

INSURANCE CONCEPT AND OTHER STATE THEORY BY A. H. G. WAGNER

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Abstract

In 2025, 190 years will pass since the birth of the German national economist, member of the second generation of the younger German historical school and co-founder of the socio-legal school A. H. G. Wagner (1835 – 1917). In the spirit of departmental socialism, he promoted partial reforms of capitalism. He was an expert in public finance, believing that an ideal society could be built through financial instruments. The text is reminiscent of Wagner's insurance and other financial and state theories framed by his organic or social concept of the national economy and the state. According to Wagner, every social economy consists of the private and state sectors. At the same time, he referred to the general development tendency as the constant increase in the weight of the state sector. The Act on Increased State Activity is named after Wagner, or the increasing share of public spending. Wagner associated state interventionism with ensuring social justice for the workers. The article is an original historical study that analyses primary texts and other available literature, and uses description, comparison, contextualisation, and deduction methods.

Key words: German historical school – A. Wagner, state financial theory, Wagner's socio-legal school, state interventionism

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Introduction

A. H. G. Wagner, member of the second generation of the younger German historical school and co-founder of the socio-legal school, belonged to the conservative critics of classical political economy. His concept is supposed to overcome the mechanical-atomistic understanding of the economy by classical political economy in the sense of a mechanically conceived sum of individual economies, connected by exchange and the market. Wagner builds on the dualism of the so-called individualistic system and the system of state coercion. The state is interpreted as the subject of extensive economic activity, which cannot be explained solely in individualistic terms. According to Wagner, the forerunner of mixed economy theories (as

part of a conglomerate of old theories of the transformation of capitalism), every social economy consists of the private and state sectors. At the same time, he referred to the general development tendency as the constant increase in the weight of the state sector. The Act on Increased State Activity is named after Wagner, or the increasing share of public spending.

Based on these principles, Wagner considers the application of three organisational principles and the existence of three corresponding economic systems. From this, the necessity of state interventions for the benefit of economically weak social groups and the necessity of expanding state activities within the capitalist limits of the so-called state socialism are deduced. At the same time, the state should have a specific mission in the social field. Wagner associated state interventionism with ensuring social justice for the workers.

An important part of Wagner's economic theory is financial theory, especially tax theory, with the demand for progressive rates of direct taxes. Wagner elaborates on the issue of the redistributive effects of taxation. At the centre of attention of his insurance theory is the question of the nationalisation of the insurance industry and the theoretical foundations of insurance techniques. Wagner called for the operation of most insurance by publicly funded insurance institutes and supported compulsory insurance of people with low incomes by applying social considerations and state subsidies. Wagner's approach to the individualisation of insurance premiums (rejecting the unconditional justification of the individualisation of insurance premiums according to the risk associated with the respective insurance subjects) and to social (labour) insurance may be interesting. Some interpretations even connected Wagner's insurance theory with the theoretical origins of socialist insurance in the former USSR.

1 Academic and political activities of Wagner

Adolf Heinrich Gotthelf Wagner (25 March 1835 - 8 November 1917) was born in Erlangen as the son of a professor of physiology. He grew up in Göttingen and studied law and political economy at Heidelberg University and the University of Göttingen (1857 doctorate). He taught at the higher business schools in Vienna (1858-63) and Hamburg (1863-65). From 1865 to 68, he worked at the Imperial University of Dorpat in Livonia, where he supported Bismarck's German unification policy. In 1868-70, he held the chair of chamber music at Albert Ludwig University in Freiburg. In 1870, he was appointed head of the department of political economy at Friedrich-Wilhelm University in Berlin, which he held for 46 years. This coincided almost exactly with the duration of the German Empire, 1871-1918, of which he was an ardent supporter, advisor, and critic. His successor in Berlin was Wagner's student W. Sombart.

Wagner was influential as an author of textbooks, monographs, and political pamphlets and a teacher of senior civil servants in Prussia (Wagner, 1876, 1892-94; Wagner, 1886; etc.). He was an explosive choleric, with a combative, harsh temper. He quarrelled with E. Dühring, which resulted in Dühring's dismissal from the university. He also had quarrels with colleagues (Schmoller, Brentano).

