rendering the state an instrument for private/class interests[8]. In very different ways, the authors under consideration seek to curb such unhealthy tendencies by a suitable mix of constitutional, institutional and "administrative" devices.

Lorenz von Stein and Adolph Wagner. In the views of both writers, the functional complementarity and coevolution of state and market are playing a key role. Put in slogan-like manner, the entrepreneurial economy becomes private if and only if the public sector becomes genuinely public – in contrast to what Hegel calls "an aggregate of privileges", viz. a sphere crippled by the mutual interpenetration of private and public governance, associated with an amalgam of public functions and private interests. Pertinent interdependencies cannot be accommodated by concepts giving the state a residual role, or with viewing the government as an agent ready to rush whenever the market incidentally happens to fail. The emphasis on the public-private distinction notwithstanding, the concomitant emphasis on complementarity and co-evolution implies that for Lorenz von Stein and Adolph Wagner state and society/economy were no isolated entities, but rather characterized by multiple interdependencies and interfaces: hence their theoretical and political focus was very much on the *"quality" of those interfaces*. The problems and challenges of those interfaces provided the guiding ideas for their theoretical architectures of Finanzwissenschaft.

The overarching politico-economic issue can be summarized as follows: *How develop institutions/procedures/mechanisms of state agency which (according to the "state vs. market" complementarity view) require a certain kind of impartiality for functional reasons, while being aware of powerful tendencies (inevitably present within those interfaces) which undermine this impartiality?* Those procedures and their impartiality were felt to be all the more under risk, the *less* the (inevitably expanding) functions of the state were compatible with a model of absolutist

[8] Buchanan's Virginia school of public choice considers the degeneration of politics as pathological catallactics in combination with the assumption that they are operating primarily in the context of coalition formation instrumental for rent-seeking, including exploitative redistribution by taxation.

rule, or more generally, a state which is sufficiently powerful to block eventually destabilizing influences from "society" once and for all.

Generally speaking, this is the politico-economic background of the detailed treatment of major interfaces between state and society. Or put in less Germanic terms, between public and private sector, such as taxation, debt, public procurement, public enterprise pricing, the status of civil servants, and so on. While in a modern market society the state is attributed indispensable complementary functions, the complex of pertinent institutions developing in a co-evolutionary process does not per se guarantee that structures matching functional requirements emerge, given the just-sketched problems. In particular, neither *institutional structures nor constitutional safeguards are sufficient* to deal with the heterogeneous forces of "society" (including in particular social classes with partly opposing interests) in a sustainable way. State agency is always (either openly or latently) contested. This is setting the stage for a permanent challenge which can/should be dealt with by appropriately developing schemes of public finance and social policy, as a once-and-for-all solution does not exist.

This German view appeared in remarkably different theoretical/politico-economic contexts and has multifarious backgrounds and influences. Some of them are incongruous with an overarching catallactic perspective à la James Buchanan. This applies to the Kantian understanding of the foundational interdependence of the public and the private sphere (viz. modern private property and the modern state; see Sturn 2006). Von Stein and A. Wagner put forward two different (fairly complex) variations of that view: their focus on public finance and state economy (including in particular suitably balanced structures at the level of public administration) is motivated by the quest for a public sector sufficiently stable and yet responsive to the dynamism and tensions of modern market economies, including increasingly individualistic societies (which yet remain class societies) and political systems subject to tendencies of democratization.

For the nature of those politico-economic challenges, Wagner's (1887a/b) and von Stein's more political writings (1847; 1850) have to be taken into consideration, along with pertinent secondary literature (e.g. Böckenförde 1976). As indicated above, von Stein's and Wagner's multi-volume editions of textbooks in Finanzwissenschaft and Staatswissenschaft (covering a vast territory from statistics to social theory) may be seen as an "answer" to such challenges originating in the society/the economy, manifesting itself in phenomena such as regulatory capture by interest groups, class struggle, and the menace of pervasive crises putting the social order at risk. This is analyzed by Böckenförde (1976) with reference to Lorenz von Stein: the solution cannot be brought about by suitable constitutional arrangements, which are a necessary, but not sufficient condition for a stable modern order. The modern constitutional state is built on foundations which cannot be stabilized by perfection of the constitution alone. In such a view, as expressed by the so-called Böckenförde-Paradox (1976, p. 60), the liberal constitutional state is based on (social) premises which it cannot bring about by its own means, *i.e. by means of constitutional norm development*. As stressed by Böckenförde (1976, p. 167), a crucial passage in Vol. III of von Stein's "Social Movements" (1850, pp. 204-206) highlights pertinent limits of constitutional frameworks as anchors of stability and locates the (complex and multifarious) response to this challenge at the level of "administration". This level (apparently so far away from high theory) hence is the subject matter of the bulk of von Stein's writing on Staatswissenschaft and Finanzwissenschaft from the 1850s onward, expounding the administrative requirements for shaping and maintaining the modern state as a genuinely public sector: the modern order is confronted with ongoing challenges, to be dealt with at various levels including "state administration". Finanzwissenschaft is assuming a pivotal role in this context. Böckenförde (1976) argues that von Stein's turn from his focus on the analysis of class-related stability problems in his History of Social Movements in France" (1850) to Finanzwissenschaft is closely related to this insight. Indeed, von Stein (1850, pp. 204-206) makes this explicit, stressing its programmatic status by the remark that the few pertinent lines are perhaps the most important ones in the whole oeuvre. Preserving order in the face of revolutionary tendencies requires a well-functioning state; however, the state itself is not immune to dangers such as falling back to the *ancien régime's* mode of governance as an aggregate of privileges, and it has to keep distance from the kind of eudaemonistic governance as conceptualized by Christian Wolff (1679-1754), which referred to a situation where the private-public distinction crucial for the conceptualization of the state was not yet fully elaborated (see Vec 2015). Beyond notions of "distributive market failure" typically implied by adherents of more mainstream views, encompassing multi-level social policy and distributive regulation are integrative parts of a set of policies responsive to the evolution of the market economy and improving the prospects for its further development in the long run.

