

## CHAPTER 4

# TAXATION, SOCIOPOLITICAL STRUCTURE, AND STATE-BUILDING: GREAT BRITAIN AND BRANDENBURG-PRUSSIA

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### *Introduction*

“Financial means are the nerves of the state”; this celebrated sentence of Jean Bodin’s, written in the formative phase of modern state-building, was cited or paraphrased over and over again in the contemporary literature and later in the mercantilistic-cameralistic writing of the seventeenth and eighteenth centuries. (Bodin 1583: L, VI, chap. II, p. 855).<sup>1</sup> At the end of World War I, Joseph A. Schumpeter reflects on whether or not the modern state, which he labels the “tax state,” will have a chance to survive. His essay “The Crisis of the Tax State” combines an historical analysis of the origin and nature of the modern democratic state with a sociology of taxation. According to Schumpeter “fiscal demands are the first sign of life of the modern state. This is why ‘tax’ has so much to do with ‘state’ that the expression ‘tax state’ might almost be considered a pleonasm. And this is why fiscal sociology is so fruitful for the theory of the state” (Schumpeter 1954: 19).<sup>2</sup>

These quotations from Bodin and Schumpeter illuminate right at the beginning the significance of taxation, fiscal policy and public finance in the process of state-building and sociopolitical changes. They might serve as a point of departure to set forth the problems,

<sup>1</sup> Cited by F. K. Mann (Mann 1937: 5ff.). Mann cites writers of the seventeenth and eighteenth century who paraphrased Bodin’s maxim.

<sup>2</sup> In the last two decades historians have come to emphasize more and more the importance of socioeconomic aspects for the analysis and interpretation of general history; financial history, however, as part of an integrated history remained, at least in the German speaking countries, fallow ground. This is all the more surprising because the research could have resurrected the tradition of the so-called German Younger Historical School of Economics (with Gustav Schmoller as its head), which had been animated by such outstanding and original scholars as Joseph A. Schumpeter, Max Weber, Otto Hintze, Rudolf Goldscheid and Karl Mann (the last two specialized in the field of historical sociology of public finance). I am glad to state right at the beginning that I am much in debt to all of those just mentioned scholars.

outline their ramifications, and sketch the analytical framework of this rather tentative essay.

From a modern point of view, taxes are regularly paid compulsory levies on private units to produce revenues to be spent for public purposes. In regard to the period and the topic under discussion, however, this definition not only helps little, but also forestalls the raising of relevant questions. One of the problems to be dealt with is the extent to which various forms of compulsory levies, at a given time and place, can actually be considered as producing regularly "public" revenues, used wholly for "public" purposes. Up to the eighteenth century, the traditional concept of taxation, in theory if not in fact, evaluated tax collection as an "expedient in times of emergency and even an abuse which as soon as possible should be replaced by income from public property, particularly domains, and by voluntary contributions." But common opinion gradually acquiesced in the permanent character of compulsory levies; it came to accept taxation as a permanent institution and as the "inseparable twin of the modern state" (Mann 1943: 225).

Hence, we have to broaden our scope: we must treat not only taxes in a modern sense, the permanent, compulsory and public character of which is not questioned, but also feudal dues and sources of income accruing to the Crown or the ruling dynasty: revenues in money, kinds of services provided by the royal or seigneurial domains, rights and prerogatives (*regalia*). Sometimes it is hard to distinguish between taxes in a modern sense and the revenues just mentioned which belonged to the ruling dynasty, inasmuch as the former were in many ways developing out of the latter. The right to impose and collect—that is, to administer—taxes became one of the means by which seigneurial or patrimonial authority over people was transformed into authority over territory, and by which authority and power of a feudal character, with all its mutual rights and obligations, was converted into authority and power of quite a different nature. Taxation was thus important both as weapon and as symbol in the struggle to overcome the feudal order and to build states or nations in a modern sense. The control of wealth by the ruling dynasty was an essential prerequisite for its effective exercise of authority; therefore the amount of property belonging to the ruling dynasty and the efficient administration and utilization of this property were of crucial importance in the struggle for taxation rights and for power in general.

The struggle for the right to impose and collect new taxes or to convert traditional levies into new forms is closely connected with that for the right to decide what the revenues are to be spent for and the right to control the way they actually are disbursed. This aspect, concerning the allocation of revenues, suggests that we cannot consider problems of taxation without taking into account the side of expenditure; that is, the whole complex of what today is called "public" or "national" expense, budget, credit, debt, and finance. Here again the meaning of the term "public" presents a problem and raises a series of relevant questions. How far have, for example, the expenditures of the royal or seigneurial household to be evaluated as "public?" In what ways and to what degree is the administration of these expenses separated from that of others? Must the debts of the ruling dynasty be considered as "public" debts? Is the collateral for and amortization of these debts provided by property belonging to the dynasty, or is it based upon other securities? As we shall see, these and other questions are closely related to the transformation of seigneurial and patrimonial rights, obligations, services, and functions of a feudal character into new forms. Such a transformation affects the whole range of sociopolitical and socioeconomic affairs: the military organizations; the civil and ecclesiastical administrations; the judicial systems; means of transportation, communication, and education; the maintenance of law and order; the supply and regulation of coins or other currency; and so forth. Since all of these obligations, services and functions provide and/or require revenues, changes in who has the right to impose, collect, and allocate them are likely to lead to changes in the right or obligation to provide these services and functions. It is obvious that the nature and distribution of authority and power over people and territory are involved with these alterations.

Hence, we certainly can agree with Schumpeter's view that the "modern tax state" has grown out of the crisis of its predecessor, the feudal relationship and the desmesne economy at the close of the Middle Ages, but we have to question his statement "that without financial need the immediate cause for the creation of the modern state would have been absent" (Schumpeter 1954: 8, 16). The financial needs are symptoms and effects as well as causes of new political, social and economic needs and of a new quality of life, which is developing. We might therefore add to Schumpeter's statement that of Fritz Karl Mann: "Without political need the cause for the creation of the mod-

ern finance and tax system would have been absent" (Mann 1933-1944: 8). This mutual relationship shows the connection of our topic with the other topics of this workshop. Threat of war, plans of expansion, the danger of insurrection at home, e.g., will not only lead to an increase in military expenses, but also may influence the mode of distribution and collection of the required tax load in order to secure the military and/or political support of strategically crucial social groups. Tax privileges and tax exemptions of certain social groups often have this motivation, though it may be concealed. In short, the form, amount, and allocation of revenues are closely related with a variety of internal and external factors: social, political, and economic conditions; foreign relations; and so forth. In the transition from the feudal order to the modern state, a process which stretched over centuries, it is our main task to analyze the financial components. Yet in doing so we cannot ignore the changes in other spheres of life. This leads to a second line of preliminary reflections.

Taxes serve various functions. First, they have fiscal functions; they provide the monetary means for a steadily increasing host of purposes. Second, they have what we might call educational and social functions. Tax policies designed to regulate and influence human behavior have a long history. Direct and/or indirect taxes are used as tools to increase population (tax burden on bachelors; tax reduction for children), to reduce laziness and to force people to work, to check certain human vices, to influence consumption patterns (particularly conspicuous consumption), and so forth. The educational or social goals of such taxes characteristically prevail over the fiscal goals (see Mann 1943: 226ff.).<sup>3</sup> Still more important are social functions of taxes in another area. They regulate, intentionally or not, the distribution of wealth and income. In other words, taxation can be devised either to stabilize or to change the existing social structure by petrifying, leveling out or broadening the existing differences in income and wealth between social groups. From this point of view, both particular taxes and tax systems as a whole can be classified as progressive, proportional, or regressive, the distinction being based upon the ratio of tax liability to net income or net worth. However, we have to be careful, in applying these terms as analytical tools to older times, as they may hinder rather than help us in understanding precisely the social function of

<sup>3</sup> Mann writes: "Thus the poor financial result of such taxes may be taken as indicative of their educational success" (Mann 1943: 229).

the taxation in question. Certainly any tax privileges, tax exemptions, and regressive taxes granted to groups imply a greater burden upon the rest; and it is likewise obvious that the ruling groups are eager to use taxes as means to strengthen their socioeconomic position. Yet the problem of distribution of the total burden of taxation, on the one hand, and the underlying criteria or standards of distribution, on the other, require that in this period we examine not only people but also institutions; that is estates, social ranks, and certain kinds of property which confer sociopolitical rights. Which social groups, estates, and properties are subject to which, if any, particular taxes? What kind of tax privileges and exemptions exist? In what way are these privileges related to other social as well as political and economic privileges, rights and obligations? What are the prevailing dogmas of social justice and the prevailing social principles upon which tax duties and tax privileges are based? These and other questions are relevant to our inquiry and are part of the general question Max Weber formulated as follows: Will a certain type of social and political power structure (*Herrschaftsverhältnisse*) determine the creation of characteristic forms of revenue and tax systems? (Weber 1964: 49).

This brings up a third function: taxes may have political as well as fiscal and social functions, insofar as they define the character and the degree of political participation of social groups, estates and holders of certain properties. In a variety of ways, for example, the amount of tax liability served as a criterion for enfranchisement. The connections between taxation, enfranchisement, distribution of political rights, and access to political power have to be analyzed. Political participation, for example, may be determined by birth, social rank, and the holding of property; along with these may go a privileged status in terms of tax burdens. Or the case may be quite the reverse: taxation may serve as a barrier to exclude certain social groups from access to political power.<sup>4</sup> According to Montesquieu the 'nature' of a tax system is subject to the specific political system or form of government (Montesquieu 1951: 467-468).<sup>5</sup> Although we disagree with this statement it is evident that a close connection be-

<sup>4</sup> In nineteenth-century Prussia we will find both. The amount of tax liability comes to be a criterion for enfranchisement, yet remnants of the old order remain: the so-called *Standesherrn*, for example, enjoy political as well as tax privileges by virtue of their birth.

<sup>5</sup> "Que la nature des tributs est relative au gouvernement" (Montesquieu 1911: 467-468).

tween the political system and taxation exists. Constitutional changes often coincide with tax changes, and electoral reforms often become the starting point for tax reforms. It is most likely that the shift of political power between social groups or political institutions and organizations will lead to a new tax policy (see Mann 1961: 646).

Finally, taxes may have economic functions; they have a long history as instruments of economic policy in various ways. "Incentive" and "punitive" taxes, for example, are found not only in the social sphere, but in the economic as well. On the other hand, particular taxes or tax systems as a whole have side-effects which are not intended. They may hamper particular sections of the economy or the economy as a whole, or they may create windfall-profits.

Not only the form and amount of taxes, but also the collection, administration, and allocation of revenue influence the economy. To mention but one example: it is a one-sided point of view that the degree of monetization of the economy will determine the forms of levies. The collection, administration, and disbursement of taxes serve in turn as agents to promote the monetization of an economy. We are in full agreement with the statement of Fritz Karl Mann that the financial and tax administration helped shape the "capitalistic spirit": the "tax state" has to be regarded as educating its people towards a spirit of *Rechenhaftigkeit* even in branches, like agriculture, where rational accounting was still relatively undeveloped (Mann 1933-1934: 9).

The fiscal, social, political, and economic functions of taxation may support or conflict with each other. A certain level of taxation may be desirable, for example, from a fiscal or a social point of view, but may not be compatible with a defined economic policy. Which effects of taxation are intended and which are not? Which goals will come to have priority if a conflict occurs? How is the priority justified? Will the settlement of such a conflict lead to readjustments or reinterpretations of previously defined goals, and if so, how? On the other hand, the same sequence of questions should be applied to the allocation of revenues. Social, political or economic functions, goals and effects of taxation can either be supported or obstructed by the way the revenues are spent.<sup>6</sup>

In regard to the analytical framework of the historical problems of taxation, we should be concerned with the goals or intentions of

<sup>6</sup> From this point of view, taxes might be considered as negative subsidies, and subsidies in turn as negative taxes (see Mann 1959: 55).

particular taxes or tax systems as a whole, with the needed amount of revenue and the desired distribution of the burden of taxation. Second, we have to correlate these goals or intentions with the sociopolitical and socioeconomic conditions, above all with social and political power structure. Third, we should ask which prevailing fiscal, social, political, and economic theories, principles, or dogmas underlie these purposes and intentions.<sup>7</sup> Finally, the methods of attaining the desired goals as well as the actual successes and failures of these methods have to be investigated.

In order to have more space to discuss the various aspects of our topic, we decided to limit our investigations to Britain and Brandenburg-Prussia, two contrasting cases which illustrate well the interrelationship between taxation and sociopolitical and socioeconomic modernization. The following section is devoted to what might be called the formative phase of state-building whose end is marked for Britain by the first meeting of the Long Parliament (1640) and the Civil War, for Brandenburg-Prussia by the accession of the Great Elector, Frederick William of Brandenburg (1640), at the end of the Thirty Years War, and the *de jure* transfer of the *ius territoriale* or the *droit de souveraineté* (as the French draft of the Treaty of Westphalia termed it) from the German emperor to the reigning princes (1648).

### *The Formative Phase of State Building*

The Holy Roman Empire remained until its collapse essentially a feudal organism with increasingly anachronistic features. It never succeeded in shaping the sociopolitical structure of its realm towards a centralized modern state or nation. One of the indications, and at the same time one of the causes, of this lack of power to adjust may be found in the fact that unlike the French Crown, the Roman Emperors were unable to develop a system of contributions for the exigencies of the empire, to say nothing of a modern system of taxation covering the peoples and the territories of the empire. All attempts to impose on the Estates of the empire (*Reichsstände*) a regular tax burden and to collect customs duties at the boundaries of the empire failed or had at best a very limited success.<sup>8</sup> At the same time, a continuous ero-

<sup>7</sup> As noted above, such theories, principles, or dogmas may become subject to reinterpretation even without changes in the prevailing system of taxation.

<sup>8</sup> The imperial sources of income yielded totally inadequate returns. More and more the Emperors had to rely on their own financial means, that is on revenues accrued from property rights belonging to their dynasty and not to the Imperial Crown. The

sion of the imperial rights and prerogatives which provided revenues or could be used to create new financial means took place. These were grasped by the princes of the empire, including the ecclesiastical ones. Apart from the cities, modern forms of taxation and public finance were developed in the realms of these princes; the changes were part of a sociopolitical and socioeconomic transformation or modernization in general.<sup>9</sup>

The emancipation of the princes from their imperial overlords was well under way in the High Middle Ages. This process was essentially a struggle of the princes to convert a conditional and qualified feudal tenure into a tenure that was unconditional and unqualified, to lessen the feudal vassalage with its defined services and obligations, and to get possession of a host of rights, prerogatives, and privileges hereditarily belonging to the Crown. The dispute about investiture, which saw the Emperor on the losing side, helped both the Church and the princes of the empire to eventually free themselves from the imperial authority and to strengthen their own power over their peoples and territories.<sup>10</sup>

All these changes differed, of course, in path, pace, and degree from region to region. On the whole and in the long run, however, the development had similar features throughout the empire. The

free cities and other subjects of the Emperor alone, as well as imperial prerogatives, provided some revenues. An attempt by the Emperor in 1427 to impose taxes failed. The Diet of Worms (1495) granted for a limited time-period the collection of the so-called Ordinary Penny (*Gemeiner Pfennig*), but no regular taxes developed out of this grant. In 1521 agreement was reached that the Estates of the empire had to provide proportionate payments (the so-called *Matrikularbeiträge* or *Römermonate*). The yield of this revenue, however, could not at all meet the financial needs of the empire. In 1522 the Emperor again was turned down in his attempt to impose customs duties. Afterward no further serious efforts were made to put forward schemes of imperial taxation (see Mayer 1926: 210ff.).

<sup>9</sup> Important changes took place in the cities in terms of socioeconomic regulations, new methods of taxation, new forms of public credit and finance, and in administration in general. It was the Golden Age for the cities and towns. Hans Rosenberg writes: The numerous cities "devised the rudiments of a modern system of public administration, public taxation, public finance, public credit, public works, and public utilities" (Rosenberg 1958: 6-7).

<sup>10</sup> In the late fourteenth and the fifteenth century the serious socioeconomic consequences of the Black Death further accelerated this process. In this period of rapid and ruthless political, social, and economic changes the princes could, as a rule, enhance their political positions, no matter how doubtful the legality was. They were able to increase the exercise of power in their territories by virtue of an extended executive system and new governmental administration. Often as an outflow of emergency regulations to check effects caused by the Black Death, intrusion of the government into the socioeconomic affairs of its subjects became common to a degree never known before (see Lütge 1963: 281ff.; and Ziegler 1969: passim).



reigning princes not only were able to gather political rights, privileges, and power into their hands enlarge the sphere of central government (*protectio, administratio, jurisdictio*) and extend their control over social and economic affairs, but they also strove for sovereignty. This latter aspiration was fortified in the late fifteenth century by the revival of Roman Law with its absolutist principles, which civil lawyers as a new group of servants and councillors at the courts of the princes were eager to stress. Moreover, the princes succeeded in attributing to their authority over people and territory the divine sanctions hitherto reserved for the Imperial Crown, thus adding to their secular authority power over the minds and consciences of the subjects in their realm. For the development of the modern doctrine of sovereignty, this supremacy over the Church was as important as the revival of Roman Law.

Yet this is but one side of the coin; the claim of political supremacy and sovereignty by the princes was resisted and checked by the estates of the various territories: the towns and especially the nobles. Until the beginning of our period, that is, until the end of the Thirty Years War, the nobles and the towns more or less prevented the attempts of the princes to base government on personal absolutism. The result of this struggle was a kind of dual system, of checks and balances between the prince and the estates of the territory (see Hartung 1961a: 62ff.; Rosenberg 1958: 8ff.).<sup>11</sup> The main weapon of the Estates in this struggle was their right to grant or refuse "extraordinary" contributions. The main weakness of the princes was their ever more inadequate financial and fiscal basis in a time of increasing governmental obligations, mounting expenditures and, with the beginning of the sixteenth century, a long price revolution. Hence, a few remarks should be made on the sources of income of the princes in the Late Middle Ages and in early modern times.

Until the seventeenth century, the Estates generally insisted on the principle that their princely rulers should "live of their own." This maxim, which had been regarded as fundamental in the Middle Ages, referred to two sources of revenues: (1) the income from the princes' domains; the relative amount of this source of income to the total income varied appreciably from territory to territory (see Droege 1966: 145ff.);<sup>12</sup> and (2) the sources of income provided by the various seigniorial rights, prerogatives and privileges: mining,

<sup>11</sup> In German this sociopolitical setting is called *Ständestaat*.

<sup>12</sup> The domain property of Brandenburg was relatively large.

minting, hunting, forest, milling, brewing and market monopolies; border, road, river and bridge customs; the right to impose duty on the Jews; revenues derived from the judicial functions; fees from the bestowal of privileges, offices, or titles. From both an institutional and a psychological point of view these revenues paved the way for schemes of excise and indirect taxation generally.

The utilization and administration of these sources of income, which might be called "patrimonial," were of utmost importance in the formative stage of modern state-building. On the one hand, the *patrimonium* was crucial as a means to maintain and extend the central power. It was fully at the disposal of the princely ruler, could be sold or farmed out, and determined his borrowing power, inasmuch as it served as collateral for various sorts of loans.<sup>13</sup> On the other hand, the administration and utilization of the *patrimonium* came to be one of the nuclei of modern revenue administration, public finance, public credit, and central governmental bureaucracy, although these institutions were growing out of medieval concepts of authority and government, which lacked the modern distinction between "private" and "public" spheres. We will deal with this aspect later on.

In addition, taxation itself was a source of income for the princes, despite the maxim that they "should live of their own." Unlike the Emperors, the princes succeeded as early as the High Middle Ages in imposing direct taxes (the *Bede*, the Tenth, and the Fifteenths,

<sup>13</sup> The pledges were of two different kinds: the older form, the so-called traditional pledge (*Traditionspfand*) in which the property pledged was given to the use of the creditor; and, at a later period, the so-called contract pledge (*Vertragspfand*) in which the income derived from the property pledged remained in the hands of the debtor, but had to be used to pay interests on and for amortization of the debt. The variety of credit sources were at the disposal of the princes for the financing of their ordinary and extraordinary expenditures. The Estates, that is the municipalities of the cities and towns, the aristocracy and Church institutions, were drawn on as creditors. Indeed, this was often done through force. At least as important were the private creditors. It is well known what an important role in this regard the north Italian money-changers (the Lombards), the wealthy merchants, and big commercial houses of southern Germany, and up to the end of the *Ancien Régime*, the court Jews played. Another form for mobilizing capital was the issuing of annuities (annuity for a term or for life), which was innovated in the Italian city-states and widely used by the city municipalities during the Late Middle Ages. But after the princes began to adopt this form of mobilizing capital, the annuities fell in the sixteenth century more and more into discredit, so that the princes often had to levy annuities; they became a kind of forced loan. With the beginning of the seventeenth century the bourses, particularly those of Amsterdam and, later, of London, increasingly gained prominence as institutions for public financing and loans. It was only in the late seventeenth and eighteenth centuries that private, municipal, semistate and state banks gained importance in providing public capital and credit.

for example). These extraordinary contributions were usually property taxes.<sup>14</sup> As a source of revenue they had, by the Late Middle Ages, lost most of their significance, but as symbols of authority and as precedents in the struggle for the right to institute taxes they remained relevant. Up to the beginning of our period, the Estates successfully claimed the right to grant taxes. It was the unwavering principle of the Estates that these contributions should be granted only for "extraordinary" expenditure (e.g., warfare, marriage, coronation) and for a limited duration. They were eager to earmark these revenues for specific purposes and to control their custody, allocation and disbursement. Furthermore they exerted every effort to decide the standards of distribution and assessment themselves. Even the entire administration (assessment, collection, custody, and disbursement) of these taxes came in the hands of the Estates, due to the fact that they found themselves again and again confronted with the need to allow their properties to serve as collateral for the mounting debts of the princes. The so-called credit-purse of the Estates (*Ständisches Kreditwerk*), used for the payment of the interest of the princely debts and for their amortization, served to maintain or restore the borrowing power and credit-worthiness of their ruling houses, and at the same time to encourage the latter to husband its resources and to preserve its property undivided. The prince's solvency was of necessity a matter of concern for the Estates, because their fate was tied to that of their ruling House. The development of such an estate tax system, administered by local institutions of the Estates, reached its peak during the second half of the sixteenth century.