Wagner served from 1872 on the Society for Social Policy, a professional organisation that sponsored many studies on economic and social conditions and became the driving force behind many reform measures. Around 1877, Wagner's activism in this society declined as most members favoured his more moderate social liberal views over his socially conservative reformism in the form of state socialism. Wagner actively joined the anti-Semitic Christian Social Party in 1871, which he left in 1896. In 1882-85, he served as a conservative deputy in the lower house of the Prussian parliament. From 1885, he reduced his public activities in favour of academic work, except membership of the Evangelical Social Congress and, from 1910, life membership of the upper house of the Prussian parliament.

Wagner is often classified as a representative of the social philosophy of state socialism as a specific form of departmental socialism - a current with views on the state's social policy, with affiliation to the university teaching community.¹ Wagner rejected, primarily for ethical reasons, the liberal doctrine of laissez-faire as well as Marxism and other variants of socialism. He did not seek the elimination of capitalism, but its partial reforms. In doing so, he agreed with much of the socialists' critique of capitalism. He was also a proponent of agrarianism (Wagner, 1902).

Wagner was among the younger generation of the German historical school, but he maintained an eclectic position in the dispute over method and sympathised with the Austrian subjective psychological school. Particularly in the second half of his career, he devoted considerable effort to developing and teaching what he called the *Grundlegung*, a system of principles of political economy.² He conceived of these more as a framework of basic concepts and classification schemes than as a method of economic analysis. Wagner's modifications of classical economic theory were mainly concerned with economic sociology in generalising socio-economic data. They consisted, for example, of a careful distinction between property types and an economic motivation analysis. Wagner stressed the importance of historical-legal categories in economic life, regarding the distribution of wealth and income. This historical-legal approach, combined with his basic social philosophy, provided the theoretical foundation

¹ Departmental or state socialism can also be classified as small-scale social reformism - cf. (Sirůček, 2022).

² Cf. e.g. (Wagner, 1876, 1892-94).

for a comprehensive system of economic, social, and fiscal policies by which the state was to cure, prevent, or compensate for the specific evils of the modern industrial and commercial private economy (Vybrál, 1937).

2 Increased state activities according to Wagner

Although Wagner accepted a social and economic order based primarily on private property and a high degree of private decision-making, he gave the state a significant role in social and economic affairs. He believed this would achieve a morally satisfactory and stable reconciliation of individualist and socialist principles. According to Wagner, the state should not only redefine property and contractual rights and obligations but also own and manage certain industries (e.g., railroads). It should correct economic processes through protective tariffs, progressive income and inheritance taxes or social insurance schemes.

Wagner was one of the conservative critics of classical political economy. His conception was intended to overcome the mechanistic-atomistic understanding of economics by classical economics in the sense of a mechanically conceived aggregate of individual economies linked by exchange and the market. Wagner built on the dualism of the individualistic system and the system of state coercion. He interpreted the state as the subject of large-scale economic activity that could not be explained in individualistic terms alone. According to Wagner, as a forerunner of mixed economy theories,³ every social economy consists of private and state sectors. In doing so, Wagner identified the general developmental tendency as the steady increase in the weight of the state sector (Wright, 1993).

Based on these principles, Wagner formulates three organizing principles and considers the existence of corresponding economic systems.⁴ From this, the necessity of state intervention in favour of economically weak groups and the necessity of expanding state activities within the capitalist limits of state socialism are deduced. The state is interpreted as a social organism that is supposed to decide on the satisfaction ratio of individual and collective needs. With priority given to the promotion of collective needs. The state is supposed to have a specific mission in the social sphere. Wagner associated state interventionism with achieving justice for workers.

The law on the increasing share of the public sector, or the increasing share of public spending with income growth, is named after Wagner. Wagner observed this in his own country

³ As part of a conglomerate of old theories of the transformation of capitalism - cf. (Sirůček, 2025).

⁴ By economic systems he meant the private economic, general economic and charitable systems.

and subsequently elsewhere. The function of the state is to expand with the progress of civilisation. The principle is closely related to industrialisation. He predicts that an increased share of public expenditure will accompany the development of an industrial economy. The advent of modern industrial society increases political pressures for social progress and the promotion of social aspects by industry. Economic development leads to an increase in government revenue and hence expenditure, where the government cannot ignore the demands of social groups (Peacock & Scott, 2000).