Let us recapitulate Stein's pertinent claims: the rule of law (Rechtsstaat) is a necessary condition, which must be supplemented by the "Sozialstaat", supported by what von Stein called "administration" (see Böckenförde 1976). The integrative and socially stabilizing economic *functions* of the state imply the need for a specific kind of public *agency*. This poses challenges in theory as well as in practice – whether or not those challenges are analysed on the basis of the Hegelian distinction between state and society, as in the case of Stein. Avoiding the capture of the state by particular forces society, i.e. class interest or other special interests emerging in society, is the main topic. However, the fiction of unified state agency is not helpful for achieving that. In keeping with his Hegelian background[9], von Stein instead considered an interplay of functionally differentiated agencies which to some extent may achieve an (ever challenged) synthesis of opposing principles conducive to balancing progress and stability. The institution of "social monarchy" („Soziales Königtum") should be free from the forces and tendencies in society which would drag the state away from its central tasks of reconciling the irremediably tensions of modern society, based on the fact that private-property based accumulation unavoidably leads to social classes. Abolishing the classes is impossible or would lead to chaos. The "Rechtsstaat" (rule of law) must preserve the order based on private property, even though it has to be complemented by and reconciled with the "Sozialstaat". The core of the functional need both for "neutral" elements in the governance system (social monarchy) and a competent and reliable administration is based on those intricate tasks of the state.

To be up to those intricate tasks, administration must have at its disposal a kind of public finance which is not just an appendix to the analysis of the market economy. The latter is for good reasons gravitating towards the explanation of prices and markets, while public finance and the state economy is requiring a specific kind of systematic analysis. Public agency is built on principles complementary to market competition with its private and decentralised mode of decision-making. The conceptualisation of collective needs and certain "motivational" hypotheses concerning public sector-specific norms and mechanisms is a part of this theoretical edifice. Von Stein indeed considers the merits of German Finanzwissenschaft in developing a "systematic" theory of the fiscal process as its outstanding achievement, emphasising that the state economy cannot be adequately dealt with by modelling the public sector *just as an appendix* to the economics of competitive markets. It rather has to be based on a theory of the state and the historical stage of the development of governmental organisation (Cf. also Schäffle 1880, p. 19). However, they role attributed by von Stein to agency-related principles of state economy supporting key state functions (which are deemed necessary to prevent social disorder leading to the fall of capitalism, which in the long run would be unavoidable in a regime where capitalists are monopolizing power), does not imply that market and private property are marginalized – quite to the contrary.

[9] Fichte's idealism may be another influence.

To sum up: While a core of economic decision making became more and more genuinely private in the process of modernization, the historical role of the modern state includes institutional realization of the genuinely public sphere which is needed as a reliable framework for private choices, which are not distorted or even vetoed by privileged interest groups. Ideas of interdependent and co-evolving private and public sectors, with a genuinely private economic sphere as core achievement of modernity, are structurally pre-figured in Kant's account of the mutual conditioning of state and private property (see Sturn 2006). Throughout the German tradition under consideration, the state was seen as an institution embodying modern requirements of a *genuinely public* sector – as opposed to earlier forms of governance (with a less sharp public-private distinction) functioning as "aggregate of privileges". In keeping with a "German" tradition dating back to cameralism[10], the state (or "the government") is *not* assumed to be an *exogenous* agent who (independent of social forces) would correct market failures guided by some notion of common good. Opposing short-run interests of social classes, rent-seeking by market participants and the characteristically heterogeneous modern "societies" are challenging the capacity of the state to fulfill elementary functions complementing the industrial dynamism of the market economy. As Lorenz von Stein pointed out, constitutional safeguards are necessary, but not sufficient for a stable solution of those problems. While a once-and-for-all solution is in general impossible, the workability and efficiency of the public sector is enhanced by proper institutional settings and what von Stein calls "administration", including in particular a suitable management of the revenue as well as the expenditure sides of public budgets. This explains the prominent role of Finanzwissenschaft in thought of theorist such as von Stein, who were basically concerned with the role of the state.

3. The German 19th century tradition on public debt

The evolution of mental models with regard to public debt in the Anglo-Saxon mainstream is summarized by Buchanan and Wagner (1977, p. 3) by way of introduction of their "Democracy in Deficit".

> "Until the advent of the 'Keynesian revolution' in the middle years of this century, the fiscal conduct of the American Republic was informed by this Smithian principle of fiscal responsibility: Government should not spend without imposing taxes; and government should not place future generations in bondage by deficit financing of public outlays designed to provide temporary and short-lived benefits. With the completion of the Keynesian revolution, these time-tested principles of fiscal responsibility were consigned to the heap of superstitious nostrums that once stifled enlightened political-fiscal activism. Keynesianism stood the Smithian analogy on its head. The stress was placed on the differences rather than the similarities between a family and the state, and notably with respect to principles of prudent fiscal conduct."

[10] Those cameralist roots are dealt with in Backhaus/Wagner (1987), while Wagner (2006) more generally expands on polycentric governance.

German public finance authors of the second half of the 19th century are credited for theorizing public debt in a way which seems diametrically opposed to this "classical" tradition, which by and large was inimical to public debt. As indicated above, the less unfavorable and sometimes optimistic stance with regard to public credit hinges on an integrated consideration of revenues and expenditures combined in a "theory of state economy" (Staatswirtschaftslehre), which in turn is based on an analysis of state functions, a theory of the state, and on assumptions regarding the current working of the private financial sector. In that context, the revenue side of the public budget cannot be meaningfully discussed without an adequate conception of the state, the views of its functional role and the conditions of agency considered necessary and sufficient for its proper functioning. The state is not up to its tasks if it does not consider the entire range of institutional means. Not only tasks and challenges, but also methods of governance and finance are co-evolving with the dynamism of the private sector.

Hence the "third way" considered in this paper, i.e. the German 19th century tradition, is not some compromise between the two other positions. It is a systematic combination of theoretical ingredients of different levels, merging elements which play a role in the two diametrically opposed currents. The latter include the uncompromising emphasis on politico-economic foundations as the common denominator of pertinent (and otherwise heterogeneous) views in the German tradition. Under this general foundational aspect, this tradition has certain architectonic commonalities with the perspective suggested by Buchanan and Wagner (1977).