The Estates used their tax grants as bargaining power to demand sociopolitical concessions from their princes. The tax administration became the basis of estate autonomy in other matters. Behind the efforts of the wealthy and powerful to handle the assessment and distribution of taxes themselves stood many selfish interests. True, the fiscal policy and practice of the Estates were marked by many features of a reactionary "feudal" nature. Yet we have to recognize and to emphasize the "modern" progressive features of these activities. In various ways they might be evaluated as genuine elements for the creation of the "tax state": From both an institutional and psychological point of view, they helped to accomplish the undis-

<sup>14</sup> For the *Bede* in Brandenburg see Schmoller 1877: 35ff., and for the Tenthhs and the Fifteenthhs see Kennedy 1964: 17ff.

puted acceptance of taxes as regularly paid compulsory levies on private units used for public purposes, and accelerated the process of a clear separation between "public" versus "private" income and expense.

Moreover, the willingness of the Estates to share the expenses and to secure the debts of their princes manifests a concept of the territory as a commonweal with its own—that is, public—interests against the private or "patrimonial" interests of its ruling houses. The Estates thus contributed to the development of a consciousness of "the state" in the modern sense contradicting the traditional concept of authority and government as a hereditary personal "patrimony" of the ruling houses, which could be the object of division, sale, or pledge.

These aspects lead us to the center of a crucial problem: the formative stage in the process of modern state-building and the growth of princely absolutism. The concentration of rights and prerogatives in the hands of the princes not only enlarged their obligations, duties, and services, but changed the very nature of these functions as well as the essence of the relationship to their subjects. Correspondingly the expenditure increased. The protective function (*protectio*) alone became an enormous burden for the princes when the feudal military system, which rested on the principle of clientship, decomposed in the Late Middle Ages and at the same time the costs for war and defense were being drastically raised by firearms and other innovations in warfare. To bear the costs of war out of the ordinary revenues of the *patrimonium* was for most of the princes simply impossible; even minor warfare heaped up debts and usually led to insolvency. But the protective function referred not only to enemies from without, but also to those within the border of the territory. For the maintenance of law and order as well as for the exercise of central power, the princes needed loyal military forces. In order to get and maintain the military and political support of the power elite of the territory, the princes had to pay pensions, annuities and a host of other costly rewards to these groups. The rapid development of the spoils systems, nepotism, and favoritism during the formative stage of modern state-building was both a factor and a symptom of sociopolitical changes and a heavy financial burden for the ruling houses. The same can be said in regard to the rising costs of the princely household and court life: the conspicuous consumption of the court was not only a symptom of changing taste and style of life, but a real political factor: the

prince was forced to live up to his new dignity (see Dietz 1967: 124). In addition, the diversification of the administrative functions and a set of other new governmental obligations likewise required more financial means.

Even for such as were considered normal peacetime expenditures, the financial basis of the princes became increasingly inadequate; the maxim of the Estates that their ruling House should "live of its own" proved to be more and more unrealistic. Against this background arose the princely demand for the power of disposition over the property of the subjects of the realm. This was the claim for the so-called *dominium eminens*, which had to be evaluated together with the princes' new functions, their claim of sovereignty, and the divine sanction of their authority. At first the *dominium eminens* was restricted to cases of emergency and had to serve public needs. Later, the absolutist doctrine extended the scope of application of the *dominium eminens*; it no longer referred only to the public weal, and it was not connected with the state as an institution but with the princes and their Houses: it became interpreted as part of the *dominium excellenciae*. This interpretation served the princes as a rationale to deduce their right to use the property of their subjects for all their expenses and debts, even the purely private ones. Furthermore, it played a role in the struggle over taxation rights; the princes used the *dominium eminens* in their attempts to dismantle the Estates' right to grant taxes.

Naturally that the *dominium eminens* or at least the interpretation of its range of application was disputed by the representatives of the Estates. Their position was essentially ambivalent. On the one hand, it was to their interest that the ruling prince be able to fulfill his obligations, duties and services to the commonweal. On the other hand, the Estates were concerned with maintaining their own interests against the princes' absolutistic claims. They had to be especially careful that their contributions to the expenditure of their ruling house and their provision of collateral for the princely debts would not lead to a precedent for legalizing an expansion of the *dominium eminens* in the absolutistic sense. This is why they opposed the princes' attempts to institute unlimited compulsory levies and were willing to agree only to taxes of limited duration. For the same reason they sought to grant only earmarked revenues, to control the collection and allocation of the contributions granted, and to develop their own fiscal administration.

These few general remarks reveal the significance of taxation and fiscal policy, in theory and practice, in determining the dual character of the first phase of modern state-building. The cases of Brandenburg-Prussia and England illustrate these developments.

With the foregoing general outline in mind, and in view of other chapters of this book, we may be allowed to be very sketchy as regards Brandenburg-Prussia. When the House of Hohenzollern succeeded the House of Luxemburg as margraves of Brandenburg (1411), approximately nine-tenths of all "patrimonial" property (including rights and prerogatives as sources of income) were pawned or had been sold. There was no efficient administration for collection, custody and disbursement of tithes, rents, and other revenues. Hence, the Hohenzollerns were faced with the task of recovering sold or pawned sources of income, of establishing efficient methods of utilizing their property, of innovating a revenue administration, and of winning their Estates over—whether voluntarily or by force—to contribute at least to the "extraordinary" expenditures. It was of utmost importance for the formation of the Brandenburg-Prussian state that during the fifteenth century the Hohenzollern margraves proved able to accomplish these tasks: with the help of commercially and legally trained administrators and court officials a new domain and court administration was organized, new accounting methods and audits at fixed dates were introduced, and even a rudimentary budget planning innovated. In addition, the first Hohenzollerns enforced the reintroduction of a direct tax (the *Bede*) and, after bloody conflicts, imposed a new indirect tax (the beer tax). Even though these direct and indirect taxes covered only a small fraction of the total sources of income and were limited in time and therefore continually had to be approved anew, they were the nucleus of a territorial tax system. They manifested the power of the House of Hohenzollern in getting the fiscal cooperation of its subjects and helped to foster the principles of taxation in the consciousness of the Estates and the people (see Schmoller 1877: 44ff.).

To strengthen the central power and government further, judicial reforms were also undertaken: the highest court of justice was reorganized (the so-called *Kammergericht*) and the traditional local law was supplemented by Roman Law. The so-called *Dispositio Achillea* (1473) attempted to secure primogeniture succession of the electorate and to prevent a division of the Hohenzollern property in Brandenburg. Even though the goals of the *Dispositio Achillea*

could not be realized for a long time to come,<sup>15</sup> they indicated that the private or "patrimonial" conception of authority, government, succession and princely property was giving way to a more public one.

In short, the first Hohenzollerns managed to lay a firm grip on the three most important functions of the government—the *protectio*, *administratio*, and *jurisdictio*—and altered the nature of these functions in principle and practice. The growth of a territorial state and a central power with a host of strikingly "modern" features may clearly be recognized. This development, however, was checked after the death of Joachim I (1535). The financial plight and the mounting debts of his successors, caused by a variety of factors (war and threat of war, costly court life, extension of the territory, less careful management of the "patrimonium," and protracted price rises), enabled the Estates to gain more influence over the central government and administration and to tighten their local authority. Due to the assumption of the debts of the princes, direct and indirect taxes no longer flowed into the princely purse, but into the credit-purses of the Estates. Thus the electors more and more lost control over the administration of finances and budgeting. Instead of a uniform tax system, a multitude of local tax systems and local tax administrations sprang up.<sup>16</sup> The tendency was the same in the towns as in the country: the powerful and the wealthy could virtually shift all the burden of taxes upon the shoulders of the weak and the poor. In the cities there was an increasingly exclusive group of patricians who were eligible to rule. In the country the peasantry lapsed more and more into serfdom. By depressing the status of the peasantry with the exercise of local authority, the landed aristocracy obtained the labor required for the considerably increased arable land under their direct control. Not only did the socioeconomic situation of the subject peasantry worsen in terms of villenage and compulsory labor service, but also the real wages of rural and urban wage earners decreased continuously during this period.<sup>17</sup>

<sup>15</sup> Albrecht Achilles did not succeed with this idea: The contracts of inheritance of his successors again showed divisions. It was not until the House Treaty of Gera (1598, confirmed in 1603) that any division of the electorate was definitely prevented and the rule of primogeniture firmly established for the House of Hohenzollern.

<sup>16</sup> Especially in Cleves and Prussia, territories which had become Hohenzollern possessions at that time, the mode of taxation changed almost from year to year: now it was a livestock, poll, or house tax, now a hidage.

<sup>17</sup> The spirit of the age marked by religious thinking and, particularly in Lutheran territories, by the doctrine of "suffering obedience" (*leidender Gehorsam*) "justified" the suppression of the poor and weak. The traditional concept of society as an organic

The inadequate fiscal basis and the permanent insolvency of the House of Hohenzollern thus reduced the electors' status to a mere *primus inter pares*: "The prince was no more than a landed Junker with the largest estate of the territory."<sup>18</sup> The newly acquired territories could not be integrated into the realm of a central government and administration. The Electorate of Brandenburg-Prussia remained a loosely-knit entity of various parts which had separate governments and administrations, as well as different constitutions, laws and governmental institutions. With this authority, varying in form and degree from territory to territory, the prince had to share his rulership. The representatives of the Estates influenced appointments to governmental offices and determined administrative and governmental affairs. Even military organization and administration came partially under their control. Until the beginning of our period (1640), Brandenburg-Prussia, like so many other territorial states of the German Empire, was marked by a strong, disintegrating localism and all the other weaknesses of the so-called *Ständestaat* or Estates' State. In Britain, the accession of the House of Tudor, often labeled in constitutional history the "New Monarchy," has been regarded as marking the transition from medieval to modern England in terms of radically changing the sphere of government and of shaping the sociopolitical structure toward a modern state or nation. The new dynasty's chances of survival depended heavily upon improvement of the Crown's financial resources so as to overcome the chronic insolvency which had been one of the chief reasons for the decline of the monarchy during the fifteenth century. Though England had a long tradition of direct taxation, these revenues were considered "extraordinary" and were levied only on a grant by Parliament for special purposes such as war. The maxim that the "king should live of his own" still prevailed when the Tudors came to power. However, Henry VII (1485-1509), the first of the Tudor Kings, managed to fulfill this maxim in practice. By improvements in financial administration and a vigilant scrutiny of expenditure in a surprisingly short period of time, the crown began to balance its income and expenditure.

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unity which is composed of different parts, but interdependent in a mutual privileges-duties relationship, was so transformed under the influence of the doctrine of "suffering obedience" that emphasis was mainly placed on the difference between the parts and little on the reciprocity of privileges and duties.

<sup>18</sup> A sentence of Gustav Schmoller (see Droege 1966: 159).



The innovations with respect to the utilization and administration of the Crown's "own" resources were part of a general transformation of the existing administrative and judicial institutions toward a more centralized government, and here again the reforms of Henry VII were decisive. He instituted the separation of certain governmental functions and administrative institutions from the royal household. A clear distinction between the "public" and the domestic or "private" affairs of the King, however, was not reached for a long time to come.<sup>19</sup> In the course of these changes the government came firmly into the hands of the king: he reached a relatively high degree of independence in appointing and dismissing his ministers and all royal officials; he issued instructions to them; he had the power to allocate revenue, to organize national defense and to intervene in the course of justice. By creating a vastly extended executive system, he strengthened the arm of government immensely. The Privy Council supported by the Star Chamber as a new judicial instrument of the Crown was the chief institution to carry out these governmental functions combining administrative, legislative and judicial power. Their members were more and more drawn from the gentry and the middle class. A type of professional governmental servant and expert administrator replaced the Church dignitaries and members of the ancient aristocratic houses in the Privy Council and the other high civil service offices, forming a new nobility attached to the Crown. The old semi-independent feudal magnates who formerly challenged the Crown were struck down by the Tudors. With the Act of Supremacy (1534), the ecclesiastical authority likewise ceased to be autonomous. The King was now accepted as the "only supreme head in earth of the Church of England"; into his hands fell ecclesiastical property, administration and jurisdiction, as well as the right to define the content of belief and to settle forms of ritual (Keir 1967: 67ff.).<sup>20</sup> In short, Tudor rule—though unsupported by any large professional army—developed toward an absolutistic government: it "undeniably wore a dictatorial, harsh, and remorseless aspect. It put reason of State above the letter

<sup>19</sup> For example, this was indicated by the fact that a substantial amount of revenues, even those derived from parliamentary grants, were withdrawn from the control of the Exchequer and administered in the King's Chamber.

<sup>20</sup> After the death of Henry VIII these rights were, however, challenged by the Parliament. The ecclesiastical supremacy was no longer personal or royal, but was shared by Parliament (see Keir 1967: 87).

of the law and rated the public interest, real or alleged, immeasurably higher than the rights of the subject" (Keir 1967: 99).

The establishment of the Tudors' centralized government and power in place of the essentially feudal monarchy was closely related with the development of a centralized administration and supervision of the Crown's "own" or "ordinary" sources of income. These may be divided into two sections. The first comprised the proprietary revenues from Crown lands and the utilization of the Crown's rights and prerogatives (including revenues provided by the judicial function of the King). The second section of permanent revenue was the customs duties.<sup>21</sup>

For the first category of "ordinary" revenue a centralized system of general surveyors and auditors was introduced in Henry VII's reign designed not only to collect the King's rent but—as Frederick C. Dietz, whom we follow here closely, pointed out—to watch "the minutiae of estate business behind the rents actually paid to the king" (Dietz 1967: 116). The ultimate audit control over the system and its officers was exercised by Henry VII in person and under his successors by committees with delegated royal powers. These committees developed into a series of revenue courts with separate treasuries attached that intentionally neglected the traditional exchequer practice with its built-in localism. In addition, royal commissions were used also to control many of the more important expenditures and disbursements. They were assisted by an office of the auditors of the prests and foreign accounts.<sup>22</sup> In the second half of the sixteenth century, the revenue courts and the office of the prests were amalgamated with the Exchequer, but their forms of procedure were retained within the resulting organization. The introduction of improved methods of bookkeeping and accounting techniques was part of this new scheme of centralized fiscal administration.

Until late in Elizabeth's time the new system of general surveyors and auditors was not applied to the customs. Customs duties remained subject to the Exchequer, a central body but with a built-in

<sup>21</sup> Originally these duties were supposed to provide means for the protection of merchants and the defence of the realm—that is for the expenditures of the Navy. They could therefore not be regarded as the Crown's "own" sources of income. However, under Tudor rule these duties were treated as "ordinary" revenue to be used for ordinary expenditure. Thus, in practice, the customs became "own" or "ordinary" revenues (see Kennedy 1964: 14 and Dietz 1967: 127).

<sup>22</sup> Prests were advances of money to officials entrusted with its expenditure.

localism as far as practice and routines were concerned. However, the trend toward centralization was, for example, indicated by the introduction of seminational, and later on national, valuations as a basis for the collection of rates of duties (Dietz 1967: 114ff.).

The result of these innovations in the field of revenue administration was twofold: an increased yield of the Crown's "own" resources and consequently the enhancement of the Tudors' strength and independence. It was particularly decisive that the first King of the House of Tudor could balance his budget without having to rely on Parliament for financial support; otherwise this dynasty could hardly have seated itself securely on the throne. Second—and in the long run even more important—was the new centralized system of general surveyors and auditors as an instrument to secure royal authority and governmental power. The new fiscal apparatus became a fundamental part of the royal bureaucracy upon which Tudor rule could base its nationwide control.

Although England had a long history of direct taxation (Fifteenths and Tenths) granted by Parliament for "extraordinary" expenditures, Henry VII, after a few cautious attempts with little success, gave up all plans to alter the traditional system of "extraordinary" revenues toward a system of regularly recurring taxes, administered by royal offices and to be used for "ordinary" government expenses. To insist upon innovations in matters of direct taxes, which were customarily disliked and opposed by the people, certainly would have endangered his position. Henry VII felt little need for such a provocation; in peacetime he could manage to "live of his own." Under the reign of his successors, however, the finances of the Crown worsened; even in peacetime the "ordinary" revenue proved ever more inadequate.<sup>23</sup> The Tudors had to rely upon "extraordinary" supplements granted by Parliament, but were unsuccessful in changing the nature of the traditional tax system. Like the Fifteenths and the Tenths, the new supplementary direct tax, the Subsidy (imposed

<sup>23</sup> Henry VIII, though successful in raising extraordinary taxation and in gaining (after the Act of Supremacy was passed) an enormous amount of Church property, nevertheless left his successor a heavy burden of debt and a debased currency. The wars of Edward VI and those of Elizabeth required large sums. But even in peacetime the Crown under Elizabeth was no longer able to live on the "ordinary" revenue and had to rely upon "extraordinary" supplies granted by Parliament. The Church property which the Crown gained was enormous, but a great deal was sold very quickly under Henry VIII and could therefore not provide a permanent source of income. "The gainers were the landed and monied class and not the King" (Keir 1967: 68).

by Henry VIII in 1514), soon became standardized, and its yield was therefore bound to diminish, too. In practice, direct taxation was reduced to a mere land tax, because movable personal property (the standard assessment of merchants and others) could so easily evade taxation. The yield of direct taxes became during the sixteenth-century expansion of commerce and trade more and more incommensurate with the wealth of the nation (see Kennedy 1964: 18ff.).<sup>24</sup> The attempts to create a royal administration for the assessment and collection of these taxes failed. Thus, the traditional disadvantages of the tax system were perpetuated. The crown needed the support and cooperation of the Parliament to obtain these "extraordinary" grants; second, the assessment and collection required the support and cooperation of the local authorities. Consequently, Tudor government was forced to combine royal authority and popular consent on the national and the local levels. This is the other side of fiscal policy and practice which determined the formative stage of modern English rule.

On the national level, the Tudor government had to prevent Parliament from converting its control of "extraordinary" financial supply into a weapon against the royal authority, prerogative and conciliar government.<sup>25</sup> Hence, the Tudors had to be cautious in all attempts to bypass the Parliament as a legislative body or to set royal Prerogative above the Common Law courts. Parliamentary action had to be a function of the monarchy, that is the King had to act both in and out of Parliament in order to maintain parliamentary support without diminishing governmental power. Skillful parliamentary management enabled the Tudors to hold the government firmly in their hands even in times of growing financial strain and insolvency.

On the local level the Tudors likewise established and maintained a balanced combination of royal authority and popular consent. They had to get the support and cooperation of the traditional local authorities in their attempts to extend royal control over social and economic life of the realm. "There was nothing, so far as the Tudor attitude went, which prevented the introduction of a modern type

<sup>24</sup> D. L. Keir writes: "The Subsidy involved taxation of wages, personal property and rents and was assessed by royal collectors. Flexible at first, the subsidy gradually became rigid. . . . Though no standardized collective yield was ever fixed for the subsidy it became difficult to expand" (Keir 1967: 15).

<sup>25</sup> The position and self-esteem of the House of Commons was enhanced by virtue of the decisive role it played in the religious dispute leading to the Act of Supremacy.

of all-controlling paternalistic state during the sixteenth century" (Dietz 1967: 119). Of crucial importance were the Justices of the Peace, usually country gentry and men of property, who had added to their judicial function an increasing number of administrative and other functions.<sup>26</sup> Since they were not professional servants of the government but rather voluntary and unpaid judges and administrators, the practical influence of the Crown and its governmental institutions upon the Justices of the Peace was limited, that is, depended on the cooperation and loyalty of the latter. Hence, apart from the lack of financial means the "paternalistic" ambitions of Tudor government were checked somewhat by the need to rely upon traditional local authorities with their disintegrating localism. The creation of a national tax system, regularly returning an adequate amount of revenues and administered by royal bureaucracy, would have provided both the means and the institutions to live up to these ambitions.

Yet the Tudors failed in attaining such a goal; and this became decisive in terminating the first phase of modern England. When the first Stuart succeeded the Tudors (1603), fiscal matters played a most important part in the power struggle between the Crown and the Parliament.

Unlike the Tudors, the first Stuarts proved unable to establish voluntary support from the Parliament in matters concerning "extraordinary" revenue. Insisting on the unrealistic principle that "the king should live of his own" during peacetime, the Parliament started to use its financial support as a tool for bargaining with the impoverished Crown for political concessions. In the 1620s Parliament even began to withhold (or to give in inadequate measure) "extraordinary" supply in times of threat of war, though it was constitutionally supposed to provide it. It sought to encroach on the Crown's governmental power by forcing the King to dismiss ministers, to deprive him of sole control over the allocation of revenue, to determine his policy (even his foreign and his marriage policy) and to reduce or dismantle the Prerogative. Moreover, Parliament, jointly with the Common Law courts, questioned the Crown's "ordinary" sources of income, particularly the way in which the Stuarts tried to interpret

<sup>26</sup> Into their hands fell the maintenance of peace, law and order; they dealt with persons who tried to avoid paying taxes, refused to work, did not attend church services; also as part of their obligation were the maintenance of roads, the granting of ale-house licences, the overseeing of weights and measures, and a host of other duties.

and exploit these sources and their Prerogative (the struggle over Ship Money is a major example).