The increased activity of the state is a consequence of its social action, administrative and protective function and the social function of the state. More generally, the reasons are socio-political (the social functions of the state are expanding over time, e.g. pension insurance, disaster relief, environmental protection, etc.), economic (with the development of science and technology, there is an increase in government procurement of science, technology, investment projects, etc.) and physical (the state is resorting to government borrowing to cover unforeseen events, there is an increase in debt servicing expenditure, etc.). The ambiguous Wagnerian formulation⁵ as well as the questionable empirical evidence of support for the law in developed⁶ and developing countries has been criticized. Wagner's generalisation is based on a limited data set, and numerous exceptions or reversals can be found in the history. In general, however, the prevailing view is that subsequent developments have not refuted Wagner's Law. The policies recommended by Wagner in relation to public finance and social legislation have contributed to the trend described above. The question remains, however, whether these recommendations were based more on moral and political choices than on objective historical necessity.

3 Public finance expert

An important part of Wagner's theory is financial theory, especially tax theory, with the demand for progressive direct tax rates. Wagner elaborates on the redistributive effects of taxation. Wagner's work set the stage for developing Germany's monetary and credit system and influenced central bank policy and financial practice before World War I.

In public finance, he applies a historical-legal approach and his views on policy. *Finanzwissenschaft* (1871-72, 1877-1901) is filled with organised statistical material and historical and contemporary comparative descriptions. It was increasingly based on Wagner's system of principles in later editions. The book broke with older and narrowly fiscal or

⁵ Cf. e.g. (Wagner, 1890, etc.).

⁶ Cf. (Peacock, Wiseman, 1961), where the Act is intended to describe British public expenditure in the period 1891-1955.

cameralistic views and integrated public finance into a whole of economic and social conditions and policies. Wagner advocated that the taxation system should not only aim at the efficient provision of public revenue, but should also serve the second and ultimately overarching socio-political purpose of correcting the distributive inequities of the market system towards greater equality. Progressive income and inheritance taxation - and in general the taxation of "*unearned gains*" - should be based on criteria of distributive justice. Which is linked to the expansion of the public sector.

In the sense of a cardinal element of the general economic system and the national economy, Wagner describes the tax as an institution of a communist character. This corresponds to the socio-political purpose of the tax, which redistributes the unequal income distribution. The state is supposed to be obliged to establish an "*absolute tax obligation*" on the basis of tax eligibility. Which Wagner identifies with the Anglo-Saxon principle of equal sacrifice. Thus, the state is supposed to raise financial resources by fulfilling social policy programmes. In the context of Wagner's law, tax principles for the financial policy of the state were defined. These are principles of financial policy (sufficiency of the principles and their flexibility), national economy (selection of the appropriate source of tax, selection of the appropriate type of tax), tax justice (tax universality and uniformity) and tax administration (certainty of taxes, convenience of tax collection, minimum overhead associated with collection).

Another important group of Wagner's works - on the borderline between theory and practical economics - dealt with monetary and banking theory and policy. In his dissertation and other works (Wagner, 1862; etc.), Wagner sympathised with the banking school, extolled the merits of T. Tooke, and expressed distrust of "*paper money*". Wagner's reflections on the dangers of an inelastic money supply were to have some influence on the legislation of the new German central bank (Reichsbank) of 1875. Other areas in which Wagner made important contributions include public transport, social insurance, tariff policies, urban rents, "*moral statistics*", and the non-mathematical statistics theory (Wagner, 1864).

4 Wagner's insurance theory

The reformist ideas of departmental socialism are reflected in Wagner's doctrine of taxation's social and political purpose and insurance theory and policy. The question of nationalising the insurance industry and the theoretical foundations of insurance techniques takes centre stage. Wagner classifies insurance as an industry that meets the same requirements for state management as communications and railroads. He called for the operation of most

insurance by public-law insurance institutes and supported compulsory insurance of the poor with the application of social considerations and state contributions. In the context of insurance techniques, the approach to individualisation of premiums is interesting.