In the decades of the 19th century following the Napoleonic war, the era of reforms in Prussia were undertaken very much under the influence of Post-Smithian classical liberal economics. Those reforms led to an era in which Prussia (one of the two major states on German territory) exhibited a relatively moderate public debt. Austria's debt burden could be seen in a somewhat more problematic light, as indicated by Tegoborski (1845) and Wagner's (1863) discussion[11]. In that context, it may appear surprising that an author like Carl Dietzel inaugurated a tradition of framing the macro-economic and growth-effects of public debt in a clearly more optimistic light. Subsequent authors developed their own perspective of fiscal responsibility beyond "balancing the budget". In later writings (Wagner is a case in point) caution with regard to excessive reliance on public credit is gaining in importance, on the grounds of concerns with respect to what could be thought of as some kind of politico-economic-fiscal equilibrium. This equilibrium is endangered by specific vulnerabilities of states more and more burdened with

[11] Wagner (1858-63) and von Stein (1855-85) both held positions in Vienna, while from 1870 onwards Wagner held a chair at Berlin University. The indicators used by Tegoborski, suggest that Austrian indebtedness was in the range of France, even though it was significantly higher than in Prussia.

complex agenda of different kinds, notably distribution, social welfare and social security. This complex agenda requires a well-balanced mix of instruments on the revenue side and is incompatible with a framing of debt-related dependence on specific classes of creditors – concerns which are center stage in Goldscheid's fiscal sociology.

This understanding implies a view of public debt as different from private debt not only in terms of the mechanics of macroeconomic balances, but also in terms of a particularly complex interface between public and private economy. It relies on the above-sketched theoretical framework stressing the state economy as a sphere which is not just an appendix to the market economy, but a public sphere with its own logic complementary to the private economy. With regard to public debt, it may be consistent with starkly different policy recommendations, depending on historical circumstances and the nature of current political and socio-economic challenges. This will be illustrated by the evolution of this tradition marked by the contributions of Carl Dietzel, Lorenz von Stein and Adolph Wagner and by two theorists who shed light on two different specific aspects of functional challenges and public agency: Knut Wicksell and Rudolph Goldscheid.

All in all, the unique importance of the contribution of the pertinent strand of literature is not only the anticipation of some Keynesian elements, including Dietzel's reference to cases of insufficient private investment due to uncertainty – interesting as this may be. It rather amounts to the development of an alternative conception of fiscal responsibility, based on certain ideas about functions and challenges of the state.

In the following, I will tangentially come back to general background aspects (especially Wagner's state socialism), while focusing the fiscal aspects of the public-private interfaces, i.e. taxation and debt. I will start with a summary of Carl Dietzel's challenge of the classical tradition on public debt, followed by a discussion of Lorenz von Stein and Adolph Wagner, who envisaged a development of public finance closely connected to his concept of state socialism. Section 4 includes brief discussions of Knut Wicksell and the variant of "state capitalism" suggested by the fiscal sociologist Rudolf Goldscheid, who (radicalizing Adolph Wagner's equilibrium-oriented approach to public debts) saw the heavily indebted state as structurally and politically incapable of pursuing progressive social reform under democratic auspices.

3.1 Carl Dietzel

Carl Dietzel (1829-1884) submitted a habilitation thesis entitled "The system of state bonds in the context of the national economy" (Dietzel 1855), which according to Glaeser (2003, p. 83) is his masterpiece. Indeed, in the tradition of German public finance Dietzel is mainly known for this seminal monograph, which is duly praised by Wagner and referred to by von Stein. The few pieces on Dietzel in English language include Stettner (1948), Glaeser (2003), and the more recent overviews by Holtfrerich (2013; 2014). A German monograph by Dettweiler (1969) considers the tradition inaugurated by Dietzel (up to authors such as Georg von Schanz included) in some detail. In this literature, the question *Do we find original anticipations of Keynesian elements?* is looming large. The dissertation of the Austrian emigrant Walter Stettner in Harvard (1944) and his piece on Dietzel in a festschrift for A. Hansen (1948) as well as more recent articles by Glaeser (2003) and Holtfrerich (2014) refer to the circular flow and Proto-Keynesian elements in Dietzel.

Dietzel remained a prolific writer until he became a national liberal member of parliament in 1868, after having achieved the position of a full professor in Marburg in 1867. In terms of his politico-economic outlook, Dietzel is more liberal than Wagner or von Stein. Concomitantly, he puts less weight on the politico-economic conditions needed for the state fulfilling intricate functions. While stressing contract-mediated mechanisms in the context of the management of the state economy (including public debt), this does not mean that he tends to minimize the role of the state. Even though none of his subsequent writings comes close to the rank and influence of his habilitation, Dietzel's "The economy in its relation to society and state" (1864) deserves to be mentioned, as it is explicitly motivated as a treatise providing the necessary systematic embedment of Dietzel (1855). As Dietzel (1864, pp. vii-viii) explains at some length by way of introduction, a proper conception of the state is a necessary condition for a satisfactory theory of state credit and hence is presupposed in his habilitation, even though it had not been expounded there due to time constraints. In general, Dietzel (1864) is in keeping with the politico-economic tenets common to the German tradition, albeit in a specific framework. More specifically, he distinguishes between (i) state, (ii) "society"[12] and (iii) the economy as co-evolving sectors; in the beginning of this process the state does not even exist (Dietzel 1864, p. 385). The emergence and development of the state is of pivotal importance for the private economy, as it is a necessary condition for unleashing economic forces which formerly were bound by traditional societal regulation. Dietzel (1864, pp. 389-390) thinks that the functional scope of this societal sphere is reduced from two sides: from the side of the economic sphere

[12] Dietzel's conception of society is different from the way it is used by Tönnies in the context of the society-community distinction.

as well as from the side of the state, which essentially grows as a specifically modern functional substitute for societal regulation. The modern state is a complement to the free market. In functional respects, state regulation is a substitute for societal norms and customs.