On the local level the traditional authorities became increasingly reluctant to support the royal government. They frequently refused to execute the Crown's orders in regard to forced loans or the payment of Ship Money. Even the Justices of the Peace began to resist royal orders.

For its part, the Crown, unable to come to terms with the Parliament on financial support, had to utilize its own resources, bypassing the Parliament whenever it could and challenging the Common Law courts with its own jurisdictional power (particularly the Star Chamber). In pursuing this course aimed at the increase of "own" resources the Stuarts approached a kind of personal autocratic absolutism which the Tudor government had been so skillful in avoiding.<sup>27</sup> After 1629 the Crown gradually managed to regain financial strength and could, indeed, hope to govern in an absolutistic fashion without Parliament and its financial supplies. The Scottish rebellion, however, changed this situation: the "Short Parliament" had to be summoned in 1638 but proved unresponsive to the plea for support; the City of London refused loans. The resultant financial weakness rendered the Crown no longer able to cope with the Scottish uprising and the parliamentary opposition. When the "Long Parliament" met in November 1640, the Crown's case was lost. The initial blow was the reduction of the Prerogative; the next steps (1641) aimed at the dismantling of the conciliar government; finally, in June 1642 the Nineteen Propositions were set forth, claiming for Parliament the right to nominate councillors, ministers and judges, along with control of the militia, and also proclaiming the supremacy of the Church. The consequence was civil war.

Let us briefly compare the developments in England (or Great Britain, after the personal union of England and Scotland with the accession of James I) with those in Brandenburg-Prussia. Under

<sup>27</sup> In their efforts to increase the revenue and to balance the budget, the Stuarts, on the one hand, reorganized the governmental and financial administration; drastic reforms of household and public expenditures were undertaken. On the other hand, the Stuart government made an all-out effort to increase nonparliamentary sources of revenue: a new kind of import duties, the "Impositions," were levied; monopolistic grants to commercial and manufacturing companies were widely used to collect fees; customs increased several times; attempts to levy an excise and to impose Ship Money generally over the kingdom were made; forced loans were frequently applied to raise money but were often, like the payment of Ship Money, resisted by the Justices of Peace, who refused to execute the Crown's orders (see Keir 1967: 165ff., 184).

Tudor rule the government was firmly in the hands of the King; royal authority and popular consent had been successfully combined. Under the first Stuarts the House of Commons challenged the conciliar government, with the trend toward a parliamentary monarchy. But despite the deprivation by Parliament (with the support of the Common Law courts) of legislative, fiscal, and judicial powers inherent in the Crown's Prerogative, and its encroachments on governmental activity, these inroads are in no way comparable to the dual system in Brandenburg-Prussia. Until the time of the Long Parliament, the Crown had been able to retain a firm grip on government and could during times of peace dispense with Parliament and reduce the influence of the Common Law courts. Britain thus was relatively unified and governed by a powerful royal bureaucracy, whereas the Electorate of Brandenburg-Prussia consisted of various unintegrated parts with separate governments and administrations more or less under the controlling influence of the representative bodies of the estates.

"The destruction of the royal bureaucracy in 1640-1641 can be regarded as the most decisive event in the whole of British history," according to Christopher Hill (Hill 1967: 76). This statement, however, seems somewhat exaggerated; clearly, one of the weaknesses of England's conciliar government was its dependence on the services of the Justices of the Peace, men of property who were inclined to enforce only those statutes, proclamations and laws which suited their interests, as was shown in their refusal to execute the Crown's orders in regard to forced loans. But the Justices of the Peace, though unpaid, were still nominally royal administrators, whereas local authority in Brandenburg-Prussia was solely in the hands of the nobility and the city or town oligarchy, which could widely use their positions for their own socioeconomic interests. The conciliar government under the Tudors and even more under the Stuarts aimed to prevent at least the grosser forms of social injustice and to enforce uniform laws and regulations in regard to wages, prices, poor-relief, enclosure, and other social and economic affairs, though the enforcement was actually inadequate.

To be sure, in England too the laboring poor experienced in this period a steady shrinking of real wages and income; debasement of the coinage and rising prices caused special impoverishment among the lower orders. Sumptuary laws and other statutes helped to maintain social distinctions and a static hierarchical society. The lower

orders had no political rights; the House of Commons represented property, and "legislators still thought of all people who had no property as semi-servile."<sup>28</sup> The members of the Lower House increasingly used their power and influence, like the representatives of the Estates in Brandenburg-Prussia, for selfish purposes. In the subsidies voted by Parliament, the richer landowners, traders, and merchants were greatly underassessed. The law was heavily weighted against the poor. Certain social groups such as the gentry and the peers enjoyed special privileges; the peers, for example, could not be imprisoned for debts.

Yet, compared with those of Brandenburg-Prussia, the sociopolitical features were markedly benign. The peasantry of England had escaped from villenage and compulsory labor service by the end of the sixteenth century (with the exception of some minor remnants). An economically independent middle order of merchants, better-off artisans, yeomen (independent peasantry) and well-to-do tenant farmers had emerged with their property protected by Common Law, though lacking the privileges of the nobles and gentry. And most important of all, neither the landed nobility and gentry nor the wealthy city merchants were exempted from taxation, and, as in Brandenburg-Prussia, could far less shift the tax burden onto the lower order. On the contrary, both the direct taxes (the Fifteenth and the Tenth, and the Subsidy) and the indirect revenues (Customs, Impositions) had deliberate standards of distribution (forms of assessment and rules of exemptions) which virtually freed the laboring poor from paying revenues.

As for direct taxes, the principle that they should be distributed according to ability or means prevailed.<sup>29</sup> In practice, however, this principle was violated. As we pointed out earlier, the local assessors and commissioners greatly favored the gentry and the wealthier traders and merchants. "This was the price which the government had to pay to its servants and the classes on whom it depended for

<sup>28</sup> These are the words of John Clapham, cited by Hill 1967: 41.

<sup>29</sup> As for direct taxes, England had a tradition going back to the High Middle Ages of levying all social groups: the landowner, the merchant, the poor man. The limit of exemption was so low as to cover most of the poor people. When the scheme of direct taxes was reorganized under Henry VIII (the Fifteenth and the Tenth as a land tax; the Subsidy as an innovation for moveables), most of the wage earners were subject to taxation. Only persons earning less than twenty shillings a year escaped. In 1544 the limit of exemption was raised to forty shillings. In the years 1522-1533 wages were explicitly exempted from Subsidy; thereafter, up to the beginning of the period under consideration, the practice was to free the poor from paying Subsidy (see Kennedy 1964: 20ff.).



unsalaried (but not unrewarded) services in local government" (Hill 1967: 82). Attempts at reassessment in the late sixteenth and the first half of the seventeenth centuries so as to tap more accurately the real wealth of the nation failed. The so-called Ship Money, a levy which the Stuarts tried to impose without parliamentary consent mainly contrived to develop naval strength. It was regarded by the gentry, the merchants, and the City companies as unconstitutional, and met with increasing refusal to pay.

The customs, by far the most lucrative source of "ordinary" revenue under Tudor and Stuart reigns, had a primarily fiscal function. However, the economic and social effects of this indirect levy were perceived and discussed in the time of Elizabeth and the first Stuarts. Though a reorganization (innovation of the Imposition, etc.) and several increases of the customs duties took place in this period, the principle set forth (especially under Stuart rule) was that, in order to relieve the poor, "necessaries of the people" should not be subject to duty (Kennedy 1964: 13ff.). Hence, the government was well aware that in practice the burden of customs fell mainly upon the consumers and less on the merchants. Yet considerations of trade policy had a certain impact upon the rates of customs duties already in this period, too, according to William Kennedy, who refers to the *Book of Rates* of 1610 (Kennedy 1964: 13ff.). The rising importance of foreign and inland trade and correspondingly the rising sociopolitical influence of the traders, merchants and financial circles of the City in the sixteenth century manifested itself in this economic policy. However, the fiscal needs of the first Stuarts, when they failed to reach agreement with Parliament and were therefore forced to exploit fully all "ordinary" sources of revenue, blocked or hampered this trade policy. The increase of customs duties, the innovation of Impositions and Ship Money, the attempt to levy an excise and the Crown's policy of granting commercial and manufacturing monopolies alienated the trading and manufacturing classes from the Crown (Keir 1967: 202).

Although a wide gap between proclaimed intention and practice as to distributing the burden of revenue existed in England, the situation was different from that in Brandenburg-Prussia. Let us recall that in Brandenburg-Prussia the administration of taxation and at least partially the financial administration as well were in the hands of the Estates; a host of regional and frequently changing schemes of taxation existed; the nobles could virtually escape taxation, and

the city and town oligarchy had ways of shifting the burden of taxation onto the poorer and dependent people. But one common feature marked the situation in Britain and Brandenburg-Prussia at the beginning of our period: in order for "the State" to survive, the entire fiscal and financial organization had to be reformed; both the British and the Brandenburg-Prussian governments were in a state of bankruptcy. As we shall see in the following section, this long overdue fiscal and financial reorganization went hand in hand with drastic changes in the sociopolitical, governmental, and administrative structure of both Britain and Brandenburg-Prussia.

### *The Crucial Phase of State-Building*

The 1640s marked the beginning of the crucial stage of modern state-building for both Brandenburg-Prussia and Britain: In Brandenburg-Prussia a personal or dynastic absolutism emerged and was superseded in the second half of the eighteenth century by bureaucratic absolutism; Britain in turn advanced toward a parliamentary monarchy. What part did fiscal tradition, policies, and practices play in determining these developments?

Three autocratic rulers deserve credit for the formation of modern Prussian absolutism with all its distinct and unique features: the Great Elector (1640-1688), King Frederick William I (1713-1740), and King Frederick the Great (1740-1786). Each of these rulers left his personal imprint, but the reign of the Great Elector was decisive. His innovations and reforms furnished the basis for the centralized and bureaucratized Hohenzollern monarchy.

In attempting to analyze the molding of the modern Prussian state first of all we have to emphasize the syndrome character of these innovations and reforms: the reorganization of the military system, the creation of a central government and administration, the taming of the Estates, the dismantling of the traditional governmental and administrative bodies of the Estates and the provincial territories, the judicial reforms together with supplementing and supplanting the ancient law of the territories by an administrative law of an absolutistic and arbitrary fashion—all these and a set of other changes were closely interwoven with each other. Particularly striking is the interdependence of military, fiscal, and administrative reconstruction. The subjects of the Brandenburg-Prussia Electorate had to get used to both the establishment of a peacetime standing army firmly in the grip of the prince and to regularly recurring direct and indi-

rect taxes, which were designed for and allocated to support the new military system. The military organization in turn enforced the payment of these contributions and eventually collected and administered the revenues with its own apparatus; after the separation of this apparatus from the military organization, it consequently became the prime nucleus of the centralized dynastic bureaucracy. The "militarization," the "fiscalization," and the "bureaucratization," which characterized the nature of Hohenzollern monarchy, particularly after Frederick William I's time, were born inseparable.

These remarks refer to the new system of taxation in order to meet the growing financial and material needs of the army. This is but one side of fiscal matters; as will be seen later on, the Hohenzollerns' "own" resources, the domains and prerogatives, likewise became a focus of Prussian bureaucracy and central power.

Let us first outline the historical development of the new system of taxation, introduced by the Great Elector, and its impact upon the processes of sociopolitical modernization. The genesis of both the new direct tax (the so-called *Contribution*) and the new indirect tax (the so-called *Excise*) reach back into the Thirty Years War. In deciding to keep a standing army for external and even more for internal reasons, the Great Elector relied on a military tradition. During a generation of war the Estates had become accustomed to regularly recurring so-called military contributions (*Kontributionen*) in money, kind, and in services for the support of mercenary troops. The new system of direct and indirect taxes imposed by the Great Elector was in fact little more than an extension of war practice into peacetime.

For direct taxes, during most of his reign, the Great Elector had to depend on old schemes which were in use during the Thirty Years War. Despite several attempts he had but limited success in changing either the overall amount of the Contribution for each district, or the mode of assessment and distribution of the required tax load. The Junkers (i.e., the nobles) still evaded in practice the payment of direct taxes in most of the provincial territories, rationalizing and defending their behavior by referring to ancient tradition which held such revenues to be a symbol of serfdom and therefore unsuited for their social status. Once again the poor and dependent bore the burden of direct taxes, which varied greatly from region to region in the realm.

The new indirect taxation, the Excise, was also an outgrowth of war practice. During the Thirty Years War some districts of the Branden-

burg-Prussian electorate applied more indirect methods of taxation in order to raise the required amount of war contributions. The cities and towns used these indirect modes, having a long history of indirect levies and being less suited than the countryside to provide in kind and services for military support. The Great Elector adopted these forms of indirect taxation. Originally he attempted to impose a general Excise throughout his realm, but finally (1667) complied with the request of the Junkers, who vigorously opposed a general excise (seeing their tax privileges endangered), by making only cities and towns but not the countryside and therefore the landed aristocracy subject to the excise. With this decision, Brandenburg-Prussia became divided until the Napoleonic Wars into two different systems of taxation: the countryside with its Contribution, and the cities and towns with their Excise.<sup>30</sup>

To be sure, the introduction of direct and indirect taxes as permanent levies could be achieved only after severe struggles with the Estates, in particular the nobles, varying in duration and intensity from territory to territory according to the status and strength of their power elites. In the long run, however, the Estates entirely lost their rights and influence to grant or withhold revenues. Since these fiscal matters were traditionally the backbone of the Estates' strength, their loss meant the downfall of the Estates as a political counterbalance or challenge to the sovereign's authority and power: the dual system had to give way to a personal or dynastic absolutism. The traditional governmental bodies of the provincial territories were gradually stripped of their rights, functions, and obligations; they saved only part of their judicial functions. Thus to reduce their power, it was essential for the Great Elector to get the collection and administration of taxes in his hands. Again, a military tradition furnished the instrument for this effort. He could rely on an institution which emerged with the rise of mercenary armies and became of prime importance during the Thirty Years War: the system of commissars.

The system of commissars, hierarchically structured, served two functions in dealing with mercenary troops. On the one hand, it

<sup>30</sup> Excise regulations were instituted in 1667 in Brandenburg (at first facultatively, revised in 1680), in 1680 in Magdeburg, in 1700 in Pomerania, and in 1713, after the accession of Frederick William I, throughout the rest of the kingdom. Very moderate house-, trade- and poll-taxes, varying from district to district, supplemented the Excise. The duties were collected either at the gates (for goods which were brought into town) or as retail sale and producer taxes. The whole range of consumer goods, including the "necessaries of the People," were subject to the Excise.

served as an instrument of control to protect the princely interests against the mercenary commanders, who operated their corps as a kind of private business enterprise. On the other hand, it provided an apparatus for quartermaster's functions, logistics and in particular for provision of the required war contributions in money, kinds and services. These so-called *War Commissars* (*Kriegskommissarien*) were part of the military organization. In addition, so-called *Country or District Commissars* (*Land- oder Krieskommissarien*) served similar functions, but were not part of the military organization. Appointed by the prince from a list proposed by the Estates, they saw themselves as representatives of the Estates and were primarily concerned with the interests of the taxpaying subjects in their realms.

With the establishment of a standing army the Great Elector could prolong the system of commissars, originally used as an extraordinary institution during a state of war, into peacetime. It proved to be the chief vehicle of princely autocracy. Furnished with secret instructions based on an arbitrary administrative law (grown out of martial law), the commissars became "the prime tool for the demolition of the old *Ständestaat* and the creation of a new absolutistic military state" (Hintze 1962: 245). Thus the germ of militarization of Prussian bureaucracy, government, and society, culminating in Frederick William I's time, might be diagnosed as a pathogenic agent of the Thirty Years War.

Making headway, to begin with, only against the strong localism of the estates, the governmental bodies of the provincial territories and traditional law, the system of commissars became the focus of centralized Prussian bureaucracy. With the establishment of the General War Commissariat and the General War Purse, all the affairs of taxation—levying, collection, administration, and disbursement—were gradually taken over by a bureaucratic apparatus firmly in the hands of the prince, adding more and more functions, obligations, and rights outside the field of fiscal matters and separating itself from the military organization. It is not our task to outline these developments, but we should say a few words about "the crucial field agents of the central administration and the symbols of its growing power" (Rosenberg 1958: 39)—the Tax Commissar (*Steuererrat*) and the Country Commissioner (*Landrat*).

The predecessor of the Tax Commissar, the so-called *Commissarius loci*, carried out functions of the traditional War Commissar in relation to cities and towns of a taxation district. Still part of the

military organization, the *Commissarius loci* was well suited to be used as an instrument for the formation of an all-controlling *Polizei-staat*-pattern of princely rulership. After his separation from the army, the *Commissarius loci* steadily enhanced his influence and competence. Eventually he became the chief administrative and executive power of towns and cities in his district, relegating the traditional self-government of the municipalities to insignificance; "even the ghost of self-government disappeared" (Rosenberg 1958: 39). The Tax Commissar, helped by a staff of subaltern assistants with clerical and/or executive tasks, held the key position for injecting the central bureaucratic machinery into the socioeconomic affairs of its subjects. The cameralistic *Polizeistaat* of the unique Prussian brand, marked by the minute regulation of all affairs of life by an absolutistic government, was personified by the Tax Commissar. Several factors were responsible for his strength and power: On the one hand, the relatively weak position of the cities and towns as Estates and their special tax system (the Excise): on the other, the military origin of the *Commissarius loci* and the close functional connection with the army even after the separation from the latter. The Tax Commissar was not only appointed from outside the provincial territory of his district, deliberately denying the traditional *Indigenatsrecht* of the Estates, but was often a former military officer. In the eighteenth century even his staff came more and more to employ former military rank and file. Both in terms of origin and of overlapping and interchange of office holders, the Tax Commissar and his staff were the chief agents for the militarization of Prussian bureaucracy (Hartung 1950: 117; Rosenberg 1958: 64).<sup>81</sup>

During the Great Elector's reign the former District Commissariat was gradually altered into a more absolutistic instrument, but remained essentially a mongrel institution, that is, it still represented the interests both of the sovereign and of the Estates of the rural districts, the landed aristocracy. Early in the eighteenth century it was amalgamated with the traditional County Commissioner (*Landrat*), a semihonorary office reserved for nobles. The County Commissioner served similar functions for his rural district as the Tax Com-

<sup>81</sup> Rosenberg writes: "Particularly striking features of the recruitment and promotion policies under Frederick William I were the heavy influx of military bureaucrats and the curb on the career prospects for the old nobility who had no special connections and were not army officers. . . . The employment of professional soldiers and ex-soldiers in the civil branches of the government also became a methodically pursued policy in the eighteenth century" (Rosenberg 1958: 64).

missar for the cities and towns and was likewise assisted by a staff of administrative and/or executive subordinates, but the nature of his position was quite different. The traditional *Indigenatsrecht* continued to be applied for the appointment of the County Commissioner, and the Junkers were invariably privileged to nominate the candidates for this office. These facts mirrored the sociopolitical strength of the Junkers as the main opponents of autocratic rulership. The mongrel character of the County Commissioner was one of the concessions of the prince to obtain the support of the squirearchy. The Junkers were able to ensure their tax exemptions, guarantee their patrimonial rights and local authority (*Gutsherrschaft*), and in general their privileged social status. In short, "the power of the monarch and the bureaucracy and, thus, of the dynastic state ended with the semibureaucratic *Landrat*," and the autocratic *Polizeistaat* was kept away from the realm of *Gutsherrschaft* (Rosenberg 1958: 39).<sup>32</sup>

The General War Commissariat and—at the provincial level—the Head War Commissariats (the predecessors of the War Chambers) were supported by a special judicial institution, the Chamber-court.<sup>33</sup> The Commissars thus belonged to a bureaucratic mechanism with executive and administrative as well as judicial functions. The backbone of its tasks was fiscal affairs of a "public" nature, that is, the new direct and indirect taxes, but the apparatus of the General War Commissariat came to serve more and more as the chief instrument of economic policy and police matters in the broad mercantilistic-cameralistic sense.

The second section of revenue, the sovereign's "own" or "patrimonial" sources of income, was likewise centralized by the Great Elector. Again, this separate bureaucratic body, dealing exclusively with the administration and utilization of the domains and with the regalian prerogatives,<sup>34</sup> was based on a system of commissars, the so-

<sup>32</sup> The so-called Recess of 1653 where the Junkers agreed to grant the Elector an amount of 530,000 Talers over the next six years, considerably enhanced the socio-economic position of the nobles: Their patrimonial rights and authority were ensured; their landed property was protected from falling into nonnoble hands; connubium-regulations as regards marriage with nonnoble partners were set up; stricter compulsory work regulations for the servile peasantry were approved; last but not least, the onus of proof as to whether a peasant was free or subject to serfdom fell now upon the peasant (see Schmoller 1921: 56ff.).

<sup>33</sup> In the realm of the Chamber-court (*Kammergericht*) fell particularly all fiscal and police matters. The prince's orders to the Chamber-court stated the maxim: *in dubio pro fisco* (Hartung 1950: 114).

<sup>34</sup> With the new fiscal system the formerly innumerable seigneurial prerogatives

called Domain-district Commissars (*Aemterkommissarien*). By virtue of its main property, the domains, the economic policy of this institution was chiefly guided by agrarian interests compared with the more "mercantilistic-cameralistic" interests of the General War Commissariat. Reorganized in 1689 (Secret Court Chamber), the institution lost its importance during the financial mismanagement of Frederick I's reign, but after Frederick William's accession it was reconstructed under the name of the General Financial Directory.<sup>35</sup> Friction and rivalry between the General Financial Directory and the General War Commissariat, caused by their different views of economic policy, soon gave rise to the union of the two separate institutions under the name: *General-ober-Finanz-Kriegs- und Domänen-direktorium*, or, abbreviated, the General Directory. The General Directory became the chief governmental administrative organ. Though the purse of the General Financial Directory and that of the General War Commissariat remained separate, the crucial change toward a centralized "state" or "public" fiscal and financial administration, with the corresponding policy change, had taken place.