Wagner operates with the concept of insurance as one of three methods of dealing with adverse circumstances. In addition to prevention and repression, they are to be carried out as public activities, mostly paid for by public funds. All methods are to be organically linked (e.g., by combining factory inspection, sickness care, and insurance). Wagner's demand to nationalise most of the insurance industry is derived from assessing the contemporary functioning of insurance institutions. In doing so, however, he distances himself from a consistent nationalisation according to the requirements of the social democracy of the time.⁷

Wagner points out the specifics of the insurance business and the fact that in competitive conditions, joint-stock insurers usually displace mutual and public insurers in the market. Wagner uses capitalist insurance to illustrate the shortcomings of private-capitalist organisation, where disorganising free competition results in national economic losses (high administrative costs, tying up labour and capital, etc.). Compared to the concentration and unified management system in large public insurance institutions.⁸ Another argument in favour of public insurance is the economic and technical nature of insurance. The insurer is essentially only an intermediary within the pool of insured. The resources and capacities of the state (or municipalities) are a greater guarantee of compliance with the obligations of the insurer than the capital of joint stock companies.

Wagner progressively rejects the general correctness of risk classification,⁹ including the rejection of the unconditional justification for individualising premiums according to the risk associated with the relevant items of insurance. He proposes modifications to the risk classification system along the lines of partial distributional reforms while maintaining capitalism. Wagner argues that risk tends to be significantly dependent on overall conditions, including social and economic organisation and the outcomes of social or class struggle. From this, he draws the necessity of moving away from the exclusive application of risk classification in a number of insurance spheres, in order to achieve positive national economic effects. He discusses the rigidly individualistic nature of private insurance e.g. in fire insurance, in personal

⁷ Cf. (Wagner, 1881).

⁸ A well-managed public insurance industry discusses its existence, the conditions in the different insurance sectors, and the conditions in the respective country and time. Fire insurance for immovable and movable property, insurance for persons, and agricultural insurance (least suitable being marine insurance) are supposed to be suitable for the public insurance industry. Wagner advocates provincial and metropolitan state insurance institutes. With regard to the insurance of persons of means, he considers private insurance to be generally sufficient.

⁹ Cf. (Wagner, 1881 i.).

insurance¹⁰ or draws conclusions for social insurance. With suggestions, e.g., regarding the subsidisation of workers' insurance. Social (workers') insurance for Wagner includes sickness, accident, disability, old-age, and survivors' (widow's and orphan's) insurance. Unemployment insurance is recognised but not mentioned because of difficulties in implementation. Wagner places considerable emphasis on compulsory insurance, which it recommends for fire insurance for dwellings and households and for basic insurance for workers (workers and civil servants).

Wagner's insurance theory was even associated with the theoretical foundations of socialist insurance in the USSR (Schütte, 1966), including, for example, the socio-political differentiation of insurance premiums as an instrument of economic and social policy during the New Economic Policy period (when poorer peasants paid lower premiums or were exempted). According to (Vostatek, 1984), however, this was a Western interpretation of Soviet insurance that did not correspond much to theory or practice in the former USSR. Nevertheless, Wagner played an important role in insurance theory. His proposals accepted that the laws of development of a given stage of socio-economic development are also manifested in insurance, yet they provoked considerable opposition in the period, arguing that this was an unreasonable concession to the socially weaker.

Conclusion

Wagner's systematic, thorough and comprehensive interpretation of economic theory is appreciated. His influence among his contemporaries was considerable, but his combining of scientific and ethical-political aspects in the spirit of departmental socialism was strongly criticised. Under the Weimar Republic, Wagner's works were forgotten, except Finanzwissenschaft. After the rise of fascism, Wagner was celebrated but also condemned as a precursor of National Socialism and interpreted as a National Socialist (Wagner, 1912; Clark, 1940). However, Wagner's social conservatism or state socialism shows fundamental differences from Hitler's concept of national socialism. Wagner's economic and political recommendations were aimed at preserving, restoring and strengthening Prussia - Imperial Germany - in the face of revolutionary economic, social and political changes. It had a certain success in its time, but it was limited in time. Wagner's social philosophy did not satisfactorily synthesise individualism and socialism. Inspirations can be linked to lessons for, for example,

¹⁰ The classification system rejects the following for fire property insurance. On the contrary, it recommends it as appropriate for fire insurance of factories. It makes similar recommendations for hail, animal and property insurance. The application of the classification system is expected to lead to significant societal damage in personal insurance. With reference, for example, to the dependence of life expectancy on the social status of the individual.

newly developing countries or those trying to reconcile the old order with the forces and challenges of modernity or postmodernity. In the context of the German Historical School, the influence of Wagner on Czech economic thought is mapped by (Loužek, 2001).¹¹

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¹¹ (Loužek, 2001) mentions the influence of Wagner on J. Kaizl or A. Bráf, who also dealt with financial issues, etc.

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