The specific achievement of Dietzel (1855) is the development of a basically macroeconomic approach integrating public credit[13] into a circular flow concept, combined with an emphasis on productivity-enhancing and accumulation-promoting effects of certain kinds of public expenditures[14]. Two aspects should be stressed: (1) Public credit is partly motivated by a pay-as-you-use principle, hinging upon the investment-like character of many public expenditures. (2) The argument includes the "Keynesian" view that an efficient fiscal management helps preventing resources remaining idle. Full employment is not considered as an assumption, but a state of affairs which must be actively pursued (Dietzel 1855, p. 26).

In keeping with the German emphasis on seeing revenues and expenditures together, the economic nature of expenditure is relevant for assessing the revenue side. As may be expected, this is associated with a critique of "classical" views according to which state activities along with other services are "unproductive". In general, capital accumulation is enhanced by effectively using public credit, in view of the productivity of public services. Dietzel's view of the whole range of public revenue instruments is illustrated by his emphasis on taking into account the opportunity costs of alternatives to public debts, such as maintenance of reserves (a „war chest") for war and other emergencies. Such a war chest implies keeping idle a certain amount of resources and hence is an obsolete instrument of public finance. However, public credit is not an anomaly to be confined to extraordinary, unpredictable developments such as wars. In a capitalistic market economy, the use of public credit should be considered a systematic element of public finance; expansion of public debt is limited by the necessary proportions given by the growth rate of the private economy and the efficacy of the tax system and, more generally, of the fiscal system, insofar they are relevant for determining the point

[13] The term "public credit" instead of public debt was not uncommon in Germany and beyond before Dietzel. See e.g. Nebenius (1820; 1829) and Baumstark (1833), whose titles are moreover indicating the concern of embedding considerations of public credit in a broader framework of the public sector. Moreover, they anticipate burden-smoothing effects of public debt in cases of extraordinary expenses and show some limits of the classical analogy between private and public debt and of superficial arguments concerning alleged burden-shifting at the expense of future generations (see Nebenius 1829, p. 663 and Dietzel 1855, p. 182), even though Baumstark's (the translator of Ricardo's principles) and Nebenius's attempts to provide a balanced account of the pros and cons of public debt (see e.g. Nebenius 8929, ch. X) are no doubt influenced by the "classical position" in important respects.

[14] In addition to Dettweiler's (1969) comprehensive account of the German tradition on public debt including a chapter of 45 pages on Dietzel, see Holtfrerich's (2013; 2014) overviews and Preiswerk (1942), Stettner (1944; 1948), Neumark (1958/59), Haller (1959, 1885); Schueler (1961), and Glaeser (2003).

where "raising taxes for the purpose of debt service becomes impossible or an unbearable burden" (Dietzel 1855, p. 213).

The role of public credit is related to a stage theory of economic development: Dietzel (1855) considers the credit economy as highest form of economic development (preceded by money economy and barter economy). He stresses the co-evolution of commercial and industrial development and public credit, referring to British economic progress since the last decade of the 17th century (coinciding with the systemic development of public credit) as a key example – somehow at odds with classical views. The modern credit system in general is the precondition for voluntary transactions giving investors with attractive rates of return access to the resources required for their projects (Dietzel 1855, pp. 26-27). However, owners of disposable capital may sometimes lack the opportunity or the propensity for productive investment in the private sector (see Dietzel 1855, p. 195). Hence the systematic use of public credit for productive public investment secures full employment (Dietzel 1855, p. 122) and tends to be growth-enhancing, as it allows for voluntary, contract-mediated reshuffling of resources ("disposable capital") for public investment with "no or the relatively smallest" (Dietzel 1855, p. 195) displacement of private production.

Put another way, public debt is "*an association-establishment of the capital owners, as it were. Each of them is shifting his capital there as soon as it cannot be better employed anywhere else*" (Dietzel 1855, p. 249, Fn 34, my italics). Hence the advantages of public credit are reinforced by considering the perspectives of private investors or savers. Along those lines, Dietzel (e.g. 1855, p. 203) attempts to make visible the advantages of the availability of government bonds for risk management in the portfolios of private investors and their strategic choices: investors will choose to buy government bonds only to the extent that no superior private investment opportunities are available (notably in periods of recession). They remain liquid due to the tradability of those bonds and may sell them when superior investment opportunities are emerging.

3.2. Lorenz von Stein and Adolph Wagner

Richard Musgrave (e.g. 1993; 1996/97) considers Lorenz von Stein (1815-1890) and Adolph Wagner (1835-1917) as part of the "Triade of German Finanzwissenschaft in its Golden Age" (along with Schäffle). In his monograph about German views on debt in the 19th century, Dettweiler (1969, p. 61) introduces Lorenz von Stein and Adolph Wagner as the "two great antipodes" who disagree "also in the evaluation of state debt". To be sure, this antagonism should not be exaggerated, as both Wagner and von Stein endorse important tenets, such as the pay-as-you-use principle for public investments or investment-like expenditures for public goods. However, there is an element of truth in Dettweiler's claims. While von Stein is closer to a Proto-Keynesian view à la Dietzel, Wagner's tendencies of fiscal conservatism become stronger throughout his career, even though he never revokes his early acknowledgement for Dietzel as the pioneer of an "unbiased analysis" of public credit (Wagner 1863, p. 2). However, already Wagner (1863) provides some plausible qualifications added to Dietzel's principles without questioning their basic validity, along with the in-depth treatment of public expenditures as the indispensable context of a serious discussion of the revenue side. From early on, Wagner (1867, p. 4) critically refers to "certain excesses" ("gewisse Ausschreitungen") which protagonists of state credit "not always steer clear of". As Dettweiler (1969, p. 98) aptly remarks, Wagner's increasing fiscal conservatism cannot be explained by a psychological propensity of increasing conservatism with older age, as Wagner's increasing fiscal conservatism is in conspicuous contrast with his increasingly progressive (Dettweiler says that he wishes to avoid the word "revolutionary") views on social policy. So one is left wondering why Wagner took such a seemingly strange path.