Likewise important for the structural development of a modern state and for sociopolitical modernization were two other governmental and administrative changes during Frederick William I's

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(several hundred in number) as sources of revenue were greatly diminished. Some remained and some were added: there were coffee, tobacco, lottery, salt, and other monopolies, a royal post privilege (1712), fees for office appointments or for renewal of guild and other occupational privileges, etc. In comparison with other states, especially France, the practice of utilization of these prerogatives was relatively benign in Brandenburg-Prussia, lacking the grosser forms of exploitation (see Schmoller 1877: 64).

<sup>35</sup> During Frederick I's reign domains were given away in large portions as so-called *Erbpacht* (that is, the grant of a long, hereditary lease) and were no longer administered and utilized by the Crown. Frederick William I changed drastically this mishandling of the Crown's property. By the so-called *Domänenedikt* (1713) he revoked the contracts made under his predecessor and declared the whole of the domains—even the so-called *Schatullengüter* (Privy Estates) which served for the sovereign's purely private expenses—to be inalienable property. Furthermore, he reorganized the administration and utilization of the domains by creating the so-called *Generalpacht* (General Lease-hold): under this, not separate estates but whole districts (*Amt*) of domains were leased for a certain sum of rent-payment to a so-called *Amtmann* (Superintendent of Domains) who was, like a private entrepreneur, in charge of this district, subleasing parts of it to the peasantry. Simultaneously he provided administrative and judicial functions on the local level as a royal official: the *Amtmann* thus had control over the social and economic life of the domain's peasantry. Frederick William I preferred to select men for the function of *Amtmann* who were not of noble stock but were well trained in agricultural matters. The domains became seedbeds for agricultural innovations in regard to methods and techniques of cultivation and to new forms of administration.



reign. The first was a shift from a provincial division of administration toward a division in terms of services and functions.<sup>36</sup> The second had to do with the relationship between sovereign and government: there was a gradual separation of the prince and his staff from the central government and administration after the accession of the Great Elector. The final step toward rule from above or outside the governmental institutions, however, was taken by Frederick William I. He no longer attended governmental meetings, but had to be informed by written reports and gave in turn written orders out of his cabinet to the central government and administration. He and his cabinet were the center of governmental actions and the medium of governmental coordination.

These changes were part of Frederick William I's all-out effort "to support the army of a first-rate power on the resources of a third-rate state" (Dorn 1931: 404). In reaching his goal *Le roi-sergeant* or the "soldiers' King" had to be as fiscal-minded as he was military-minded. Fiscal reforms went hand in hand with the reconstruction of the military system.

Frederick William I made several rather successful attempts to tap the income and property of the nobles more adequately by direct taxes, though the increase was still extremely modest and was accomplished only after hard struggles. The first innovation, the so-called *Generalhufenschoss*, a reform of the assessment of land for tax purposes (with techniques quite modern for the time), was limited to East Prussia, where the Junkers traditionally could less easily escape direct taxation. The reformed assessment of the *Generalhufenschoss* made the property of the nobles more subject to taxation; the Junkers fought against these attempts, and it was on this occasion that the king, not willing to give in, referred to himself as a *rocher de bronze*. The second reform was not limited to specified provinces but covered the entire kingdom. It illuminates the unique features of the contemporary sociopolitical and socioeconomic struc-

<sup>36</sup> At first the General Directory had been divided into four provincial departments; each of these departments had, however, to perform certain central functions as well. Hence, the process of change was a gradual one. Frederick the Great (1740-1786) eliminated some functions of the provincial departments and created special departments for those services: the Department for Trade and Manufacture (1740); the Department for Customs and Excise (1766); the Department for Mining and Smelting (1768); the Forest Department (1771). A separate institution had already been founded in 1728 for foreign affairs: the Cabinet Ministry. The Secret Council (but with very limited functions), the Cabinet Ministry, and, the most complex one, the General Directory together formed the central government and administration.

ture of Brandenburg-Prussia: the King had at this time secured his personal absolutism; the army and the government were firmly in his hand; the political power of the estates and the governments of the provincial territories were reduced to insignificance. Nevertheless the Crown required both more revenues and the loyal support of the Junkers as officers in meeting his military ambitions. To gain this support and to induce the Junkers to serve in a standing army, Frederick William I had to ensure their material subsistence. He also had to adapt the military organization so as to recruit the Junkers as officers, and their subject peasantry as soldiers, without destroying the traditional subsistence and economy. This he did in a mode which was a strange mixture of feudal and absolutistic traits, combining fiscal and military obligations.

In the first place, Frederick William I imposed the so-called *Lehenspferdegeld* (vassalage-horse money). As the name suggests, this was a commutation of feudal military obligation of the nobles (the knight's services) into money payment. It was actually a revival of a long obsolete obligation attached—as it had been centuries ago—to the vassalage-horses required for each of the nobles' estates (forty thalers annually per horse). This neofeudal levy, however, was counterbalanced by three concessions designed to secure the property of Junkers. First, the Junkers' estate became *allodium demesne* (freehold); the land or estate (including the patrimonial rights) became *de jure* private property. The Crown thus gave up the claim of a broad interpretation of the *dominium eminens* as far as the Junkers' property was concerned. Second, the properties of the nobles could be bought and sold only among members of the nobles themselves; the aim of this special privilege was to prevent a diminishing of the Junkers' property holdings by closing a certain kind of real-estate market (the so-called *Ritterguts-gesetz*, i.e., knights' estate law). Closely connected with this was the third institution, introduced in Frederick the Great's reign, the creation of provincial mortgage credit societies (the so-called *Landschaften*), which were at the exclusive disposal of the nobles.

Also Frederick William I reorganized the military system. His so-called Canton system was a combination of a standing army and a militia system that recruited the Junkers for duty as officers and the peasantry as soldiers during a certain time period each year. To secure the peasantry as a recruitment pool the Crown issued several orders to protect the socioeconomic position and the livelihood of

the peasantry. These orders were a counterpart of the *Rittergutsgesetz*, though their enforcement proved to be inadequate. In fact, with the new military system, the peasantry fell even more firmly into the hands of the Junkers, who now represented not only a local patrimonial authority, but military authority as well. Even on leave from military duty, the soldier-peasant belonged to the army and was supposed to wear a piece of his military uniform (see Büsch 1962: 27ff.; Rosenberg 1958: passim.). This little detail shows how tightly the fiscal, military, and agrarian systems were interwoven. One system could not be changed without altering the other; each one was strengthened by the other, as we shall see later.

During Frederick William I's reign all spheres of life became subject to police, military, and fiscal controls which formed an interwoven body of absolutistic government, resting upon a new spirit and a new code of values of serving the sovereign and the state. Unlike his predecessor, the "soldiers' King" expected and demanded from his servants not mutual but one-sided and all-out allegiance and obedience similar in nature to that of military officers. And indeed the royal orders to his governmental and administrative officials were as harsh as the command orders in the army. He considered such obedience to be toward himself personally and not toward the state; his rule had all the features of a personal absolutism. Correspondingly, he still considered the property of his dynasty, which became inalienable, that is a feoffment in trust (*Fideikommiss*) by the so-called *Domänenedik* (1713), primarily as "patrimonial" or "private." This autocrat and his bureaucratic machinery contrived to extract out of a backward economy not only money, kind and services for the support of an oversized military organization, but also could pay off the public debts and liabilities of the Estates, especially those of the cities and towns, and gathered by the time of his death a treasure of eight to nine million thalers, which helped his successor to finance the First Silesian War. He endeavored to control expenditure by innovating uniform methods of accounting and estimations of costs for all governmental and administrative institutions. As far as his "own" sources of income were concerned, he managed not only to redeem all domains, which were pledged during the mishandling of the Crown's property by his predecessor, but to buy for about five million thalers new domain property. Hence, the revenues from his "own" sources of income rose to an amount which nearly matched the yield of all taxes (see Schmoller 1909: 44).

With Frederick the Great a bureaucratic absolutism gradually superseded the personal or dynastic one of the "soldiers' King." This enlightened monarch placed the state above the dynasty. He perceived himself as the first servant of the state and considered the service of his office holders to be tasks for the state, not for the dynasty.<sup>87</sup> In the *General Book of Law*, which was drafted under his reign but published after his death (1791), all domains were declared to be public property of the state; the House of Hohenzollern had only a limited right of usufruct. As a consequence of this new conception of the Crown's function and property, the guidelines of Frederick the Great's fiscal, financial, and economic policy were oriented more toward the purposes of state and less toward enrichment of the dynasty. In fiscal and financial matters, Frederick was as much an economizer as his father was. After the peace of Hubertusburg (1763), he even employed private French enterprisers for the collection of the excise, bypassing the competence of the General Directory (see Dieterici 1875: 7ff.; Grabower 1932: 55ff.). Yet, Frederick the Great approached matters of revenue and expenditure more from an economic and less from a fiscal point of view than his predecessor had, and used fiscal policy as a medium for the development of the state's economy. This brings up the question of prevailing economic and social doctrines as regards taxation during the cameralistic era in Brandenburg-Prussia. Since we must be brief, certain oversimplifications will be unavoidable (see for this part especially Tauscher 1943 and Wilke 1921).

Undoubtedly influenced by Bodin's writing, the mercantilistic-cameralistic literature up to the eighteenth century in theory still considered taxation as an extraordinary levy for special purposes, the primary purpose of which was to provide the necessary means for protecting the life and property of subjects. Therefore, the cameralists of the second half of the seventeenth century dealt extensively with the administration and utilization of domains and prerogatives. They usually prefaced their expositions about taxes with the more or less rhetorical hope that taxes would not be a permanent phenomenon. However, the mercantilists and even more the cameralists actually regarded the various forms of taxation as tools for shaping the structure of the economy and society. The cameralistic version

<sup>87</sup> As a demonstration of this, in matters of private law Frederick the Great relinquished all claims of sovereign or absolutistic power and regarded himself and his dynasty as a subject of the state, answerable to the common private law procedure like all the other subjects.

of mercantilism conceived the state as the overall regulative principle. The maxims of every socioeconomic order (*ökonomische Polizei und Cameralverfassung*) can therefore only be derived from the very essence of the state itself.<sup>38</sup> Socioeconomic doctrines have to be oriented toward and formed by the purpose or reason of state. The state must be considered as the main productive force inasmuch as only the state has the know-how and the means to frame the economy and society in the right way, that is, into a proportionate structure: every sector of the economy and correspondingly every stratum of society has to be shaped in such a way that it fits in the right proportion with all the others and in relation to the whole entity, the state, which represents the *droit de bienséance*. The principle of social and economic justice is not guided by equality or uniformity but by the guarantee of the "just" proportion. An organic functional view of a body with different parts and different functions can be recognized as the underlying principle, but all parts and functions are now regulated by and have to serve the same purpose: the reason of state. As the main productive force the governmental institutions have to perform as a heart: they take blood from the organs and distribute it according to need, that is for the well-being and sound development of the body.<sup>39</sup> Taxation serves as an instrument for extracting blood from the organs; the allocation of revenues is the redistribution of this blood. Both tasks have to be accomplished, however, in the "just" or right proportion. The cameralistic government has therefore to develop various schemes of taxation, modes of assessment, and ways of allocation of revenue so as to fulfill the overriding goal, the *droit de bienséance*.

Along with protection of the life and property of the subject, this function of taxation, then, became the main justification of the cameralistic government to impose taxes. Moreover, this function was also used as a justification for an absolutistic interpretation of the *dominium eminens*. Inasmuch as the state is the moving productive force, it is the right of the state and its ruler "to regard all property in the realm as wholly wealth of the state in such a way that it has to be at the disposal of the highest authority of the public and common interests of the state, though this property is chiefly in the possession of private persons."<sup>40</sup>

<sup>38</sup> Justi 1755, quoted by Tauscher 1943: 304.

<sup>39</sup> This is a metaphor used by J. Sonnenfels in the preface of his book "*Grundsätze der Polizei, Handlung und Finanz*," vol. I (1776), quoted by Tauscher 1943: 309.

<sup>40</sup> Döhler 1775: 2ff., quoted by Tauscher 1943: 308.

Despite these two widely accepted justifications for taxation, the cameralistic literature was marked by a broad spectrum of opinions regarding forms of taxation, modes of assessment, and schemes of distribution, each reflecting the socioeconomic position and group interests of the writer and his personal predilections. In respect to the motive of protection (the so-called protection theory: *Assekuranztheorie*), the controversy involved whether life or property needed more protection and had therefore to carry more of the tax burden. The men of property and their spokesmen proclaimed the protection of life to be the more important task, and pleaded for a high poll (or flat rate) tax. The other side held up the principle which was strongly endorsed by Jean Bodin, namely that the levy should be assessed according to the amount of protected wealth and property (see Mann 1937: 60; Wilke 1921: 9).

Beginning around the middle of the seventeenth century, a Europe-wide dispute about excise as a general means of taxation occurred and was to last over generations. The spokesmen of the nobles rejected this form of levy, because it interfered with the nobles' privileged tax position. The majority of the cameralist writers, however, praised the excise as a panacea: it covered all subjects and was therefore a just means of taxation; the levy was so small that it was hardly felt; both assessment and collection were easy and inexpensive (at a time when *cadastres* could not be kept up to date and income and property could easily evade assessment). Last but not least, the excise was credited by the cameralists with being a most suitable tool for the regulation of the economy and society according to the reason of state (see Mann 1937: 50ff.; von Inama-Sternberg 1865: passim). As the example of Brandenburg-Prussia showed, the term excise covered not only levies on consumer goods (collected as retail sales tax) but also a producers' levy and inland customs. A cameralistic government must skillfully apply all these various excises as socioeconomic tools: the flow of goods is controlled by customs; the consumption patterns are determined by differentiated levies on consumer goods; the sphere of production is regulated by producers' taxes of differing amounts (including total exemption in order to stimulate certain branches of production) or by the state's entering the field of production itself with governmental enterprises, using its revenues as investment and working capital.

In this manner taxation was a tool for shaping the economic and social structure into the "just" proportion. If a sector or a branch of

the economy were hampered by a too heavy or disproportionate tax load, the government would be acting like "a wild boar tearing out the roots in the field and destroying the future crops," and not like "a good shepherd who shears but does not kill his sheep." On the other hand, the various sectors must be prevented from achieving disproportionate growth, and individuals and groups from becoming lazy and corrupt by too light a tax burden.<sup>41</sup>

In practice, however, these doctrines clashed with group interests and were therefore subject to interest group pressures. In limiting the application of excise primarily to cities and towns, the nobles had maintained their tax privileges. Concerning the laboring poor, the controversy concentrated upon the question of whether and to what extent the "necessities of the people" should be covered by excise duties. This problem was markedly less pronounced in Brandenburg-Prussia (and in the realm of the Roman Empire) than in England; due to a long tradition the former took the levying of "necessities" much more for granted.

In practice taxes were in many ways distorted and perverted because of frequent conflicts among fiscal, economic, and social goals. If interests or goals were incompatible, the fiscal point of view predominated, at least until Frederick the Great. The sociostructural point of view—that is, the preservation of the social structure with all its differences in terms of sociopolitical status and socioeconomic privileges—usually placed second. The purely economic point of view ran third. As for economic principles, cameralistic practice was full of contradictions due to the fact that economic development, though a cherished goal of the government, was not an end in itself, but had to serve the reason of state and was not supposed to disrupt the existing social order. How the tightly interwoven military, agrarian, fiscal, economic, and social structures under the minute regulation of the cameralistic bureaucracy curtailed economic development in Brandenburg-Prussia and retarded sociopolitical modernization needs to be further analyzed. This has to be done through a comparison with the situation in Britain.

The beginning of our period in Britain is marked by one similarity with the situation in Brandenburg-Prussia: the creation of a standing army. The roles, however, were reversed. The Crown had neither sufficient sources of income nor borrowing power to support

<sup>41</sup> The first quotation is a metaphor from W. Schröder 1721, the second from Bornitz 1612; both cited by Tauscher 1943: 314 and 324.

an adequate military force. It was the Parliament which imposed contributions and a variety of taxes, collected customs, and sequestered property of the royalists and the Crown in order to maintain a navy and organize a standing army. This "New Model" army proved decisive for the course of events during the tumultuous and stirring times of the *Interregnum*. By virtue of the Self-Denying Ordinance which disqualified Members of Parliament from holding military commands, the professional army officers soon became a political force of their own, asserting the chief influence over the government and constitutional development until the Restoration.<sup>42</sup>

This was a period of arbitrary rule based not on traditional law but on armed force. The standing army was both the moving and the stabilizing power. After the return to traditional forms of government (1660), the "New Model" army was quickly disbanded; merely a regiment of guards and a few garrison units survived. Whether to increase this small armed force became a matter of dispute between Crown and Parliament for a long time to come. Once again government in Britain was unsupported by any large professional army.

Neither as a focus of bureaucratization nor as a source of financial strain can the army in Britain in any way be compared with the army in Brandenburg-Prussia. Yet the role of the "New Model" army in matters of taxation and public finance might well be viewed in relation to that of the mercenary troops at the beginning of the Great Elector's reign, inasmuch as the financial needs for the maintenance of the navy and upkeep of the "New Model" army made new schemes of revenue and public finance unavoidable, while at the same time this military force was required to enforce new financial exactions along with the payment of the more traditional taxes. Eighteen years of armed force at the disposal of the various *Interregnum* governments were crucial indeed for the imposing of new modes of taxation, as the frequent riots and rebellions connected with revenue matters during these years suggest. Let us outline at first in a very sketchy way the development in terms of taxation and public finance, from the Civil War up to the eighteenth century.

We may distinguish three separate components: the direct taxes, the customs, and the Excise. For all three the *Interregnum* was a

<sup>42</sup> The role this body of professional army officers played might be compared with that of the military cadres in many underdeveloped countries today: their constitutional ideas became prevailing; they drafted constitutions, took over the chief functions of government, and even adopted a concept of theocratic rule by a group of the "godly"; finally, out of this officers' junta grew a military dictatorship, the Protectorate.



time of experiments and innovations. The systems of direct taxes under Tudor and Stuart rule fell far short of tapping the wealth of the nation. Under great financial pressure, the Long Parliament attempted to create and impose an equitable scheme of direct taxes with a yield proportionate to the real wealth of the realm. The intention in regard to assessment and distribution was to adopt income as the standard for all who paid direct taxes. In 1641 a graduated poll tax was imposed as one of the emergency measures.<sup>43</sup> However, from the beginning this scheme met with little success in practice. Parliament soon had to rely on fixed sums which each district was required to pay, leaving the distribution of the direct tax burden to the local assessors except for regulation of the limits of exemption. The devices employed were the so-called Weekly Assessment (1643) and, beginning with the year 1645, the Monthly Assessment.

The Monthly Assessment became during the *Interregnum* a regular direct levy; after 1660 (until 1692) it continued at intervals rather than regularly. It was marked by two characteristics. In the first place, the required amount of revenue from each district remained fixed, so that different parts of the country came to pay substantially different rates of tax. In the second place, the Monthly Assessment became chiefly a land tax, levied on a traditional basis and not according to the changing real value of the landed property. Despite all attempts during and after the *Interregnum*, personal and movable property along with income from office were usually exempted or grossly underassessed. After the revolution (1688) and in the reign of William and Mary, the Monthly Assessment was superseded by a new direct tax, the General Aid. This scheme abandoned the system of fixed amounts for each district and imposed a pound rate according to income from land or office holding, and the value of property comprised of goods, merchandise, money, etc.<sup>44</sup>

At first the General Aid seemed relatively successful but the dif-

<sup>43</sup> Men were rated at fixed sums according to their rank, office or occupation, and general clauses referring to criteria of income were provided for those not rated specifically. This is a clear indication that the prevailing principle of direct taxation was: men should be levied in consideration of their income and ability to pay.

<sup>44</sup> All persons with property in goods, merchandise, money, etc., were to pay one shilling per pound "according to the true yearly profit thereof." Persons in office, other than naval and military, were to pay one shilling per pound of their salaries or profits. One shilling per pound was to be levied on the true yearly value of all lands. In order to tax the landowner on his real net income, and to bring in the monied man, rent charges and interest on mortgages on land were to be taxed at one shilling per pound by deduction at the source. In 1692 the pound rate rose from one shilling to four shillings per pound of income (see Kennedy 1964: 44).

faculties of assessing personal property were almost insurmountable. Such property could still easily evade assessment, and landed property was taxed differently from district to district. An attempt to overcome these weaknesses with a so-called Poll Tax as supplemental tax, and later on by combining General Aid and Poll Tax, proved equally unsatisfactory. In 1698 the system of a national pound rate came to an end. Once more a required quota was fixed for each district. This proved to be the surrender of all efforts to achieve an equitable direct tax with a yield proportionate to the real wealth of the nation, a situation that was to prevail for more than a century. The scheme that replaced the pound rate, the so-called Land Tax, became marked with the traditional defects of former direct taxes: an unequal distribution among the districts and the escape of personal movable property. In short, the intended distributive standard of direct taxation, according to income, was not achieved until 1842, when a new property and income tax was introduced (the property and income tax imposed in 1799 was a short-lived war measure).

Furthermore, the Long Parliament broke with the Elizabethan and Stuart tradition of exempting the poor from paying taxes. Though the regular direct taxes exempted the laboring poor, occasional Poll Taxes applied to them.<sup>45</sup> However, with the creation of the Land Tax (1698) the direct taxation of the poor was abandoned. With the exception of the 1740s, the amount of direct taxes (land and assessed taxes) proportionate to the total amount of revenues declined steadily (see Mitchell 1962: 386ff.).