My claim is that this divergence makes perfect sense when considering the development of the views on state functions and state agency and pertinent theoretical frameworks. Let us first consider von Stein. His five functions of public credit (with slight modification I follow the distinctions suggested by Grossekettler 1990, pp. 45-49) can be seen under the aspect that von Stein wishes to mobilize the potential of catallactic mechanisms and private choices to the benefit of overall development:

(1) Development: Debt-financed public investment contributes to the development of a national economy as long as Stein's re-productivity rule is followed, according to which the induced increase in the tax-base should generate sufficient tax revenues to repay the debt. This also applies to foreign debt. Notice that the difference between foreign and domestic public debt is stressed by von Stein as well as by Wagner, especially referring to the context of countries in different development stages (capital rich vs. capital poor).

(2) Insurance and loyalty: Domestic public debt offers citizens the opportunity to build up market-based provision for their old age by almost risk-free government bonds and at the same time enhances the loyalty of citizens relying on those bonds, as they have a private interest in the stability of the state.

(3) Considering foreign debt, the analogue to the loyalty function is the peace-preserving function, keeping the creditor interested in the fate of the debtor.

(4) The pay-as-you-use-principle (implemented by debt-financing of public investments) allows for balancing the burden between generations.

(5) As also stressed by Wagner, the interest rate on public debt will include a higher or lower risk premium, depending on what the world thinks of the government and administration of a state. More specifically, von Stein links this with an additional function of public credit: fiscal accountability and discipline is enhanced by a well-functioning market for state bonds. (He does not stress potentially disruptive effects of speculative developments in bond markets.)

Taking stock of those five functions, we see that the arrangements envisioned by von Stein aim at a beneficial interplay of credit markets and state, employing the mechanisms of public credit for problems of social policy and governance. To which extent this optimistic perspective of a symbiotic private-public "partnership" in which public credit has such a prominent role is related to von Stein's Hegelian tendency "to demonstrate the higher rationality embodied in current state of affairs" (Wicksell 1896, p. 107) remains open.

It should be added that von Stein's (1871, p. 666) often-quoted statements according to which "a state without public debt either cares too little for the future or demands too much from the present"[15] is primarily related to the burden sharing and development functions, not to anticyclical stabilization functions. As Grossekettler (1990, p. 40) observes, pertinent thoughts are less explicit in von Stein's writing as compared to Dietzel (1855) and Nebenius (1820). His ensuing remark that a "fiscal authority is not up to its tasks if it does not know how to make use of its credit" covers all the functions mentioned above, but also the issue of debt management dealt with by Wagner and von Stein at some length. Grossekettler (1990, 50) argues that von Stein advocates pro-cyclical debt *management* (shifting to short-term public debt in the boom and long-term public debt in recessions, benefitting from low interest rates in order to minimize the burden) for "public economy reasons" (*staatswirtschaftliche Gründe*).

Adolph Wagner's (1887a/b) perspectives on state socialism are influenced by a specific mix of philosophic currents within German 19th century, including Krause, von Gierke, Ahrens, Roeder, and Ihering (Cf. Corado/Solari 2010), and politico-economic theories of capital accumulation as suggested by Rodbertus. The Krause-tradition offers a specific kind of natural

[15] The sentence does not appear in the last edition of his "Lehrbuch der Finanzwissenschaft".

rights perspective different from the individualist perspective of the Lockean tradition, with its pivotal importance of pre-political private property rights. All in all, the portfolio of ideas provided by those thinkers combines the general emphasis on the socio-economic foundations of norms and institutions with a specific concern regarding the public (i.e. non-private) aspects of the processes of modern production and exchange. Roughly put, this amounts to a problem-oriented and historically contingent mix of liberalism, socialism, and conservatism, giving a specific twist to the foundational interdependence of the state and private property (including the market) going back to Kant. It goes without saying that this implies a critical stance regarding traditions in which the state is justified solely as an enforcement agency for pre-political property rights. Put succinctly: there is no such thing as (modern) property right without a state. Moreover, in the process of industrialization the character of productive forces (widely understood) becomes more and more public, implying a tension between exclusively private accumulation of capital and the increasingly relevant public features of core infrastructures and production processes supporting industrial progress. Under such conditions, the price mechanism provides no unique natural solution to distribution problems. This does not motivate abolishing private property, but complementing it with substantial public economy ("socialist") elements. Suitable state measures are not obstacles to capital accumulation. They are accumulation-enhancing, insofar they better correspond to this public character of technologies.

Contrasting a Locke-inspired framework, modern taxation thus can be reconstructed as a part of the legitimate *mechanism of distribution* adequate for a modern society. Along similar lines, *socialization of natural monopolies, social insurance and labour market regulations* can be justified. At a general level, the idea of a quantitative expansion of the public sector going along with a qualitative transformation is proximate. As a characteristic of modern politico-economic development, what Wagner calls *the "prevention principle"* becomes a guiding principle of public agency, complementing or superseding the more traditional, less forward-looking principles of state action.

The most lasting influence includes his reasoning on the functions of the state, summarized in *Wagner's Law,* which is referring to the tendency of an increasing relative size and functional importance of the public sector in the development process of market societies, characterized by the secular trends that became clearly visible in the 19th century: industrialization, urbanization, and unprecedented economic growth. Wagner emphasises that the modern public sector is expected to be responsive to collective needs emerging in the process of the expansion of market-mediated, capital-using production with an increasing complexity due to increasing division of labour; the public sector is a *co-evolving part of the modern market economy* which must not be conceptualized as isolated from its dynamism and the specialisation processes supporting it, as is implicitly assumed in theories in which the pattern of state activities is a perfectly static framework, ultimately determined by factors supposedly not affected by economic development.