As for the second component, the customs, the Long Parliament paved the way for a new policy toward and a new evaluation and handling of these revenues. Customs were no longer—even in theory—considered as earmarked for “the keeping of the Sea” but were treated like all other revenues as national tax. Correspondingly, these levies gradually lost their justification as a special charge on merchandise for the protection of trade, and could therefore be used more and more as an instrument of mercantilistic trade policy. The tendency during the Long Parliament, which was carried on after the Restoration and the Revolution, was to reduce or abandon totally the export duties on manufactured goods and (from 1656 onward) on certain agricultural products as well. In 1721 Walpole re-

<sup>45</sup> Six pennies in 1641; one shilling in 1660, 1666, 1678, 1689, and 1690; four shillings in 1691, 1697, and 1698. The Poll Taxes exempted paupers and the children of the laboring poor (see Kennedy 1913: 50).

pealed all the remaining duties on exports other than raw materials. Hence, customs became increasingly, and during the eighteenth century almost entirely, a levy on imported commodities. This indicates clearly that Parliament and the government were willing to sacrifice fiscal considerations for the purpose of trade and economic policy. The prohibition of the export of wool (1648) and the trade with France during times of war had the same effect. Moreover, in the case of the so-called corn bounty (introduced in 1673 and remaining in practice with modifications for about a century except in years when home crops were poor) even dumping methods were applied; the corn bounty was a governmental export subvention to ease the burden of direct taxation on the landed gentry. Along with all this, import duties for needed raw materials were reduced or abolished. Parts of this trade and economic policy were the Navigation Acts (the first in 1651, adopted and enlarged in 1660 and 1665) and the treatment of economic affairs of the colonial territories. It is well known that the Long Parliament laid the groundwork in these matters too. It viewed trade policy as the overriding issue of foreign policy. Acts of war and interference on land or at sea were undertaken for trade and economic purposes, and were accomplished with the help of trade and economic weapons.

As far as imported commodities were concerned, fiscal needs, trade policy, and considerations of welfare policy—that is, the protection of the poor—were taken into account in determining the kinds of commodities to be taxed and the relative rates. From the point of view of social welfare, the doctrine that customs should cover only luxuries but not necessaries was widely accepted during the time of the Long Parliament and later on as well. In 1674, Carew Raynall in writing about “The True English Interest” defined the best taxes as those which fell on the vices of the people, including their consumption of needless foreign commodities (see Kennedy 1964: 30). This point of view was followed in practice, certainly to a high degree because it conformed to the prevailing trade and economic policy, which aimed to discourage the consumption of imported manufactured and luxury goods.<sup>46</sup>

<sup>46</sup> In 1690, for example, a heavy import duty was placed on Indian textiles; in 1699 an “Act for the more effectual employing the poor by encouraging the manufactures of this kingdom” was passed, prohibiting entirely the import of Indian textiles for home consumption (Kennedy 1964: 36). It is obvious that merchants would oppose a strict execution of such a policy. Their interests, together with fiscal considerations (among others, the incidence of frauds and smuggling which, of course, increased

Despite the fiscal sacrifices for the purposes of trade and welfare, the absolute amount of customs revenue increased steadily with the exception of years of war (see Mitchell 1962: 386ff.). Customs were regarded by contemporaries as a suitable fiscal means on grounds of distributive justice, ease of collection, and their relatively imperceptible and "voluntary" character (as long as they covered no necessities). We are familiar with these arguments from the debates about the Excise.

The Excise was an innovation of the Long Parliament. Unlike continental Europe, Britain had no tradition which would prepare the way psychologically for the introduction of Excises, either as regards prerogative revenue (like the beer tax or the so-called *Ungeld*) or Excises introduced by city and town municipalities. Popular opinion in Britain looked upon the Excise as a symbol of serf-like oppression common in continental Europe but incompatible with the tradition of personal and constitutional liberty of England. The imposition of Excise duties by the Long Parliament therefore aroused stubborn opposition and, on several occasions and in several regions, riots. It is hard to imagine that the early Stuart Kings could ever have succeeded in imposing an Excise. It is especially with respect to the innovation of the Excise that eighteen years of armed force at the disposal of *Interregnum* governments were crucial for the adaptation to this new levy, which remained an important mainstay of the revenue system thereafter (see Mitchell 1962: 386ff.). Besides the financial needs which forced the Long Parliament to introduce the Excise, an additional reason was to make the Royalists and neutrals share the costs of the war against the royal forces, and for this, indirect levies, excise and customs as well, were best suited.<sup>47</sup>

It should be noted that the opposition to the Excise was a popular one and not, as in Brandenburg-Prussia, only that of the nobles, who fought for the preservation of their tax privileges. Furthermore, in Britain the discussion of Excise as a mode of taxation centered much more on the question of whether more necessities of the poor should be covered by this levy than was the case in Brandenburg-Prussia.

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when customs were extremely high) prevented import duties on such commodities from becoming prohibitory in nature. Nevertheless the increase in rates on certain foreign goods such as wine, tobacco, silks, and other luxuries was enormous.

<sup>47</sup> During the *Interregnum* the term "Foreign Excise" became common; the technical difference between Foreign Excise and Customs Duties was that the former was ordered to be levied on the first buyer from the importer. In practice, however, this was usually ignored (see Kennedy 1913: 27).

The discussion began with the introduction of the Excise and was carried on for generations. The prevailing doctrines were, on the one side, that the poor should share the burden of taxation. This has to be regarded as a break with Elizabethan and Stuart tradition. The political theories of Thomas Hobbes and John Locke among others fortified this principle.<sup>48</sup> On the other side, the doctrine that Excise should fall rather on luxuries than on necessities was widely accepted. From the period of the *Interregnum* up to the eighteenth century these principles were put forth and contested in parliamentary debates and in contemporary literature, over and over again. The welfare principle clearly influenced what kinds of commodities were to be subject to excise duties, as well as the relative amounts of these duties. Nevertheless, necessities were subject to Excise from the beginning and remained so, though composition and rates varied greatly from time to time.<sup>49</sup>

Contemporaries were more or less aware of the fact that Excise duties which cover the necessities are regressive in nature. Nevertheless, Excise was praised as a just means of distributing taxation because it was said to make everybody pay his share, with the richer paying more than the poor. A man's total expenditure or consumption was regarded as a good indication of his socioeconomic standing and therefore Excise duties covering consumption, especially of luxuries, were considered a good method for making everyone share in public expense according to his ability. In a period when the style of living and the pattern of consumption still were to a high degree both status-bound and status-required elements, this assumption was not as erroneous as it may seem from a modern point of view. How-

<sup>48</sup> Kennedy (1964: 66) writes: "But the idea found its most complete expression and justification in Locke's political theory, from which it was a direct deduction, that 'everyone who enjoys his share of the protection should pay out of his estate his proportion for the maintenance of it.' By the end of the seventeenth century this may be said to have become a commonplace."

<sup>49</sup> During the *Interregnum*, for example, beer, ale, cider, perry, salt, meat, soap, and hats, among other things, were levied. During the Restoration excise on necessities was abolished with the exception of the duty on beer, but a hearth tax introduced in 1662 aroused, as had the meat excise before it, particular opposition, both being regarded as against freedom from governmental interference in private matters. The hearth tax was abandoned by Parliament after the Revolution (1689) as a "badge of slavery" but new excise duties and an increase in rates of the old ones were debated and enacted; among others there were beer, salt, leather, malt, paper, glass, coal, and—for some time—even chimney, window, birth, death, and marriage taxes. The increase of the salt tax by Walpole (1732) and his Excise Bill of 1733, both aimed at keeping the land tax low, stirring, as is well known, such stiff opposition that the powerful leader of the government had to back down.

ever, the contemporary literature also recognized the fact that certain social groups or individuals lived below their means or ability and could therefore evade their fair share of taxation. This was particularly true of nonconformist traders, merchants, money lenders and manufacturers, who had a strong social cohesion and a value code condemning conspicuous consumption. With their personal kind of property and their income escaping much direct taxation, they paid less than their "just" proportion in indirect taxation too.

Up to now we have been concerned only with schemes of taxation. The imposing, collecting, administering, and allocating revenues, and the whole range of what came to be "public finance," have not yet been dealt with. Turning now to this side of our topic, we have to deal again with constitutional, governmental, and administrative aspects.

The so-called Financial Revolution refers to changes in public finance after 1688. However, a sequence of alterations which occurred during the *Interregnum* was of great importance in setting this process in motion. In the first place, direct taxes ceased to be occasional revenue for emergencies; they became regularly paid duties. The same was the case for the traditional and the new indirect levies; they were collected and treated as regular sources of revenue. Correspondingly, the distinction between ordinary and extraordinary revenue vanished during the revolutionary period. Under the Protectorate all the various sources of revenue came to be administered by the Exchequer. "This created the possibility of real Treasury control of revenue and expenditure, a planned budget, and so planned raising of loans" (Hill 1967: 147). These changes, though to some extent repealed during the Restoration, proved to be crucial for new methods of public finance, that is, for new systems of long-term government borrowing.

In the second place, the House of Commons learned during the time of the Long Parliament to handle all the business of the state: taxation, financial matters, war and foreign affairs, trade and colonial (or plantation) policy, the maintenance of the navy and standing army, etc. Even during the Protectorate the Parliament kept its control over taxation and revenue matters. In short, the Long Parliament had given experience, confidence, and power to the House of Commons; after the restoration of the monarchy it could no longer be excluded from the "mystery of state": 1660 marked the beginning of parliamentary monarchy (Keir 1967: 209, 230ff.).

To be sure, Charles II was able to restore and to maintain the conception of the Divine Right of his kingship. The new restoration Parliament, the "Cavalier Parliament," restored in a nostalgic fashion a cult of divine kingship. It was not to be until the Revolution when an informal assembly (the Convention) offered the Crown to William and Mary jointly, presented them with the Bill of Rights, and imposed upon them a new coronation oath with the obligation to govern according to the statutes the Parliament had agreed on, that the idea of kingship by Divine Right would come to be destroyed and royal authority and power become regarded merely as the result of a contract between King and people. True, Charles II and his successor were able once again by virtue of Prerogative to establish royal control over the militia, over the declaration of peace and war, over the summoning and duration of Parliament, as well as to conduct a government headed by a strong Privy Council and administered by committees and departmental ministers.

Yet the authority and power of the Crown and its government was now checked on three levels. First, the Common Law courts triumphed over the judicial power of the King and his government. "English constitutional law was therefore bound, sooner or later, to assume a bias, appropriate to the Common Law tradition, in favor of individual rights and property, and on the whole adverse to the claims of the State to a freedom of action determined by consideration of public policy" (Keir 1967: 233ff.). As regards the socio-economic development of Britain in the eighteenth century, the importance of its ideological foundation, what Macpherson has called "possessive individualism," can hardly be overrated.

Second, the local authority, represented chiefly in the Justices of the Peace, could emancipate itself further from the control of a central government which was no longer in possession of judicial power: ". . . local officials such as Justices of the Peace relapsed after 1660 into two centuries of virtual irresponsibility. A profound harmony reigned between them and a Parliament drawn from the same classes as themselves" (Keir 1967: 234).

Third, legislation and taxation had become subject to exclusive parliamentary control. In sum: the Crown and its government were forced to seek the consent and cooperation of an upper class of nobles, gentry, men of property and money, who had a controlling influence upon the Common Law courts, local authority, and Parliament, and who came to dominate political life in Britain for two

centuries. Comparing the nature of the crucial phase of British state-building with that of Brandenburg-Prussia later on, we will have to analyze these aspects further.

With the restoration of the monarchy (1660) the Crown had to be endowed with an annual income by the "Convention Parliament," because the traditional sources of income were either lost or diminished to insignificance. The endowed amount of revenues even in peacetime proved to be inadequate for the expenditure of the Crown and its government, but Parliament attributed the Crown's insolvency to the mishandling of financial affairs and became inclined to encroach anew on the King's sphere of executive power. The once loyal "Cavalier Parliament" became increasingly critical. Two nascent parties began to develop: the Tory party, dominated by the Anglican landed gentry, and the Whig party, led by nobles but drawing its main support from merchants, money-men, and landowners with a strong dissent bias.

Paradoxically enough, the Crown's financial reputation became severely damaged by the innovation of a credit scheme quite modern in its make-up (patterned after the Bank of Amsterdam); this was the so-called Orders of Payment, introduced in 1665 to mobilize the means for the Dutch War, using the direct taxes authorized by Parliament as security (the Orders were charged against the authorized taxes). Yet the Orders of Payment were soon being charged against the revenues in general and became an instrument of credit, like bank-notes. In other words, the Exchequer (or the Crown) began to exercise a kind of banking function. The debts from the first Dutch War and the financial needs of the second Dutch War led to the collapse of this scheme; in 1672 the result was the so-called Stop of the Exchequer: the Crown had to declare a moratorium on one and three-fourths million of these Orders of Payment (see Dickson 1967: 43ff.).

Nevertheless, in a rudimentary way, these ideas for creating instruments and schemes of long-term public credit led to the revolutionizing of the public finance of Britain after 1688. Two steps were crucial. In the first place, "public" credit and loans became no longer based on the Crown's security but on parliamentary guaranty: the institution which had the sole constitutional power of taxation, the Parliament, now secured the "public" debts; a National Debt came into being (Dickson 1967: 50).<sup>50</sup> This enabled the government (not

<sup>50</sup> Dickson writes: "The fact that Parliament guaranteed all these loans made them



immediately but in the long run) to obtain long-term public credit and loans on favorable terms, using direct and indirect revenues as security funds.

In the second place, the establishment of the Bank of England (1694) proved to be of equal importance for the "Financial Revolution."<sup>51</sup> The Bank of England, founded on the basis of the joint-stock principle by approval of the Parliament, became from its beginning the main instrument of governmental credit and loans. Besides its original loan of 1,200,000 pounds (the chief stipulation for its foundation), the Bank of England immediately began to make substantial case advances to the government, became important in mobilizing financial resources from all over the nation, helped the government in floating tontines and annuities, and since 1709 has been associated by statute with the issue of Exchequer bills. Without the Bank of England, the British struggles with France from 1689 until the Peace of Utrecht would have led to a financial disaster. More and more did the financial affairs of government, the national debt, and currency matters become connected with the Bank of England. As a consequence the merchant and banking community of the City (predominantly Whigs) gained increasing political influence: "the Bank (of England) brought government borrowing under direct control of the representatives of the propertied. Henceforth the monied interest played a decisive role in politics; no political group could hope for success without support in the City" (Hill 1967: 147; see also Dickson 1967: 55ff.).

The methods approved by Parliament to mobilize and secure public loans, particularly the scheme of floating annuities with a term of ninety-nine years, influenced taxation in two ways. On the one hand, the indirect taxes (customs and excise) could no longer be limited in time to the life of the King. On the other hand, a large portion of revenue sources became tied up for a long time to come (see Mitchell 1962: 401ff.; Total Debt Charges). This made it necessary that direct taxes become regularly paid levies, and the distinction between "ordinary" and "extraordinary" revenue vanished. The increase of the total debt charges led to the pattern of changing reve-

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'debts of the nation' or 'national debts,' and both Englishmen and foreigners were quick to realize that this change from merely royal security was extremely important" (1967: 50).

<sup>51</sup> The foundation of the Bank of Scotland in 1695 and the New East India Company in 1698—as of 1709, the United East India Company—were at the beginning significant for obtaining governmental credit and loans, too.

nue systems (amount of land tax; increase in the rates of the old indirect taxes; the adding of new indirect taxes) so as to make interest payments on the deficit rather than to reduce or amortize it. The reward, however, was long-term governmental borrowing at relatively low rates of interest and, despite a mounting national debt, a permanent solvency of the government. With a grain of sarcasm, Christopher Hill writes: "Payment of interest on the National Debt, guaranteed by Parliament, necessitated heavy taxes, which transferred wealth from the poorer and landed to the monied classes. A national debt is the only collective possession of most modern people: the richer they are, the more deeply they are in debt" (Hill 1967: 148).

It was certainly more than a mere coincidence that the Financial Revolution followed the arrival of the Dutch monarch and his advisers, who were skilled in handling fiscal and financial affairs, particularly long-term government borrowing, and were connected with Dutch banking circles. Concerning "public finance" and banking, Amsterdam, and not the London City still held the lead at this time. Apart from this fact, the "Financial Revolution" has to be analyzed against the background of the "Glorious Revolution" and the war with France. Both incidents helped the effective establishment of parliamentary government and the creation of long-term government borrowing practices guaranteed by Parliament and not merely by royal security. The Bill of Rights altered the essence of the Crown's authority and its relationship to Parliament. The war with France, starting immediately after the coronation of William and Mary, caused heavy financial burdens.<sup>52</sup> The borrowing power of William and Mary, as new rulers, was weak. The Parliament, perennially in session as a wartime consequence, provided the necessary "extraordinary" means. The price the Crown had to pay for this support was the permanent intrusion of Parliament (i.e., the House of Commons) into the sphere of the Treasury by a system of estimate, appropriation and audit. In 1691 a group of members of the Commons were appointed as Commissioners of Public Accounts. Thus,

<sup>52</sup> Dickson (1967: 46) writes: "The immediate result of England's entry into the war against France in 1689 was to make public expenditure increase between two and three times. Before 1688 it had been under two million pounds a year. Between 1689 and 1702 it was between five million and six million pounds a year, as the Treasury noted in the books which it now started to keep to record income and expenditure—England being the first major European Power to take this elementary step."

the House of Commons gained the constitutional right to investigate public expenditure (at first only the "extraordinary," but soon all expenses, with the exception of the Civil List), and to approve the raising of money by taxes, loans, lotteries, and other methods. The Treasury had now to inform the House of Commons of its financial needs, suggest methods of meeting them, and give an account of how grants had been spent (Keir 1967: 276ff.).

The financing of the War of the Spanish Succession further accelerated the close cooperation between the Treasury and the House of Commons. It was in those years that the term "ways and means" in connection with what can be regarded as a national financial plan came into use: the treasurer had to discuss with the Commons the "ways and means" of public finance. Consequently, the leading position in the Cabinet came to be associated with the Treasury. The repeal of the clause in the Act of Settlement prohibiting officeholders from sitting in the House of Commons "enabled the ministers and the Lower House to continue in an association which was increasingly to become the essential characteristic of English government" (Keir 1967: 282).

The quarter of a century between the "Glorious Revolution" and the coronation of George I (1714) was marked by party struggles between Tories and Whigs; even with a system of "mixed ministries" (ministers drawn from both parties) the House of Commons was hard to cope with. It was an "ill-defined dualism between a Crown theoretically supreme in matters of administration and policy and a Parliament sovereign in matters of legislation and finance" (Keir 1967: 289). With George I, the stirring times of more than a half century of social unrest and political instability came to an end; the political atmosphere cooled off: Britain entered "an age of almost unbroken internal tranquillity and external progress" (Keir 1967: 289) under the governmental rule of a Whig oligarchy, which had been responsible for the accession of the new dynasty. It was not until the reign of George III (1760-1820), when the Whigs' governmental monopoly was finally challenged by the Crown and the disasters of the American Revolution, that there opened up a new period of constitutional reform.

The harmony between Crown, government, and Parliament during the Whigs' leadership was based on the one hand upon a system of "influence" or "spoils" (from a modern point of view we would

call it "corruption"): The Crown and the government employed all the means at their disposal (appointments, titles, sinecures) to get the support of influential circles in and out of Parliament. The Treasury created a host of revenue offices which could be transformed into sinecures by subcontracting the actual tasks. "Spoils" of this kind had a long tradition; even the Long Parliament had been eager to invent offices of a sinecurial nature. But under the Whigs' leadership, "influence" and "spoils" were skillfully applied as a system designed to stabilize and harmonize the upper order of society: the politically, socially and economically dominant groups.

At the same time, a system of checks and balances came into being. It was marked by a separation of powers between the Crown (with its Prerogative), the government and its administration (as the executive power), the Bench, especially the Common Law courts (as the judicial authority interpreting the law), and finally Parliament, which possessed unquestioned legislative sovereignty and held therefore the position of ultimate supremacy.

We have now reached a stage where we may compare the situation in eighteenth-century Britain with that in Brandenburg-Prussia, and approach the central question of our topic: what role did fiscal tradition, policies, and practices take in determining the crucial phase of state-building?

Let us first compare the structure of revenue and expenditure of Britain and Brandenburg-Prussia in the eighteenth century, though the data for the latter are very scanty. In 1740 Brandenburg-Prussia had no debt and therefore no debt charges to pay, but on the contrary had a state treasure of about ten million thalers. Roughly 80 percent of all expenses were for military purposes and 20 percent for the Court and the civil government. In 1786 the state treasury had increased to 54 million thalers and the share of military expense had decreased to a little more than half of the total expenditure (see Meyer 1926: 225ff.). Britain's national debt amounted in 1740 to 47.4 million pounds. Of the total expenditure, 34.1 percent (2.102 million pounds) was for debt charges; 52.1 percent (3.212 million pounds) for army, navy and ordnance; 13.7 percent (0.846 million pounds) for the Court and the civil government (0.792 million for the Civil List). In 1786 the national debt had risen to 246.2 million pounds. At this time 55.8 percent (9.481 million pounds) of the total expense was for debt charges, 32.3 percent (5.483 million pounds) for army, navy and ordnance purposes, 8.9 percent (1.513 million pounds) for

the Court and the civil government (1.015 million for the Civil List) (see dia. 2 and 4. See Mitchell 1962: 401ff.).<sup>53</sup>

As far as the sources of income are concerned, in 1740 nearly half of the total net income of Brandenburg-Prussia was provided by the domain economy. This share decreased in the second half of the eighteenth century, but in 1778–1779 the income from all the Crown's properties still amounted to 12 million thalers or 45.7 percent of the total net income. In Britain, after the seventeenth century, the income from the Crown's domain was insignificant in relation to total income.<sup>54</sup>

These differences between Britain and Brandenburg-Prussia regarding sources of revenue, "public" debt, expenditure, and "public" finance are striking indeed. They illustrate not only the structural differences of income and expense, but illuminate two very contrasting stages of modernization. We might paraphrase the assertion of Christopher Hill, quoted earlier, by saying: the more advanced states are, the more deeply they are in debt without being insolvent. Brandenburg-Prussia's structure of "public" finance shows features of a still vital *Hausväter*-tradition; and this corresponds with the image of the prince: despite the enlightened absolutism, the prince was expected to act in matters of finance like a Christian *paterfamilias*, spending no more than his economy could afford and saving by good husbandry for times of special need. This traditional view of financial management was quite compatible with cameralistic doctrines, and determined Brandenburg-Prussian fiscal and financial policy (including currency matters, issue of notes, etc.) up to the early nineteenth century (see R. Tilly 1966: passim.). The impact of this conservative concept upon economic development will be discussed later. But let us note here one aspect, which refers to the evaluation of the Crown's domain. In "Die Epochen der preussischen Finanzpolitik," Gustav Schmoller writes:

To appreciate the value of such property (the Crown's domains) in correct fashion I would like to confront the one-sided, almost silly statement of Adam Smith, that the income from the domains of every civilized monarchy would cost society more than any

<sup>53</sup> It was not until 1802 that the expenses incurred on behalf of the King and his household and those which, though charged on the Civil List, arose from matters of strictly public concern, were separated (Keir 1967: 383ff.).

<sup>54</sup> For Brandenburg-Prussia, see Meyer 1926: 225ff.; Reidel 1866: Beilage I-XX; Breysig 1895: 291ff.; for Britain, see Mitchell 1962: 386ff.

of the Crown's other sources of income, with the following statement of Stein, which is likewise one-sided but much more true and ingenious: "The income from the domains is the economic foundation of the sovereign kingdom and therefore of independent internal and external state-building, because the Crown's domain is the foundation of the material independence of kings against the dominion and power of the strong corporations of the estates. Hence, domains exist and will continue to exist as long as there are kingdoms, inasmuch as the two are not only historically but also organically linked conceptions" (Schmoller 1877: 71).<sup>55</sup>

Schmoller's remark highlights a clash between two markedly different conceptions of kingdom, state, society, and economy. On the one side, there is Adam Smith with his concept that state, society and economy are distinct from each other and follow separate laws and rules; the state should interfere as little as possible with economic matters, which are guided by the self-interests of men. On the other side, there is Baron Karl vom Stein, from 1804 until 1807 Prussia's Minister of Excise, Customs, Manufacture, and Commerce, who was an enlightened, highly sophisticated man and quite familiar with Adam Smith's writing. Nevertheless his "domains now and domains forever" clearly indicates that he was still guided by an essentially absolutistic concept of state, based upon a bureaucratic, utilitarian and authoritarian monarchy. In order to maintain such a sociopolitical power structure the monarch and his bureaucratic machinery were forced to rely as much as possible on sources of income which were at their "own" disposal and not dependent, as far as collection and allocation were concerned, upon the consent and cooperation of the people. Thus a parliamentary monarchy after the British fashion, where it was the business of Parliament alone, besides its legis-

<sup>55</sup> The original German goes as follows: "Um den Werth eines solchen Besitzes richtig zu würdigen, möchte ich dem einseitigen, fast albernen Satze von Adam Smith, dass das Einkommen aus Staatsgütern in der zivilisierten Monarchie die Gesellschaft mehr als jede andere Einnahme der Krone koste, den ebenfalls einseitigen, aber viel wahreren und geistreicheren Ausspruch Steins gegenüberstellen, der sagt: 'Die Einnahme aus den Domänen ist die wirtschaftliche Basis des selbständigen Königthums und mit ihm der selbständigen äussern und innern Staatsbildung; denn sie wird die Grundlage der materiellen Unabhängigkeit der Könige gegenüber der Herrschaft und der Gewalt der mächtigen ständischen Körperschaften. Die Domäne dauert daher fort und wird dauern, so lange es ein Königthum gibt, denn beide sind nicht bloß historisch, sondern organisch mit einander korrespondierende Begriffe.' "

lative sovereignty and other functions, to finance the government and to guarantee the "national debts," seemed to Stein still unthinkable. In short, Stein's laudation of the domains was motivated by a specific conception of the state in its relationship to society and economy, and corresponded not only with Prussia's structural characteristics of revenues (that is the large portion of "own" sources of income) but with the lack of a modern system of public borrowing, the mode of allocation of revenues and the control over expenditure as well. It is not astonishing that Stein is praised by Gustav Schmoller, head of the German Younger Historical School, since that School was a reaction to Adam Smith's (and the classical school of economic theory's) conception of the relationship between state, society, and economy, and was strongly influenced by the post-Kantian political philosophy, especially by Hegel's doctrine of the state as the realization of the moral idea (*die Verwirklichung der sittlichen Idee im Staat*). In line with the views of the Historical Schools, theories of taxation and fiscal policy developed in Germany after the middle of the nineteenth century which were biased toward a historical and organic conception of state, society and economy, and this bias prevailed until the First World War (see Wilke 1921: 65ff.). This leads us to a second aspect, which may be illuminated by an argument between two historians.

Eli Heckscher, the eminent Swedish economic historian, has argued that

when Cunningham (a British historian of the later nineteenth century) gave the name of "parliamentary Colbertism" to the policy pursued in the period after 1689, he should have added that it was Colbertism not only without Colbert, but also, which is even more important, without the vast administrative machinery created by Colbert—that it was, in fact, a system almost without any administrative machinery at all. . . . How far this explains the fact that what is usually called the Industrial Revolution came to England first, instead of beginning in continental countries—which were probably less backward than England before that time—is of course impossible to decide with certainty. Many other factors made their contribution, and I can only record my personal impression that the absence of administrative control was one of the most important (Heckscher 1936–1937: 47).

The Tudor and Stuart governments (and in a different fashion the Long Parliament as well) at least intended to regulate and control the socioeconomic affairs of their subjects by a centralized machinery furnished by judicial institutions of the Crown's Prerogative (and arbitrary rule of the Long Parliament, respectively), though they lacked the administrative strength at the local level to enforce this policy effectively. The restoration of the monarchy, however, marked the end of such attempts. As D. L. Keir writes,

the age of paternalistic government closed at the Restoration. Government by the propertied classes in their own interest took the place of government by the Crown in what it held to be the national interest. So far as Parliament bent itself to the task of economic and social regulation, it was not by strengthening administrative control, but by legislative action particularly in the manipulation of tariffs . . . The power of the State in this sphere was effectively limited by the universally accepted principle that all administration was essentially the mere fulfillment of duties imposed by Common or statute law. Such a principle left little or no room for the imposition of direct administrative control by the central government over local authorities. For all practical purposes, moreover, the machinery of control had been demolished when the Privy Council was stripped of its coercive powers in 1641. The eighteenth century was an era of almost complete autonomy for the local institutions of the country. Their duty was to carry out the law, and not to obey the commands of the central executive (Keir 1967: 234, 312).

We might recall the statement of Christopher Hill that "the destruction of the royal bureaucracy in 1640-1641 can be regarded as the most decisive event in the whole British history." To be sure, the Restoration did not leave British government without any centralized administrative apparatus. The fiscal machinery of the Exchequer, which was organized in a complicated set of offices and agencies with collecting, accounting, and auditing functions, and with a judicial tribunal for revenue matters, was a notably large establishment and became increasingly larger and more complicated after the Glorious Revolution. In the eighteenth century the collecting and administrative agencies of customs and excises employed more than 10,000 salaried servants (approximately three-fourths of all the Crown's officials). With few exceptions both sides of fiscal



affairs—receipts and expenditures—were under the central supervision of the Treasury Board (see Binney 1958: 3ff.). Yet functions and competences of this fiscal machinery as well as the status and outlook of its officials were in no way comparable with its counterpart in Brandenburg-Prussia.

The centralized administrative apparatus of the British government could not, even if it had attempted to do so, serve as a tool for the establishment of an arbitrary administrative law and as a medium for the creation of a *Polizeistaat*-machinery as was the case in Brandenburg-Prussia. Such attempts would have been checked by the post-Restoration changes which we have mentioned: the Common Law courts, which triumphed over the judicial power of the King and his government; the local authorities, which emancipated themselves further from the control of central government; and Parliament, which exercised control over the public revenue and public expenditure, beside its legislative functions. The representatives of these institutions traditionally opposed the encroachment of government upon the personal sphere of life. In 1689, for example, Parliament abandoned the recently instituted hearth tax on grounds of its being a “badge of slavery” contrary to the traditional freedom from governmental interference.<sup>56</sup> The taxation of movable property failed in practice over and over again for the same reason. The merchants, traders, manufacturers, and money men rejected vigorously the intrusion of governmental administration into business matters for purposes of tax assessment. Adam Smith only stated the popular opinion among these groups when he called such governmental attempts “an inquisition more intolerable than any tax” (*Wealth of Nations*), and remarked in a “Lecture on Justice, Police, Revenue and Arms” (1763): “It is a hardship upon a man in trade to oblige him to show his books, which is the only way in which we can know how much he is worth. It is a breach of liberty and may be productive of very bad consequences by ruining his credit . . .” (quoted by Kennedy 1964: 125). It is needless to go into further detail; obviously the Whig oligarchy was anxious to avoid encroachment upon the privacy of the business of those groups from which it drew its political support. Not only the constitutional and institutional framework, but also the prevailing ideological basis of the sociopolitical power

<sup>56</sup> It was considered “in itself not only a great oppression to the poorer sort, but a badge of slavery upon the whole people, exposing every man’s house to be entered into and searched at pleasure by persons unknown to him” (parliamentary votum; quoted by Kennedy 1964: 58).

elite prevented the central administrative apparatus of British government from developing a *Polizeistaat*-pattern.

For the contrasting case of Brandenburg-Prussia, we may well adapt Heckscher's statement and say that here (and in other German territories) the prince and his highest servants not only acted like mini-Colberts, but also created an "administrative machinery" which outdid that of the French in socioeconomic regulations and controls and wholesale bureaucratic encroachment on all affairs of life. The Prussian brand of bureaucracy has found in Otto Hintze and Hans Rosenberg its outstanding historiographers and interpreters. It was a bureaucracy which linked military, police, civil, and economic matters closely with its pivotal function, fiscal affairs and which developed a system of detailed regimentation (based on arbitrary administrative law), secret reporting, and cringing obedience. True, this system attained its prime object: the extraction of the material means and the human efforts "to support the army of a first-rate power on the resources of a third-rate state." Yet it was marked by "obstructiveness and trained mediocrity" (Rosenberg 1958: 194) selfish group interests in the name of the *droit de bienséance*, and last but not least by inefficiency despite—or better—because of an enormous amount of activities. Obedience is not the same as loyalty, and being effective does not necessarily imply being efficient. This may be illustrated by the fact that in a time of great financial stress Frederick the Great employed a French *Régie* for the collection of the Excise.

The Prussian "administrative machinery," armed with the confidence of possessing the know-how and the means to shape the economy and society in the right fashion, hampered economic development in practice, as government not only regulated and minutely controlled the economic sphere from above, but also entered the field of production and commerce by itself, setting up a host of governmental enterprises in various sectors. Quite often these enterprises proved to be unprofitable, despite the fact that they enjoyed many special privileges and advantages (see, for example, Kisch 1968: *passim*).<sup>57</sup>

<sup>57</sup> Due to the tradition of Prussian historiography, especially the so-called *borussische Geschichtsschreibung*, the function of the Prussian absolutistic bureaucracy as a motor power of modernization was and often still is, in my opinion, much overrated and usually praised without recognizing how strongly this absolutistic policy of modernization was an outflow of socioeconomic backwardness. By the same token, the limitations of this modernization policy was and still is overlooked, namely the fact,

The statement that the Prussian "administrative machinery" and the nature of the system in general hampered economic development is also relevant in regard to the agrarian system, and leads us to a third aspect. Under Prussian absolutism the landed Junkers not only maintained their patrimonial rights and, to a large extent, their tax privileges (among other privileges), but even enhanced their socioeconomic status by adding to their local patrimonial authority military authority over their peasantry. Rosenberg writes:

In the military establishment the private exploitation of delegated royal authority lived on for another half century in the particularly vicious and brutalizing form of "company management" (*Kompaniewirtschaft*). . . . Thus, until the military reforms after 1806, bureaucratic administration continued to be on a limited scale an object of private ownership and a source of personal gain within the "nationalized" domain of the Prussian state under the central direction of the king, who had staked his political fortune upon the army (Rosenberg 1958: 79).

As we mentioned earlier, the military, fiscal, and agrarian systems were so strongly interwoven that one part could hardly be changed without changing the others; one system reinforced the others. The effect was that the agrarian system of Brandenburg-Prussia had great difficulties in adapting itself to new agricultural techniques and methods of cultivation. The Junkers, led by their King, were well aware of new agricultural techniques and were eager to introduce them. But the petrified socioeconomic structure (land tenure, compulsory labor service, etc.) and the host of military/fiscal obligations in kind and services which rested upon the peasantry proved to be a barrier even after the so-called *Generalseparation*, designed to overcome these obstacles by separating the acres of the Junker's estates from those of his peasantry, was instituted in the second half of the eighteenth century.<sup>58</sup>

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that in reality the activities of the central bureaucracy often had more retarding than developing effects (see Gerschenkron 1970: 62 ff.); here Gerschenkron tries "to make plausible the proportion that, historically seen, the phenomenon of mercantilism can be usefully regarded as a function of the degree of economic backwardness of the countries concerned" (p. 62).

<sup>58</sup> The highly complex system of logistic provisions in kind and service by the peasantry as part of its fiscal obligations has to be evaluated as a chief barrier. These obligations were either unpaid or low paid; moreover, they confined the freedom of disposition in terms of working arrangements, working time and choice of cultivation. Despite several attempts to curtail these obligations the system remained vital until the

The contrasts with the agrarian conditions of eighteenth-century Britain were striking indeed. The landed gentry in Britain enjoyed no tax privileges; the land bore the bulk of direct taxation. However, the landed gentry and the other groups of larger landholders were compensated for their tax burden in various ways. In the first place, the landed gentry or "Squirearchy" was able to retain a firm grip on the local, administrative, and judicial authority but without using outdated feudal means such as patrimonial rights, villenage, or compulsory labor service. In the second place, the local assessors and acting commissioners of the Land Tax greatly favored the gentry and the larger landholders. This was due to the fact that the administration of the Land Tax differed from that of the other branches of revenues, inasmuch as the personnel that came into contact with the individual taxpayer was directly or indirectly appointed by parliamentary authority and not by the Crown (Binney 1958: 53). In the third place, the corn bounty scheme voted by Parliament was particularly designed to help the gentry and larger landholders, and not the smaller farmers. Most important, the new wave of enclosure, beginning around the middle of the eighteenth century and coming to an end in the early nineteenth, was in the interest of the landed gentry, who used their influence in Parliament, their local authority, and, if necessary, their Common-Law-court connections as well to overcome all opposition against enclosure and to reach settlements in their favor. The enclosure movement was an important precondition for the agrarian reforms of eighteenth-century Britain—a reform which was so successful that the term "Agrarian Revolution" is sometimes used to describe the whole sweep of changes, such as the new land tenure systems, the new crop rotations, the new crops, and the new cultivation methods.

By virtue of these reforms and innovations Britain's agricultural sector was able to meet the food demands of a rapidly increasing population in the eighteenth century. This was of great significance for Britain's balance of payments. As Knut Borchardt pointed out, the Industrial Revolution would have been hampered if the import of needed industrial raw materials had to be curtailed on the

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end of the *Ancien Régime* and was even enlarged in some instances. The system is much too complex to be outlined here. The main obligations were the provision of oats, hay, straw, pasturage, and *corvée* labor with cart and draught-animal. For a detailed description of these obligations for the electorate of Brandenburg, see Wöhner 1805: *passim*.

grounds of balance of payment difficulties caused by food imports. Besides this, the demand for industrial goods by the agricultural sector were crucial as stimuli for the so-called take-off. The agricultural reforms enabled the agrarian sector, up to the middle of the nineteenth century, to provide the bulk of direct taxes, and thus enabled the commercial and monied classes largely to escape direct taxation. The agrarian conditions of eighteenth-century Britain, so markedly different from those of Brandenburg-Prussia in terms of land tenure, labor supply, agricultural techniques, cultivation methods, and taxation, help to explain the fact that the Industrial Revolution came to England first. Let us paraphrase Christopher Hill's remark again: Britain's tax system of the eighteenth century "transferred wealth from the poorer and the landed to the monied classes."

This brings up a fourth aspect, namely the relationship between the monied classes and the laboring poor. The doctrine which arose in Britain in the second half of the seventeenth century that everyone should pay taxes but the richer more than the poor prevailed during the eighteenth century. The disputes over the taxation of necessities went on, too, reaching a climax in the earlier thirties when Walpole attempted to increase the Salt Tax (1732) and presented a new Bill of Excise (1733) in order to keep the Land Tax down. One new point of view was added in opposing taxes on necessities: this was the theory that taxes on the necessities of life are not really paid by the poor, who already live close to the margins of subsistence, but by their employers, who consequently have to raise wages. Taking into account the Poor Laws, an innovation of the Tudor government, on the one hand, and the prevailing subsistence theory about wages, on the other, the opposing point of view, stressed by commercial and manufacturing circles, gained ground and remained of importance up to the repeal of the Corn Laws in 1846. Thus behind this opposition stood the selfish interest of the monied classes rather than a welfare policy.

The counterview that the poor ought to be taxed as much as possible in order to oblige them "either to work or starve" was widely discussed too, but was less common as a rationalization for taxing the laboring poor than in Europe.<sup>59</sup> However, in practice the indi-

<sup>59</sup> Josiah Tucker (1750), quoted by Kennedy 1964: 117; Kennedy cites other sources in this connection. British colonial policy applied such maxim for the purpose of labor recruitment among natives. See for example, J. C. Mitchell, 1961: 193ff.; see also Mann 1943: 227.

rect and hence highly regressive taxes (Customs and Excise) produced about two-thirds of total revenue in peacetime. Despite the fact that in the last quarter of the eighteenth century various new levies on luxury commodities were introduced, wealth and capital, especially business profits and capital in trade, business, and industry, still remained virtually untapped. The laboring poor and the smaller landholders both were overtaxed. This had the effect of forced saving for the benefit of those groups, which were the motive power of economic development and the Industrial Revolution. The same effects derived from the expenditure side. About half of the expenses went into paying the interest on the national debt. "This was a shift of income from the mass with the higher propensity to spend towards the few with higher propensity to save or to spend on services" (Mathias 1969: 42).

In Brandenburg-Prussia the pattern of tax systems and correspondingly the socioeconomic effects were of a quite different kind. The politically curtailed Junkers, the mainstay of absolutistic monarchy, were supposed to serve their King with loyal devotion as army officers and civil servants. By virtue of their birth they enjoyed social, judicial, economic, and, at the local level, political privileges. Their favorable status as regards taxation was a part of these privileges, that is, a part of the Junkers' special rights by virtue of birth and rank, and has to be considered as a "consolation prize" (Rosenberg 1958: 120) for their integration into the power structure of Prussia's central autocracy.

The peasantry and the laboring poor bore a heavy burden. This was considered justified on the grounds of maintaining the existing social order and for ethical-moral reasons: to prevent the lower order from becoming idle, disobedient and demanding. Unlike in Britain, the potential motive power of economic development, the enterprising middle classes, not only paid their share of taxes, but were also hampered in their efforts by a host of governmental interferences and petrified, outdated regulations. To put it bluntly, Brandenburg-Prussian tax systems were designed for the benefit of an absolutistic state; it was a forced saving in the case for an absolutistic governmental, military, administrative, and police machinery, with the aim of shaping and maintaining the socioeconomic structure in the right and "just" proportion. The design was based on a *geburtsständische* social order (hereditary sociostructural setup). It was not until the Prussian reform period at the beginning of the

nineteenth century that this *geburtsständische* social order was seriously challenged by modern liberalism.

Certainly, in Brandenburg-Prussia this was a relatively slow process marked with setbacks and anachronistic survivals. In the long run, however, the peasantry were freed from being hereditary subjects bound to the soil of the estates; landed property became purchasable by all social groups; hereditary barriers to admission to certain professions or certain professional training were removed; nobles were no longer prevented by law (though in some instances by their code of honor) from taking part in certain economic activities; specific social groups were no longer covered by special laws; the manifold socioeconomic distinctions between countryside and city or town (in respect to taxation, economic regulation, etc.) gradually vanished; and so forth. The whole issue ultimately boils down to the relationship between individual, state and society. This leads us to a final aspect: the prevailing concept of society, state and individual in Brandenburg-Prussia and, in particular, in eighteenth-century Britain.