Wagner's "state socialism" summarizes the politico-economic implications of Wagner's reasoning. Regarding the antagonism between liberal individualism and collectivistic socialism leaving their mark on many debates of the 19th century, it is an attempt to give (i) individualist, (ii) socialist, and (iii) conservative principles their due, with the market and the state as functionally complementary institutions. State socialism includes a far-reaching program of social reform, co-existing with heterogeneous elements: private property (the individualist part) and class structures, as well as constitutional monarchy (the conservative part), while democracy with universal electoral rights is envisaged as a historical trend in the long run. State socialism implies potentially open ended, more far-reaching reforms than von Stein‘s „soziales Königtum". This is reflected in an interesting controversy between Wagner and von Stein, who criticized Wagner on the grounds that „State Socialism" has no limiting principles: principles limiting the demands of society vis-à-vis the state, but also principles limiting the influence of the state on society/economy. Wagner (1887a/b) rejected this (even though he acknowledged von Stein‘s merits), arguing that the state socialist concept of a political-fiscal-economic balance is the best guideline available in a dynamic industrial society where it is impossible to set a priori limits either to the state or to society, and to steer clear of the demands of the working class, which already had notable success in finding organized articulation in the party Marxist Social Democracy.

So what about Wagner's seemingly paradoxical development observed by Dettweiler? (I.e., Wagner became increasingly conservative on the fiscal side and increasingly progressive as far as social policy is concerned, complemented by the observation that Wagner is closer to fiscal conservatism than von Stein, even though he is more socialist.) I am going to argue that both aspects of the development of Wagner's thought are two sides of the same coin: a transformation of the state according to the logic of and Wagner's Law and Wagner's "state socialism" triggers additional trade-offs and constraints regarding public debt. The social policies schemes favored by Wagner along with his prevention principle and Wagner's law are compatible with strictly limited debt financing only, while von Stein considered the market for government bonds as one plausible element of social policy, with added value regarding government accountability as well as the loyalty of the citizens. Moreover, the systemic advantages of public debt as a contract-mediated mode of reshuffling resources financing public projects (along the lines of Dietzel's arguments) become more ambivalent and uncertain when considering (as Wagner did) state expenditures for investments in public goods where the future returns in terms of additional income and additional tax payments are too remote for straightforward assessment. Wagner's awareness of the ambivalent (enabling and constraining) potential of the catallactic financial environment of the public sector in a market society is documented in passages of "Staatssozialismus und Finanzwissenschaft" (1887a, p. 79).

Wagner's state socialism is based on a mix of devices in which public credit has a limited and less prominent role, compared to Dietzel's and von Stein's views. Wagner's state socialism motivates a problem-oriented and casuistic approach. Regarding the distinction between different types of public expenditures, Wagner develops the most systematic account of how the structure of revenues should be related expenditures. This includes cases where the technologically "private" nature of some public services and the lack of social policy-concerns should lead to user fees on the revenue side. Wagner moreover was concerned with possible adverse effects of taxation, but saw one of the most prominent tasks of public finance to provide useful advice for developing a public revenue system minimizing the drawbacks of taxation. It can be minimized by a suitably structured optimization of taxation, complemented by other instruments, including user fees as well as contribution-based social security combining the insurance principle and group-specific solidarity. Making use of public credit in a carefully circumscribed class of cases is only one of the options.

In his later works, he seemingly is ever more reluctant to rely too much on the financial system and certainly does not envisage a state stripped of all assets of its own – a point which will become pivotal for Goldscheid. He endorses publicly owned public utilities at the communal level and state-managed infrastructure construction and operation, praising the German railway system after socialization as a success story. To a certain extent he even endorses a "war chest" for emergencies on the grounds of the enormous costs of modern wars, anticipating the disruptive effects of excessive debt-financing and questioning the economically productive side of wars – perhaps in view of the ill-considered wars in which Austria was involved, leading to the Austrian fiscal situation he analyzed (as a young professor in Vienna) in his first seminal work (Wagner 1863).

Regarding the development function, he discusses circumstances that render debt-financing problematic even in the case of public investments: he agrees that such investments *may* (attenuating Dietzel's "must") be financed by debt; a *general* rule in favor of debt-financing is vindicated only in cases where specific revenues are generated along the lines of the benefit principle, e.g. in the form of user fees. By contrast, von Stein's distinction between directly and indirectly productive debts implies a justification of debt-financing of expenditures including cases where the tax-base-enhancing returns on those public investments are fairly *remote* (remote in the sense of being mediated by complex mechanisms, such that no straightforward estimation is possible). Of course, there is broad agreement that debt-financed public *consumption* should be avoided.

But how should the public budget behave in the course of the business cycle? As mentioned above, Dietzel stresses the beneficial effects of mobilizing idle ("disposable") capital by public debt, which Dettweiler and others interpret as implying a view of fiscal stabilization. Wagner (1883, pp. 153-156) does not deny the theoretical relevance of pertinent arguments, but argues that this is only one of the possible cases, the other being full employment (Wagner 1883, p. 164). Hence the practical relevance of such arguments is limited to suitable circumstances. More generally, the advantages of credit as compared to taxation depend on the amount of crowding-out. Wagner and von Stein broadly agree on that, but all in all, Wagner is inclined to put more weight on possible drawbacks of public debt also in this respect.

Both for Wagner and von Stein the overarching goal is to preserve and develop the capacity of the state to fulfill its necessary functions. Public credit is a natural part of that, if guided by suitable principle of sound finance. Hence both Wagner (e.g. 1863) and von Stein think that independent bodies of control, such as public credit committees and courts of audit, should supervise the public finance operations such that the risk premium is minimized. For both writers, the pattern of revenues and expenditures needs to be part of a socio-politico-economic equilibrium: put in other terms, both are considering factors which should reduce the likelihood that individuals or classes of individuals find opting out (or engaging in class struggle) an attractive alternative. Wagner was more concerned with irremediably adverse effects of debt than von Stein, as lack of sound finance is more likely to destabilize the open-ended schemes of state socialism.

A characteristic feature of the German tradition is its aversion to simple and universally valid formulae at the levels below the general architecture of public and private sectors. Instead, the policy conclusions are pragmatic, problem-oriented, and casuistic (see Wagner 1867a, p. 17).