The enlightened absolutism in Brandenburg-Prussia was like a *Hamlet* without a prince of Denmark: an enlightenment without an individual or the concept of autonomous individual freedom. Fritz Hartung writes:

The defeats (at Jena and Auerstädt in 1806) could only have been so severe because enlightened absolutism generally denied active and free participation to its subjects as regards the affairs of state, claiming rather to command all affairs from above by minutely dictating to every subject his sphere of activity and keeping the subject within this sphere. Moreover, enlightened absolutism regulated the obligations toward the state by the principle of division of labor: only governmental officials and army officers were supposed to take an active part in matters of state, and not the rest of the subjects; the latter were supposed to pay taxes, and even in times of war to live up to the maxim that silent obedience was their primary obligation (*Ruhe ist die erste Bürgerpflicht*) (Hartung 1950: 238).<sup>60</sup>

<sup>60</sup> The original German goes as follows: "So vernichtend konnten diese Niederlagen nur dadurch werden, dass der aufgeklärte Absolutismus grundsätzlich auf die lebendige und freie Anteilnahme seiner Untertanen am Staatsleben verzichtete, dass er vielmehr alles von oben her zu bestimmen unternahm, jedem den Wirkungskreis genau vorschrieb und ihn darin festhielt, dass er auch die Pflicht gegen den Staat nach dem

This characterization of the spirit of Prussia's enlightened absolutism has to be evaluated against the background of what we emphasized earlier about the make-up of the bureaucratic machinery, the outlook of its officials, and the role of the state as the overall regulative principle, representing the *droit de bienséance*. Turning now to the British concept of society and state which came into being, in theory and practice, after the Civil War and prevailed during the eighteenth century, we may apply two catch-phrases for its characterization. The first is provided by William Kennedy; he calls it a "freeholder, non-functional conception of society" (Kennedy 1964: 180ff.).<sup>61</sup> In a sarcastic manner Christopher Hill labels the same phenomenon the "Ritz Hotel view of society"; he writes:

Locke's philosophy sanctioned a freedom based on property, a freedom with which the state must not interfere: a freedom which, like the doors of the Ritz Hotel, was open to rich and poor alike. "The clash and ferment of economic ideas," said Professor Wilson, "reflected the freedom of a society where trade was allowed to fight its case against the surviving remnants of feudalism: neither the freedom nor the ideas should be underrated as formative influence on economic growth." It was the end of medieval and Tudor conceptions of regulation and control (1967: 128ff.).<sup>62</sup>

The two characterizations are derived from two different interpretations of Locke's political philosophy. Kennedy assumes that Locke's individual rights refer to all men, and therefore sees a great discrepancy between theory and reality:

In its strict form, such as is found in Locke, every Englishman was supposed to be an individual of the freeholder type; but in

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Grundsatz der Arbeitsteilung regulierte und eine aktive Betätigung für den Staat nur vom Beamtentum und vom Heere forderte, die breite Masse aber auf das Steuerzahlen beschränkte und selbst in Kriegszeiten für sie die Ruhe als die erste Bürgerpflicht proklamierte."

<sup>61</sup> Kennedy writes: "Men entered into society in order to secure themselves in the rights which individually belonged to them; the state existed to provide this security; the rights to be secured were theoretically 'natural' rights, in practice conceived as the more general and characteristic rights guaranteed by English law; and all men having rights to be protected, which, though different in extent, were essentially similar in kind, every man was a free man and citizen. The basis of political obligation was that the state was necessary to, and in effect did, protect men's rights. Men were born not to functions or service but to rights or enjoyments. They were born freeholders or free merchant adventurers."

<sup>62</sup> Hill is referring to Wilson 1965.



fact, nothing was more untrue. English society was not made up of similar individuals each with similar property and other rights; a large part of it consisted of people whose property rights were very small or non-existent. This inconsistency of theory and fact led to an indefiniteness of feeling which appears in the seventeenth but was more typical of the eighteenth century. The freeholder view of taxation required that everyone should pay taxation; but men often felt that in some way the theory did not satisfy them when applied in practice; whence a sentimental and philanthropic pity for the poor, very different from the more robust attitude of the sixteenth-century moralist. Many other results were also connected with this inconsistency; as an instance take the *laissez-faire* attitude—dominant long before the day of the Philosophic Radicals—which assumed both that cotton operatives were independent individuals in the same essential conditions as mill-owners, and that small yeomen and wage-earning cottagers could be treated, in enclosing village lands, in the same way as lords of manors. It would probably not be incorrect to say that the whole range of social opinion in the eighteenth century was warped by this falsity in the Lockean conception of society (Kennedy 1964: 91).

According to C. B. Macpherson, author of the famous book *The Political Theory of Possessive Individualism—Hobbes to Locke*, however, it was not a “falsity in the Lockean conception of society,” but the very essence of this political philosophy: “Locke was assuming that only those with property were full members of civil society and so of the majority.” Locke’s constitutionalism therefore was “a defence of the rights of expanding property rather than of the rights of the individual against the state.” It was “essentially a defence of the supremacy of property—and not that of the yeomen only, but more especially that of the men of substance to whom the security of unlimited accumulation was of first importance” (Macpherson 1962: 252, 257f.). Christopher Hill’s statement indicates that he is in agreement with Macpherson’s view. For our topic the interpretation of theories is less important than the question of the reception of theories particularly by the sociopolitical power elite. It is quite obvious that the political ideas of “possessive individualism,” especially Locke’s philosophy, appealed to those groups which, toward the end of the seventeenth century, came to dominate political life in Britain

for generations: the upper class of nobles, gentry, men of property and money, "who thought property the central social fact" (Macpherson) and had, as we mentioned earlier, the controlling influence upon Parliament, Common Law courts and local authorities. The "possessive individualism" was designed to serve these groups as an ideological foundation for the rationalization of their sociopolitical status as well as their socioeconomic position.

We cannot enlarge on this theme, but one point might be added: it deals with the somewhat strange symbiosis between the classes of landed and monied property mirrored, for example, in the distribution of the tax load, the funding system of public borrowing, the enclosure acts, and the agricultural reforms generally. How could such a symbiotic relationship emerge and last well into the nineteenth century? How could these divergent interests be linked together by the same ideological fetter? According to Macpherson "Locke was very well aware that there were differences of interest between the landed men, the merchants, and the monied men, and that these differences came out particularly sharply in contests between them about the incidence of taxation." Yet Locke "could assume, as a man of property himself, that the common interest that propertied men had in the security of property was more important, and could be seen by any rational self-interested man of property to be more important, than their divergent interests as owners of land, of money, or of mercantile stock" (Macpherson 1962: 253ff.). It is of little surprise that in reality these kinds of thoughts led to a harsher treatment of offenses against personal property. Christopher Hill pointed out that between 1688 and the end of the eighteenth century "the number of offences which carried the death penalty rose from about fifty to nearly five times that number. The vast majority of these were offences against property. . . . A man was hanged for stealing one shilling, a boy of sixteen for stealing 3s.6d. and a penknife, a girl for a handkerchief. . . . By 1740 it was a capital offence to steal property worth one shilling" (Hill 1967: 182, 212). These harsh penalties were in conformity with Locke, who assigned in his *Second Treatise of Government* to the legislative and executive powers the "right of making laws with penalties of Death, and consequently all less penalties, for the regulating and preserving of property. . . ." (II.i.3). In addition, the tendency to regard the nonpropertied men as subordinate and to establish workhouses for the poor could also

be traced back to the Lockean ideas (about justifying slavery).<sup>68</sup> Thus, whereas the enlightened absolutism in Brandenburg-Prussia was an Enlightenment without individual freedom, Lockean tradition of "possessive individualism" implied that "full individuality was produced by consuming the individuality of others" (Macpherson 1962: 261).

Yet, "the doors of the Ritz Hotel were open": eighteenth-century British society was not a *geburtsständische* society of the continental European fashion but showed strong features of an "achievement" society where property rather than birth and hereditary social rank determined sociopolitical position and access to political power. Against this background arose English liberalism with its concept of society made up of independent individuals motivated by self-interest:

In the pages of Adam Smith classical expression was given to the already familiar view that the condition of national greatness was the liberation of individual energy, unhampered by anything more than an irreducible minimum of social restraint. The pursuit by every man of his own interest as he conceived it would result, it was assumed, in harmonies which would make regulation of national affairs by government action needless, and, if persisted in, harmful. The main business of government, on this view, was to clear away obstructions which impeded the free play of individual enterprise (Keir 1967: 369).

In looking for the causes and explanations of the fact that Britain became the "workshop of the world" and broke the path toward sociopolitical modernization, this concept of society and state must be considered as crucial. In practice the concept proved to be suited for the introduction of the necessary reforms which were prerequisites of these developments. A bureaucratic machinery of the central government was not the prime mover. Leadership reposed in those, who represented property (Parliament, Common Law courts, local authority). These were political amateurs rather than trained professionals, often even unaided by first-class technical assistants (Binney 1958: 253). Nevertheless, the handling of fiscal and financial affairs after 1688 indicates that the system worked relatively effi-

<sup>68</sup> By an Act of 1697 the recipients of poor relief had to wear a payer's badge and thus were stigmatized; an Act of 1723 gave the parish the right to set up workhouses.

ciently. J.E.D. Binney writes in *British Public Finance and Administration, 1774-1792* as follows: "It may be claimed with a reasonable degree of confidence that the English system (of public finance and administration) for all its acknowledged shortcomings, was superior to that of France or probably any other European State" (Binney 1958: 257).

Yet the socioeconomic changes of the Industrial Revolution called for reform. The system had to be reshaped in order to cope with the new problems, tasks and responsibilities: A new fiscal system, an enlargement and professionalization of central government and changes concerning the relationship between Crown, government, and Parliament as well as parliamentary reforms (redistribution of seats, reforms of the franchise) were part of this adaptation process.

Brandenburg-Prussia in turn entered after the defeats of Jena and Auerstädt into a period of reforms. They involved a reorganization of the military system, first attempts to alter the agrarian system, more freedom of trade, changes of the fiscal system, and public finance, as well as the promise of a constitutional monarchy. However, this reform period soon came to an end. The "Decisions of Karlsbad" (1819) marked the turning point. Promises remained unfulfilled, and in many instances the wheel of reforms was turned back. The following decades saw a liberal movement struggling for the creation of a constitutional monarchy and sociopolitical changes. Fiscal affairs and public finance played an important part in this movement, which came to a bitter climax in 1848.

#### *Some Final Remarks*

The empirical background of the foregoing two sections may serve for some general conclusions. Let us, first of all, sketch a few interconnections between taxation and the other topics of this book: military force, police, technical personnel, and food supply.

Clearly, the most significant interrelations are those between taxation, warfare, and military forces as many famous writers, among them Tacitus, have emphasized.<sup>64</sup> In 1793 Karl Heinrich Lang published a book about "the historical development of the German tax systems from the Carolingian time up to the present," where he attempted to prove that all changes of tax systems corresponded with foregoing changes of the military systems and techniques of warfare

<sup>64</sup> "Nam neque quies gentium sine armis neque arma sine stipendiis neque stipendia sine tributis haberi queunt"; quoted by Mann 1934: 288.

(see bibliography). Rudolf Goldscheid, a pioneer in the field of fiscal sociology who coined the term "Tax State," evaluated warfare as the "moving motor of the whole development of public finance." Hence, "sociology of public finance coincides largely with sociology of warfare," and public finance has therefore to be treated as "essentially a science of war and not of peace" (1926: 149). Though we reject these monocausal interpretations, we cannot deny that times of war played a prime role in the development of taxation and public finance. Even England with its favorable geopolitical position provides ample illustration. We might recall that the "Financial Revolution" after 1688 had to be evaluated against the background of the heavy financial burdens of the War of Palatine Inheritance (1688-1697) and the War of the Spanish Succession. The reforms of the financial and fiscal administration during the last quarter of the eighteenth century were connected with the War of American Independence. Pitt's introduction of the first income tax was a war-time emergency measure, because the financial strains of military expenses were so great that the century-old funding system seemed in danger of breaking down; at the end of the Napoleonic Wars the Parliament quickly abandoned this fiscal innovation.<sup>65</sup>

It hardly needs saying that the military costs were by far the largest item of the state budgets. They generally exceeded the sum of all the other public expenses, because we also have to add under this heading most of the public debt charges. These debts were mainly caused by war expenses. The resources needed for the task of securing the territory against interior and exterior threats were determined by a host of factors like: the prevailing military system, including schemes of recruitment, modes of armament, and traditionally required contributions of equipment by communities and individuals; techniques of warfare; geopolitical position; potential threats from outside caused by unensured territorial or dynastic claims; potential interior threats caused by the sociopolitical power

<sup>65</sup> The Tudors' finances were also severely influenced by war expenditure: In the fight with France and Scotland Henry VIII and Edward VI spent approximately three and one half million pounds for military expenses between 1539-1550. Only the extraordinary chance of selling a good deal of the newly acquired Church property saved the Crown from bankruptcy. In the last decade of the sixteenth century Elizabeth had to spend more than four million pounds for her forces in Ireland, France, and the Low Countries; consequently, she left her successor a heavy debt load and a further loss of the Crown's financial independence. Charles I's campaign of 1640 against the Scots amounted to more than half a million pounds and proved too much for the Crown's financial capacity (see Dietz 1932: 123ff.).

structure or the constitutional and institutional setting, including the legality of dynastic claims and their popular approval. Yet the actual amount of military expenses is only one side of the coin. For the development of public finance the qualitative aspects of military expenses are likewise important.

To begin with, the maintenance of a loyal and efficient military force caused a variety of hidden and indirect costs. The mode of extracting the necessary means in money, kind, and service had to be designed with a view to the loyalty and efficiency of the armed forces. Hence, the less the rulers had undisputed sources of income and the more their authority had to be based upon a loyal and efficient armed force, the more they were motivated to make costly fiscal and economic concessions to those who were the backbone of military strength. Characteristic features of tax systems like regional or social inequality in the distribution of the tax load and forms of levies or the structure of the tax collecting organs were determined by such military considerations. Tax exemptions of the nobles were traditionally justified by their military function; it was an old maxim that whoever pays with his blood does not have to pay with his goods. As mentioned before, the tax privileges of the Prussian Junkers were motivated by their pivotal functions as officers in the Prussian army. The Prussian tax reform of 1820 left the income of military personnel in active duty again untapped. It was not until 1849 that a royal edict declared the exemption of the military null and void (see von Beckerath 1912: 58ff.).

Times of war required not only large amounts of revenue; to be of use, the money had to be at the disposal of the ruler at the right time. This qualitative criterion determined changes in two directions: first, concerning the development of a tax system; second, regarding the raising of public loans and the funding of public debts.

From both the institutional and psychological point of view, times of war paved the way toward the innovation and less disputed acceptance of regularly recurring direct taxes, because direct taxes were better suited for quick returns than indirect ones, which came in much too slowly. Particularly poll taxes, window taxes, hearth taxes, and various forms of income taxes were favored for war purposes on the grounds of their assessment and collection qualities. Disraeli once called the income tax "a third line of defence" (Buxton 1888: vol. II, 170).

Times of war were even more important for the development of techniques of public borrowing and the handling of public debts. For the efficient execution of military actions the financial solvency of the ruler was of crucial importance, because the loyalty, fighting spirit, and alertness of the armed forces depended heavily upon ensured payment and supply. This refers not only to mercenary troops, but to the militia as well. In the period of modern state-building, where the military system no longer rested on the principle of clientship and the formation of a politically loyal militia based on popularly accepted military obligations of the subjects was at best in a nascent state, ready money was the pivotal point for every military success.

But the demand for ready money in a situation of emergency is always a costly affair; all the more, if the purpose is as risky as warfare usually is. For this reason the rulers were eager to hoard a state or war treasure, but with few exceptions (among them Prussia from the reign of the Great Elector until 1806) these efforts were only of limited practical success. In the period of modern state building the statement of Rudolf Goldscheid that "wars create bad finances and bad finances create wars" bears certainly more than a grain of truth (Goldscheid 1926: 157). Theoretically the ruler had a variety of choices to extract the needed means for war emergency: all sorts of loans by private creditors or public institutions (municipalities, estates, the Church) at home, including forced loans, or from outside the territory; the issuing of annuities; debasement of coins; the imposition of new taxes or brutal confiscation. In reality, however, the choices were determined by a host of factors like the motives of war, the chances of winning the war, the popular support behind the war efforts, and the approval of the warfare and the war motives by other rulers. Yet all modes of extraction were more or less expensive in terms of economic, social, and political costs. Forced loans or new taxes, for example, bore heavy sociopolitical risks; debasement of coins had dangerous economic and social effects; loans from private creditors (wealthy merchants, big commercial houses, court Jews) could usually be raised only by granting expensive concessions in terms of trading privileges, especially war supply privileges, mining rights, or the utilization of other economically valuable royal prerogatives like tax, customs and minting rights, or salt monopoly for a certain time period. Loans from public institutions could in gen-

eral only be obtained by paying a price in terms of political concessions. With a view to the actual situation the ruler had to set the economic point against the social and political one in deciding how to meet the task of war financing, if he had a choice at all. These efforts, which were indeed one of the crucial problems of modern state-building, were a moving force for the development of new schemes of private and public borrowing, new funding systems of public debts and new techniques for the amortization of public debts as well as public finance generally. As the changes from the so-called traditional pledge (*Traditionspfand*) to the so-called contract pledge (*Vertragspfand*), or, later on, to the development of state or semistate controlled institutions for the purpose of handling public debts, raising public loans, guaranteeing the supply of money and providing other functions in the field of public finance suggest, these innovations and developments, together with the fiscal ones, were an integrated part of modern state-building. In mutual interaction they determined the style-of-rule and the characteristic *habitus* of the state or nation in question. We have stressed the fact that the creation of the national debt in Britain, which was a function of war finance, and the entry of the government into the loan market by the development of a new funding system and the foundation of the Bank of England as an instrument of public finance had not only far reaching economic effects, but also was important for the whole sociopolitical setting, which came into being after the Glorious Revolution and prevailed for more than one and a half centuries. In Prussia such a system of public or national debt was lacking. However, the time of occupation and wars after 1806 brought an enormous financial burden. Hence, against tradition and still prevailing principles the Prussian government, under the leadership of Hardenberg, was also forced to create a national debt. This new system of public borrowing on permanent funded debt (together with a tax reform in 1820) was decisive in the efforts to overcome the financial strains and to regain a basis of sound public finance. Yet in the long run this new funding system also proved to be crucial in the constitutional struggle (guaranteeing of the national debt, fight for the right of budget control and so forth).

Yet the problem of extracting the necessary means for military and war purposes, of lowering the economic, social, and political costs in meeting these tasks, and, by the same token, of enhancing



the loyalty and efficiency of the armed forces involved other important aspects of modern state-building too. We are referring to ideological and sociopsychological aspects, i.e., to the indoctrination of the subjects with adequate value codes, behavioral pattern, public spirit and civic virtues. The following pointed statement of Rudolf Goldscheid gives us a key to approach these complex questions: "The 'just' tax and the 'just' war have the same social and rational roots" (Goldscheid 1926: 149).

This sentence draws attention to a twin process: On the one hand, the development toward a loyal and efficient militia based upon a system of universal or selective military service, which is obligatory and, as part of the duties of the subjects, virtually unpaid.<sup>66</sup> Samuel E. Finer in Chapter 2 deals with the slow and gradual formation of such a military organization. He emphasizes the fact that it was crucial in terms of loyalty, efficiency, and expenses to create a public spirit where these military obligations were performed not by the exercise of coercion but the exercise of persuasion, i.e., by the utilization of national or patriotic value codes, *Leitbilder*, behavioral patterns and virtues.<sup>67</sup>

On the other hand, the twin process involved the development of modes of extracting the means for military and war purposes. It was likewise a slow but crucial process to create the adequate institutional framework and a public spirit where these fiscal obligations rested upon popular consent, i.e., were considered as part of the public or civil duties. To regard both the conscription and the subscription of war loans as a patriotic obligation needed persuasion and indoctrination, which were based on the same ideological foundation. More and more, all subjects were destined to sacrifice their blood as well as their goods for their state, nation, or "fatherland." Universal conscription and universal liability to pay taxes as part of the civil duties increasingly became the prevailing principle during the nineteenth century. They rested on the notion of "equality of sacrifice" (S. E. Finer). We will see later how this notion corresponded with its counterpart, i.e., equality of political rights and socioeconomic benefits. At this point we may conclude that the military and times of war played an important role for the popular acceptance of universal liability to pay regularly recurring levies. Or to apply the terminology which S. E. Finer invented in his paper as "shorthand

<sup>66</sup> See Chapter 2 above.

<sup>67</sup> See Chapter 2 above.

notation": the military and times of war were significant in converting the "extraction-coercion cycle" into an "extraction-persuasion cycle."