Wagner's (see e.g. 1886) and von Stein's oeuvres show that this casuistic approach is not the product of anti-theoretical, historicist reasoning, but rather of the heroic attempt to combine a politico-economic theory of the state addressing current challenges of modern statehood and socio-economic development with (especially in the case of Wagner) a theory of capital and principles of fiscal management. Holtfrerich (2014, p. 76) and Dettweiler (1969) refer to some tendencies in the 19th century German literature (notably including Wagner) where the idea of "balancing the budget" is gaining ground at the expense of ambitions to "balance the economy by means of the budget". However, neither the fiscal conservative slogan of the "balanced budget" nor the Keynesian slogan "balancing the economy by means of the budget" do capture the main thrust of von Stein's and Wagner's doctrines of fiscal responsibility, which consider public credit as one element in an arsenal of institutions at the disposal of the state. The overarching goal is neither balancing the budget nor balancing the economy in a merely macro-economic sense, but improving the conditions for stable long-run development (steering clear of a Marxist revolution and other wrong paths). Public debt is considered a specifically complex aspect of the public budget, which itself is part of a hugely complex bigger scheme of socio-economic balances.

Seen in such a context, pertinent writings on debt- vs. tax-financing are offering other insights than merely accounting for the distance from "classical" positions and degree of anticipation of Keynesian ideas. The phenomenon of public credit/public debt is part of a Political Economics framework. In that context, the development of the state as a collective agency subject to distortions has to be reconciled with development of the state as a collective apparatus providing core collective goods. This task cannot be addressed by imposing a priori static limits to the development of the public sector (as some advocates of "limited government" would have it). However, as Wagner's reasoning shows, a strictly circumscribed role of public credit may be part of the solution.

4. Self-conscious off-springs of the German tradition: Wicksell, Fiscal Sociology, and state capitalism

The destabilizing potential of public debt in the context of social reforms is most directly addressed in Rudolf Goldscheid's fiscal sociology, which is developing a fiscal regime for "state capitalism". Goldscheid (whose main formation in public finance seems to have been Wagner's lectures on public finance in Berlin; see Fritz and Mikl-Horke 2007) promotes a more radical social policy mix, which – applying the reasoning underlying Wagner's cautious position regarding public debt – is even less compatible with an arrangement including a heavily indebted public sector and high taxes.

Both Knut Wicksell and Goldscheid tend to minimize the (factually important) influence of German Finanzwissenschaft with regard to their core contributions. Apart from the legitimate attempt to stress the truly innovative character of their work, the most important reason is probably related to the starkly different politico-economic contexts of both writers, which is clearly at odds with the conservative outlooks framing the doctrines of Wagner and von Stein: for Wicksell and Goldscheid, some kind of egalitarian democracy which is progressively eliminating or has already eliminated the remnants of pre-modern hierarchical order is the relevant premise. Wicksell endorses a kind of progressive liberalism based on normative as well as methodological individualism, while Goldscheid's "state capitalism" is framed by a context where major politico-economic transformations towards socialism are on the historical agenda. Despite the huge differences between those two strands of thought, it is no coincidence that scholars informed by perspectives à la Buchanan are interested not only in Wicksell (well known as a main inspiration for Buchanan), but also in fiscal sociology (see e.g. pertinent pieces in Backhaus/Wagner 2004 and Backhaus 2005). Wicksell and Goldscheid put forward two different aspects under which state agency can be seen, which *both* imply a rejection of assumptions conceptualizing government as an exogenous body – and both are implying serious caveats regarding the use of public credit/debt, as the mechanisms operating in the context of public credit are inimical to the determination of the proper amount and kind of government expenditures.

Wicksell (1896) introduced methodological individualism, micro-economic rigor and the assumption of a fully-fledged liberal democracy with a parliament deciding about government revenues and expenditures. His contribution can be seen in the context of a strand of inquiry which goes back to the politico-fiscal thought of major enlightenment thinkers such as Montesquieu: in this "modern" view, the scope of the state as a machinery for the provision of public goods driven by needs and wants of individuals (as opposed to dynastic interests and the maintenance of privilege-based hierarchies) plays a key role and is specifically related to the development of taxation (see Huhnholz 2018). Accounts of the history of this development up to the first decades of the 20th century are looming large in the motivational background of Goldscheid's (1917a/b) and Schumpeter's (see Hickel 1976) fiscal sociology. As sketched above, this development is reflected (in specific framings) in von Stein's reasoning on society and classes and by Wagner, who saw democratization as a historical trend which needs to be embedded in a well-balanced system of institutions in order to ensure stability.

Wicksell's (1896, p. 102) claims regarding the obsolete political basis of traditional public finance (as based on the political premises of absolutism) should be taken cum grano salis: von Stein and Wagner were indeed concerned with the challenges of emancipation of society and democratization. However, Wicksell's innovation (i.e., the systematic integration of democracy as a collective choice mechanism based on marginal utility theory within such an overall modern view) is nonetheless hugely important and interesting[16]. Notice however that the scope of the machinery which can be explained and justified in terms of a Wicksell equilibrium commanding quasi-unanimous consent does not cover the entire range of state activity. Two important issues which typically will include fiscal measures remain outside, as explicitly stressed by Wicksell (1896, p. 73): (1) policies motivated by distributive justice and (2) public debt service, because "the state, by its very nature, cannot withdraw from the pledges once they are made". The latter may be considered belonging to the class of measures necessary for preserving the identity of the state as a collective agency, i.e. as an institution with the power for effective action regarding one of its core functions as an enforcement agency protecting contractual obligations. Hence under normal circumstances, the amount of public money needed for debt service cannot be subject to some political mechanism. This implies that the canonical Wicksell mechanism is of no use here, as its core idea is the joint determination of the aggregate amount and the size of individual contributions allowing for a Wicksell equilibrium with unanimous consent. As Wicksell observes, some other principle for determining individual burdens (such as some principle of equal sacrifice) has to be applied in the case of debt. However, Wicksell wishes to widen the sphere of the benefit principle as implemented by the voting mechanism suggested by him as far as possible, possibly by suitable constitutional safeguards (Wicksell 1896, pp. 118-120). Along those lines, Wicksell introduces a new aspect regarding the disadvantages of debt finance: it is considered as a method of finance undermining democratic approval of public expenditure programs. The approval of new public debt hence must be strictly subject to democratic decision making.