The Brandenburg-Prussia case illustrates in an ideal-type fashion the interconnection with the second topic: police. The excessive growth of the police apparatus during the mercantilistic-cameralistic era was mainly caused by its fiscal functions. Primarily fiscal purposes motivated the minute regulation of and wholesale encroachment upon all affairs of life by governmental institutions. Thus, the institutional and functional interrelations between fiscal and police matters became a mainstay of the all-controlling system of the modern absolutistic state and served as an instrument for shaping the minds and consciences of the subjects with respect to their obligations toward the state. One of the values which had to be implanted in the minds and consciences of the subjects was the unquestioned consent to be liable for taxation. From this point of view the police apparatus, in the broad mercantilistic-cameralistic sense, became also a medium for converting the "extraction-coercion cycle" into an "extraction-persuasion cycle." The system of farming out tax collection could never have had this "educational" effect. On the other hand, during the crucial phase of state-building, the fiscal system and the fiscal situation of Brandenburg-Prussia required the linkage of the extraction apparatus with the police apparatus and the military organization. In Britain such a linked system of all-controlling state interference was absent. The fiscal system and the fiscal situation of Britain favored not centralism but localism. The assessment as well as the collection of revenues were traditionally carried out by local authority and the enforcement of revenue payment also belonged to the realm of local authority. The absence of a centralized apparatus of enforcement and control officers corresponded with the prevailing principle as far as state interferences were concerned. "Possessive individualism" fortified these principles. With a less favorable geopolitical position, however, Britain could hardly have managed to meet its fiscal tasks without a tighter enforcement and control apparatus as the reforms of the fiscal administration after the War of American Independence, which aimed in this direction, indicated (see Binney 1958: 1ff. and *passim*).<sup>68</sup>

<sup>68</sup> We might recall the Tudor tradition of handling the "own" resources by a centralized system of general surveyors and auditors, and using this fiscal apparatus as an instrument of nationwide royal control. Yet this fiscal apparatus as a fundamen-

The assessment, collection, and administration of revenues and the handling of financial affairs in general required special skills and loyalty. The difficulties of recruiting civil servants with adequate skills and guaranteed loyalty are indicated by the fact that up to the end of the eighteenth century the farming out of taxes and the employment of private persons, particularly court Jews, for the management of the financial affairs of the ruling Houses remained in practice. Even obscure international adventurers and projectors like Giacomo Casanova were engaged by princely rulers or high governmental officials to solve fiscal problems, to handle financial transactions or to raise public loans (see Casanova 1965: chaps. II, VI). Sophistication and skill in fiscal and financial matters, as early as the Late Middle Ages, became a vehicle to run a career as court official or councillor without the traditionally required prerequisites in terms of birth and hereditary social rank. The fiscal branches of government were marked by a high degree of professionalization and, as far as the recruitment was concerned, by the early introduction of merit systems, professional qualification requirements and entrance examinations. The General Directory of Brandenburg-Prussia, in charge of fiscal affairs, employed the bulk of those who studied "*Staats- und Polizeiwissenschaft*," i.e., a university curriculum which was designed for public service and dealt primarily with subjects related to fiscal matters. In the eighteenth century the orders of the Prussian kings as regards professional qualifications and training of public servants were mostly concerned with fiscal functions of the General Directory. Even the British government, which was marked by a relatively low degree of bureaucratization and professionalization of civil service, increasingly employed skilled professionals for fiscal, financial and trade matters, at least below the top level. The personnel of the Treasury and of the Board of Trade were

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tal part of the royal bureaucracy could not develop into the nucleus of an all-controlling state machinery. The royal bureaucracy was dismantled in 1640-1641 and the Crown lands shrank to insignificance. Once more it should be emphasized that the geopolitical position of Britain had in direct and, even more, in manifold indirect ways an important influence upon public finance in general, the way the increasing financial needs could be met, the manner the revenue were spent, and, last but not least, upon the socioeconomic effects and side-effects of taxation and fiscal policy. In short, a naval, mercantile society like Britain in the eighteenth century could raise and bear public outlays in quite a different way and with quite different effects from those in Prussia. In Britain especially the public outlay for naval purposes as part of the military expenses had quite a different impact upon the economic development and the socioeconomic changes from the kind and magnitude of military costs that Prussian society had to bear.

being chosen more and more for their professional qualifications. The Treasury took the lead in employing new recruitment methods by examining candidates for entry, and placing them on a year's probation if accepted. It was particularly Gladstone as Chancellor of the Exchequer who urged the merit of open competition, condemned patronage and reformed the administrative machinery with the help of experts. Like the administrative reforms of Pitt the Younger in the last quarter of the eighteenth century, Gladstone's efforts to reform the civil service around the middle of the nineteenth century, which marked the beginning of a new kind of bureaucracy, were mainly motivated by the attempt to economize the public service and rationalize the government's finance (see Keir 1967: 425ff.; Deane 1967: 211ff.). Thus, public finance and the fiscal branches of the government had to be evaluated as one of the crucial means in the process of bureaucratization and the development of a modern civil service performed by skilled professionals. The efficiency and loyalty of these "technocrats" were rewarded by social rise and political power. By virtue of their public functions, their educational background and their advantages in terms of know-how and information about public affairs, they increasingly became a fairly homogeneous power elite, with which the old power elite had to enter coalitions in order to maintain its political influence and sociopolitical position. In short, public service directly or indirectly related to fiscal and financial affairs was a nursery for the emergence of new power groups.

Taxation is in many ways related to the last topic: food supply. The commutation of tithes in goods and services into money payment as well as the audit and accounting techniques, cadastral measuring and other methods of calculation in relation with the assessment and collection of direct taxes in the agrarian sector brought subsistence farming closer to the market, promoted the monetization and commercialization of the agrarian sector and, as a side-effect, induced a spirit of *Rechenhaftigkeit* (accountability). On the other hand, outdated schemes of taxation, particularly tithes in goods and services, could severely hamper the pace of agricultural adjustment and progress by preventing the introduction of new crops and new crop rotations or the innovation of new agricultural techniques. The cases of Britain and Brandenburg-Prussia provide ample illustrations of how the amount and the mode of extracting money, goods, and services from the various social groups which were engaged in

growing food, preparing food for the market and distributing food stuff, had an impact upon food supply and demand. This refers to direct taxes as well as indirect ones.

As far as the direct taxation is concerned the case of Britain shows that changes toward a growth- and market-oriented agricultural production could be reached despite the fact that the agrarian sector had to contribute a disproportionate share of direct taxes. The British land tax system had no built-in barriers against innovations, reforms and expansions. It was not, like the Prussian fiscal system, interconnected with the military and agrarian system, which reinforced and petrified each other and hindered the development of modern commercialized agricultural production. Moreover, England did not know, as Prussia did, the complex and in its economic effects very far-reaching system of the provision of various goods and services mostly but not exclusively for military purposes by the peasantry, for little or no payment, as part of its fiscal obligations—a system which remained vital until the end of the *Ancien Régime* and was even fortified and enlarged in some instances during the eighteenth century.<sup>69</sup> The British Land Tax, which grossly favored the larger landholders, in combination with the corn bounties and other acts of Parliament, especially the enclosure acts, formed a dynamic promoter for the development of large-scale commercialized farming. We might recall that the growth of agricultural production enabled Britain to meet the food demands of a rapidly growing population in the eighteenth century and to carry up to the middle of the nineteenth century the bulk of direct taxes. The Prussian tax reform of 1820 in turn favored again the agrarian provinces and the large landholders. Thus, the agrarian sector, dominated by the old power elite, the landed nobles, received a kind of forced development aid from those productive sectors and those provinces which struggled for the industrial “take-off.” This is one of the indications that the coalition between the old power elite and the new one, the bureaucracy, was strengthened after 1820 (see Koselleck 1967: 529ff.). The main barriers to a modern commercialized agricultural production, however, were removed during and after the so-called Reform Period by changing the military, fiscal and, though in a slow process, the agrarian system.

Indirect taxation has an impact upon food supply from the side of demand: Customs and Excise duties on necessities as well as an in-

<sup>69</sup> See footnote 54 above.

flationary monetary policy of the state and other factors depressing real wages affected the nourishment pattern of the growing mass of people, who depended entirely for food supply upon their earning capacities. It is therefore no wonder that indirect taxation, formerly praised as a just means of distributing the tax load, became in the nineteenth century more and more a vital policy issue and the special target of the early working-class and labor movements in Britain and Prussia. Around the turn of the century Britain shifted from an exporter to an importer of grain. Hence, the corn bounties lost their functions and were abolished in 1814. New Corn Laws were introduced to protect the agricultural interest: "In 1815 the existing sliding scale of duties which permitted the imports of corn to vary with the market price was abandoned in favor of absolute prohibition up to a certain price level and duty-free admission above that price. For the next thirty years the Corn Laws were one of the key issues in British social and economic policy, a symbol of the conflict between rich and poor, between agriculture and manufacturing industry and between free trade and protection" (Deane 1967: 191). The movement for repeal of the Corn Laws (revised again in 1828) developed more and more into a "crusade" (Phyllis Deane), but was not successful until 1846, when a disastrous famine swept Britain and particularly Ireland. The repeal of the Corn Laws was the most dramatic and decisive step toward free trade.

This economic policy emerged in the 1820s after tariff rates had soared during the war and postwar years to reach a peak in 1822. But the lowering of the tariff duties could not go very far without an alternative source of revenue. The choice was the imposition, or rather reintroduction, of the income tax in 1842: "The income tax, originally called into existence as a weapon of war, was now to be used as an engine of peace. The repeal of the income tax in 1816 had delayed for many years commercial and financial reforms, its reimposition in 1842 gave them a great impetus" (Buxton 1888: vol. I, 55). It cleared the path for free trade policy and for redressing the unequal pressure of indirect taxation. In the following years the duties on a host of articles were dropped or lowered, culminating in the dramatic repeal of the Corn Laws in 1846.

Certainly, the lowering of the indirect tax burden gave perceptible relief to the laboring poor. Its yield and its proportion of the total revenues increased steadily; correspondingly, the proportion of indirect taxes fell, but amounted at the end of the nineteenth cen-

ture still to half of the total revenue receipts. As an engine of fiscal reforms the income tax proved successful. At first temporary in nature it was renewed over and over again despite heavy opposition and eventually became a permanent institution. However, it seems no coincidence that a peacetime Income Tax was imposed at a time when wages at least of the upper strata of the working classes began to rise and the attitudes of the employers to living wages and subsistence theories had changed (see Coats 1958). It could therefore be expected that more and more wage earners would reach an income above the exempted minimum level (at first 150 pounds a year) and thus be available for this direct mode of taxation.

In Prussia the need to jettison a multitude of Customs and Excises was even greater than in Britain. The cost of their collection was high (in some instances they outweighed the extracted revenue), and they affected severely trade and commerce. However, the tax reform of 1820 introduced for the larger towns and cities a new indirect levy, the so-called *Mahl- und Schlachtsteuer* (Milling and Slaughter Tax or Corn and Meat Tax). This highly regressive form of taxation fell upon town and city people who had to buy their food. Consequently, they had to change their nourishment pattern by substituting high quality food, i.e., corn and meat, for lower quality food, particularly potatoes. Despite widespread and heavy criticism the *Mahl- und Schlachtsteuer* survived the tax reform of 1851.

Yet the Prussian tax reform of 1820 not only brought the urbanized laboring poor an immense tax burden, but also wrung out of the lower orders outside the larger towns and cities through a new direct tax, the so-called *Klassensteuer* (Class Tax), a highly disproportionate share of revenues. This *Klassensteuer*, designed as a four class-model (each of these four classes was soon divided into three subgroups) attempted to represent and, by the same token, to stabilize the prevailing social structure of the Prussian society. It was based on an anti-Estate concept inasmuch as it covered with few exceptions all subjects, even the civil servants.<sup>70</sup> The selective criteria were not birth but property, education and occupational functions. The effects of the *Klassensteuer* were manifold: the assessment practice, for example, brought the monied and landed interest as well as wealth and education closer together; manual work fell into the two

<sup>70</sup> Only the military personnel, the schoolmasters, the pastors, the midwives, and the *Standesherrn*, as well as those who were covered with the *Mahl- und Schlachtsteuer*, were exempted (see von Beckerath 1912: 58).

lower tax-classes and thus was stigmatized. But the most important was that the *Klassensteuer* grossly favored the upper strata of society and hence widened the gap between rich and poor, and promoted pauperism. The lowest tax-class bore the bulk of the tax load, amounting in the years 1821–1826 to 43.3 percent of the total and rising to 49.4 percent in 1845. The share of the first class, on the other hand, was in the years 1821–1826 only 3.6 percent and rose slightly to 3.8 percent in 1845. An indication of increasing poverty may be seen in the fact that the contribution of the lowest subgroup of the lowest main class rose steadily: from 18.2 percent in the years 1821–1826 to 22.9 percent in 1848. The reports of the fiscal organs in the years preceding the revolution of 1848 were full of complaints about the difficulties of collecting the taxes of the laboring poor, even when the hardest measures were applied (see von Beckerath 1912: 15ff.; Koselleck 1967: 537ff.).

The creator of the new tax system of 1820, J. G. Hoffmann, motivated the immense tax burden of the working classes and the lower order of society with an educational goal. The masses should bear the main tax load in order to take an interest in the affairs of state and to become implanted with a spirit of public responsibility and obligation (Koselleck 1967: 534). This educational function as a rationalization of the grossly regressive direct and indirect mode of taxation sounds rather ironic considering the fact that the lower strata of Prussian society traditionally had to bear the bulk of taxes, were subject to a selective conscription system, and, most important, lacked political compensations for their obligations and duties: they still were underprivileged in terms of political participation.

The longer it was in effect, the more the tax system of 1820 came to be a sociopolitical leavening ferment, which added considerably to the unrests climaxing in the “mad year” of 1848. A revision of this tax system was widely discussed in the years preceding the revolution. The liberal movement used it as a political means in the struggle for still unfulfilled constitutional promises. A certain success could be expected: in 1846 a royal order promised to summon the *Vereinigte Landtag* (Joint Provincial Assemblies) for the central purpose of a tax reform. Governmental officials prepared a new concept of taxation. With a view to the British tax reform of 1842 (imposition of the Income Tax), the governmental plan attempted to supplement the old scheme of direct taxation by an income tax for the wealthier. In 1847 the *Vereinigte Landtag* met, rejected the gov-



ernmental proposal, and begged the king to be presented with a revised version. This decision of the *Vereinigte Landtag* proved decisive in preventing a drastic reform of the Prussian system of direct taxation for decades. Social upheaval broke out and was suppressed by military force; a constitution was imposed from above, and soon afterward, likewise imposed from above, a provisional census-suffrage for both Assemblies was instituted (a high census for the First Assembly and the so-called *Dreiklassenwahlrecht* for the Second Assembly). With taxation liabilities as criteria for enfranchisement and graduated political participation, the discussion and struggle about tax reforms became linked with the discussion and struggle about a permanent system of suffrage and hence became a central political issue. At first, only these political functions and not fiscal ones were the pivotal point. On the basis of the proposal of 1847, the government again worked out plans for introducing an income tax; even a progressive scale (from 3 percent to 5 percent) was suggested. However, these plans met with heavy opposition. Particularly the reactionary First Assembly proved to be an obstacle. In 1850 financial distresses added fiscal motives to the political ones; for both political and fiscal reasons a quick decision was now crucial. The landed nobility, high finance and the wealthier business groups could in this situation water down the governmental plans, because without their support, no taxation bill could pass the Assemblies, especially not the first one (*Herrenhaus*). The result was that the new tax system which was approved in 1851 by the two Assemblies was nothing more than a shadow of the governmental plans: the *Mahl- und Schlachtsteuer* was not repealed. As regards the direct taxes a revised *Klassensteuer* covered incomes under 1000 *thalers* a year; for incomes above this level a so-called *klassifizierte Einkommenssteuer* (Classified Income Tax, scaled in thirty steps) was introduced (the amount of tax liability in the highest class of this Classified Income Tax was 600 *thalers* a year). The new tax system of 1851 brought some changes toward a more equal distribution of the tax load, but was still to a high degree regressive in nature and favored particularly the highest income groups, i.e., those which at the same time gained the most in terms of political participation and influence. The members of the First Assembly were no longer elected by a census-suffrage but chosen for lifetime by the King. The members of the Second Assembly were elected by the *Dreiklassenwahlrecht*, a system of census-suffrage, which increasingly favored the landed nobility

and the well-to-do generally. Erwin von Beckerath writes: "The stricter the principle was applied to base political rights on tax liabilities, the more the plutocratic character of the *Dreiklassenwahlrecht* became evident. Until the early 1890s a step forward in terms of taxation meant at the same time a step back as regards the political structure of the society" (von Beckerath 1912: 93f.).

We cannot enlarge upon this theme: a whole set of changes in connection with the new constitution of 1848 followed in the realms of the judiciary; the military system; the provincial, communal, and municipal administrations; the educational system; and the redemption of traditional obligations of the peasants, to mention only a few. Nor do we have space to sketch the sociopolitical developments in Britain. Our brief outline of the Prussian tax reforms of 1820 and 1851 was primarily intended to guide us back to the general remarks of the introduction by illuminating once more the multifunctional character of fiscal policy.

Long before the great turmoil and reshuffle of the French Revolution and the Napoleonic era, taxation had ceased, in practice if not in theory, to be a voluntary contribution for times of emergency. With more or less popular acquiescence, and more or less arbitrary in nature, taxes had become a regular and compulsory institution at least for most of the subjects. In the nineteenth century, however, the duty to pay taxes universally became defined as part of the new civil obligations and was established firmly in the new constitutional settings. This constitutional anchorage together with the emergence of a wave of national solidarity on the one hand, and the development of more sophisticated techniques and institutions for assessing and collecting the various levies, for handling public debts and managing public finance on the other, clearly enhanced the "presumption of solvency" of the state and hence eased the extraction problems (Mann 1933-1934: 16).

As we indicated earlier, a divergence existed between the new set of civil obligations and the new set of civil rights and sociopolitical benefits. The postrevolution period up to the twentieth century became marked by contests for redistribution of these two sets. By virtue of its multifunctional character fiscal policy played a decisive role in this struggle. Thus, let us close this essay by travelling along this "functional rope."

The social function of taxation and fiscal policy, so widely discussed in the mercantilistic-cameralistic literature in relation with

the goal to shape the social structure into the "just" proportion, was approached in the nineteenth century with quite different aims. More and more it was seen as a means for equalizing social class differences and as a tool of social reforms to mitigate the social costs of industrialization and economic changes. True, this role of taxation and fiscal policy was questioned and opposed by the ruling classes, particularly those who represented the monied interest. As part of their *laissez-faire* doctrine they denied the function of taxes as instruments of social reforms and social control; they advocated the so-called Leave-them-as-you-find-them-rule: taxes should have purely fiscal goals, which was, of course, a purposeful fiction (Mann 1933-1934: 4). In the long run, however, the social role of taxation and fiscal policy gained ground in theory and practice. Especially since the middle of the nineteenth century, a redistribution of the fiscal burdens can be recognized in the direction of a less regressive and later on, as far as direct taxes were concerned, even progressive taxation. By developing the system of direct taxes, the income and wealth of the well-to-do people could more adequately be tapped. Admittedly, this was a slow process marked with setbacks (not to speak of the manifold possibilities of legal and illegal tax evasion by the rich). This trend was fortified by the expenditure side of fiscal policy. Increasingly the state used its receipts for social overhead investments: education, public health, social welfare, and so forth. Public spending of this kind might be called "progressive" in nature, because those who pay less taxes are the main beneficiaries of this outlay. At the same time, however, public spending in the field of infrastructural developments increased: canals, turnpikes, railways, harbors, navy, and so forth. These are investments which certainly can be regarded as being in the interest of the commonweal; yet they usually bring more direct and indirect gains for the monied and landed interest and might therefore be called "regressive" in nature. In short, it is hard to evaluate how far overall public spending actually supported the goal of redistributing income and wealth by taxation and fiscal policy. In any case, the ruling classes had ample possibilities to subsidize their increased share of tax burden by influencing the public outlay.

Since they were usually not a homogeneous group in terms of economic and therefore fiscal interest, the ruling classes used both the receipt and expenditure side of fiscal policy to find balanced settlements of these diverging interests. The compromises were crucial in

order to act jointly as a political power elite. This indicates the reciprocal relationships between the social and the two other functions of taxation and fiscal policy: the political and economic.

The political functions of taxation and fiscal policy became particularly evident in the constitutional contests of the nineteenth century. Tax reform, the ceiling of the guaranteed public debt and the question of budget control were crucial in the struggle for increased representation of the people. This refers to the relationship between government and legislative bodies. As regards changes in the system of suffrage and political participation, fiscal affairs were likewise important. In Britain the fiscal reforms of the 1840s had to be seen against the background of the parliamentary reform of 1832 with its extension of the franchise and its redistribution of seats. The parliamentary reforms of 1867 and 1884, which brought further extensions of the franchise left also their marks in the field of fiscal policy. The claims of the newly enfranchised groups of the lower strata of society enhanced the pressure for more distributive justice of both the revenue and the expenditure side of fiscal policy. Yet the Prussian case indicates that fiscal policy has a Janus-face: it can look both ways. The Prussian tax reforms of the nineteenth century serve as examples of how changes of tax systems could be connected with the limitation of the franchise, the graduation of political participation, and the preservation of privileged political positions.

We might recall that the cameralistic government attempted to shape the economy in the "just," i.e., proportionate structure with the help of fiscal policy. The receipt and expenditure side were supposed to serve as tools for extracting and redistributing blood from and to the organs of the body. In practice this meant that the economic life was marked by a whole network of governmental regulations, restrictions, controls and interferences. In addition, the government itself took an active part in the economic life by managing its "own" resources: the domains, mine- or saltworks and even manufacturing enterprises. The classical economic theories rejected this role of the state and its corresponding economic functions of fiscal policy. Economic activities of the state were branded as unproductive. The "Leave-them-as-you-find-them-rule" referred to economic as well as social matters. Of course, this was likewise a purposeful fiction; fiscal policy always affects the economy. The wide reception and the durability of these maxims are well known. They had a great impact upon fiscal policy in the nineteenth century, and their influ-

ence can be felt up to the present time. They served not only as a rationalization of the ruling classes to oppose the encroachment of economic life by government (where such governmental interference was unwanted), but also provided the chief motivation in keeping the "public hand" poor. Indeed, one of the characteristic features of public finance of our era (disregarding the socialist countries) is the fact that the "public hand" remains poor and the public debt is mounting despite an immense increase of public revenue.

On the other hand, a trend towards increased state interference into economic life has to be recognized. The economic depressions of the late nineteenth century and the war economy of the First World War set the pace; the worldwide economic crisis of the early 1930s, the reception of new economic theories and the war and post-war economic problems brought the final breakthrough. "Planned Economy" lost a good deal of its stigma. Both the receipt and expenditure side of fiscal policy became chief instruments of the anti-cyclical steering mechanism of the government.

We have attempted to show some interrelations among taxation, public finance, sociopolitical structure and modern state-building. According to Schumpeter, "the public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life. . . . The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare—all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to the message here discerns the thunder of world history more clearly than anywhere else" (J. Schumpeter 1954: 7). It is the multifunctional character of fiscal policy which gives this approach its central place in the analysis of sociopolitical structure and modern state-building, both in terms of "the causal importance of fiscal policy (in so far as fiscal events are an important element in the causation of all change) and of the symptomatic significance (in so far as everything that happens has its fiscal reflection)" (J. Schumpeter 1954: 7).