[16] "The essay contains not so much a new principle of just taxation, than a method to ensure that such measure of justice that can be attained is achieved in practice. The principle as such is […] nothing more than the benefit principle […] If this principle were to be accepted, one could […] transform into public activities proper many activities which today are left to private initiative […] and the results would be advantageous to everyone. At the same time, I do not overlook that there is an area of public activity where the benefit principle is not applicable" (Wicksell, 1896; quotation from the transl. in Musgrave/Peacock 1958, pp. 72-73). In the sense of suggesting an explicit collective choice mechanism Wicksell indeed is the first to provide a fiscal theory for a democracy.

In his specific sociological-historical framework, Rudolf Goldscheid (1917a/b; 1926) ends up with a somewhat similar conclusion, albeit based on different arguments. Goldscheid's theory invokes particularly radical versions of the "German" tenets mentioned above, concerning e.g. the rejection of the state as an exogenous agent, and the foundational interdependence of the expenditure and the revenue side. He combined this with other ingredients related to concepts of class, power and the increasingly social character of the forces of production, which probably are influenced by Marxist debates and Wagner's (1887a/b) arguments. However, "scientific socialism" and Marx are sharply criticized by Goldscheid (1917a, ch. 9) for the total lack of a theory of public finances – which implies total lack of a serious politico-economic theory of the state[17].

In contrast to what Goldscheid (1917b) insinuates in his introductory motivation of fiscal sociology, it was not the first attempt to understanding the "finer interdependences" between state, economy and society. Indeed, von Stein and Goldscheid's teacher A. Wagner put forward their qualified conclusions on the basis of contingencies becoming visible when some of those finer interdependences are theorized. However, from Dietzel to Goldscheid there is an increasing emphasis on possible problems emerging within public-private interfaces, which are related to two aspects: (a) New historical settings affecting state functions may be in a tension with debt financing. (b) Increasingly "democratic" modes of decision-making are in a tension with debt-financing. This must be considered in the context of the overarching question underlying the reasoning of this tradition: What is needed regarding the structure of public revenue to optimize the capabilities of the state/public sector as an active (and not merely reactive) institution performing its functions. Those functions of course may be – and were – subject to change: self-preservation of political sovereignty in a setting of fragmented political authority in the times of cameralism; promoting an industrial catch-up process along with market failures and failures of the market (von Stein, Wagner); far-reaching social reform (Goldscheid's state capitalism).

In Goldscheid's view, the financial arrangements accompanying public debt are a peculiar form of a private-public partnership. In this partnership, the state tends to get caught in a trap, bringing about a situation where particularistic interests rule the roost and in which the state is not capable of meeting essential challenges triggered by the current stage of capitalist

[17] In the context of the present article, I cannot do full justice to Goldscheid's theoretical contribution. Important aspects are discussed in Backhaus (2005), Fritz/Mikl-Horke (2007) and Peukert (2009). Musgrave was seemingly fascinated by him, even though the extract from Goldscheid (1926) in Musgrave/Peacock (1958) does not fully reflect his achievements a social theorist.

development, notably including social, educational and health policies conducive to (what in modern terms could be called) adequate human capital/human potential formation ("Menschenökonomie"), partly already foreshadowed in Wagner's prevention principle. Goldscheid's solution is the expansion of the sphere of public property (already one of Wagner's instruments), as the combination of a poor (asset-less) state and taxation tend to lead to an over-indebted and dysfunctional state. Along those lines, his "state capitalism" is suitable to overcome the contradiction between the private character of capital accumulation and public debt, along with public aspects modern productive processes and the challenges brought about by them – a concern already articulated by Wagner and addressed in his writings on state socialism (1887a/b). To be sure, the differences were substantial: (1) While Wagner's state socialism was based on a carefully adapted portfolio of instruments on the revenue side, each instrument matching specific properties of state activities which are going to be financed, Goldscheid tends to put all his eggs in one basket: the "re-propriation" of the state. (2) While Wagner's scheme is clearly guided by the preservation of the existing order, including not only private property as an abstract principle but also the existing class structure (his rather far-reaching ideas regarding social policy and public utility infrastructures and the envisaged unavoidability of an ongoing process of further democratization notwithstanding), Goldscheid's problem horizon is defined by a question related to clear historical setting[18]: what can we say about the stability conditions for a fully democratized regime where the property-less classes have reached political emancipation and wish to implement a policy of social reforms congruent with developing the human capital/human potential?

5. Concluding remarks

Since the time when Keynesian thought became hegemonic in the wake of the world economic crisis in the 1930s, social reformist parties often became associated with a pro-public debt stance. Fiscal conservatism of social reformist politicians of the interwar period was often ascribed to their lack of understanding of "Keynesian" arguments. A case in point is the municipal administration of Vienna which (perhaps reflecting Goldscheid's influence) pursued a policy of sound finance with regard to its program of communal housing, education and health. While lack of "Keynesian" understanding no doubt sometimes played a role (paralleling

[18] It is Goldscheid's tragedy that with the exception of Schumpeter few scholars (in particular few public finance scholars) seem to have grasped the merits of his historically informed analysis, applying general reasoning about the interdependence of state and society and the links between revenue and expenditure side to a specific historical setting. See Mann (1934) and Peukert (2009), who includes some information regarding the extent to which Goldscheid was mistaken as an ideologue, leading to the substitution of Goldscheid's (1926) entry in the following edition of the Handwörterbuch.

the cases of fiscal conservatives), there is a second interpretation. The strand of public finance and financial sociology thought summarized here shows that there are reasons for being cautious regarding public debt, not despite but because one envisages public provision of public goods, social policy reforms and the use of the fiscal apparatus for distributive purposes which are sustainable in the long run. Sustainable success of such policies presupposes a politico-economic equilibrium which is unlikely under conditions where debt financing assumes a dynamisms of its own. This is perhaps much less of a concern if such long-run goals associated with a transformation of the public sector play no role. The conditions for *balanced patterns of public revenues* (in its relation to the corresponding profile of expenditures and its development) need most careful attention when the functional role of the state includes a range of tasks with different characteristics.

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