CHAPTER THREE

The Search for Mutual Accommodation, 1848–1857

“This parvenu form of wealth, this most colossal creation of modern industry, this peculiar economic mongrel, whose feet are rooted in the earth but whose head rests on the stock market, gives aristocratic land ownership a mighty rival and the middle class an army of new troops.”¹ In this statement of 1862, Karl Marx tried with the help of mixed and stretched metaphors to describe the importance of railroads for the ascendant business class in Europe. Yet railroads after 1848 were no longer the exclusive domain of private capitalists. Unlike the two decades preceding the revolution of 1848, when entrepreneurs enjoyed uncontested leadership in railroad ownership, during the 1850s they vied with the state for control of the business. In 1848 the Prussian government neither owned nor administered a single kilometer of rail. By 1860 the state owned 1,494 kilometers of rail and administered an additional 1,270 kilometers of private rail, controlling 49 percent of Prussia’s entire rail network of 5,674 kilometers.² Competing with the business class to control policy and profit in the railroad industry, the state changed the entrepreneurial dynamics of railroad building.

The tension that developed between railroad businessmen and the government arose from the economic importance of railroads. Massive capitalization and profits reveal the preeminent role of railroads in the industrial revolution. Railroad investment in Germany between 1850 and 1873 represented one-quarter of all investment.³ In 1849 the 107 million thalers invested in Prussia’s nineteen private railroad companies netted profits of 9,271,084 thalers; in 1856, 273.25 million thalers netted profits of 24,083,604 thalers; and by 1866, 499.5 million thalers produced 65,789,856 thalers in net profit.⁴ The magnitude of such figures emerges more clearly when we know that the average cost of starting up a coal mine—no small business venture—was around one million thalers in the 1850s and that the Prussian state debt in 1850 stood at 156 million thalers.⁵
The socioeconomic importance of railroads was, however, even greater. Besides employing tens of thousands in construction, maintenance, and administration, they also created a new heavy machinery industry—mostly factories for locomotives, passenger cars, and freight cars. In 1842, the Borsig machine works had produced eight locomotives; by 1858, the company had made one thousand. Iron production soared with the growing need for rails and machinery. Coal consumption rose 183 percent between 1850 and 1860 in Prussia, owing largely to the growing demand for railway fuel and material. Whereas in 1844 80 locomotives and 666 freight cars carried 2.5 tons of freight, in 1856 more than 742 locomotives and 14,648 freight cars carried 170,518,617 tons. Prussia's developing railway network produced new social realities: stagnation or prosperity for villages, towns, and whole provinces depended on access to railway connections. For good reason economists refer to railroads as the “leading sector” in Germany’s first industrial revolution and call the long-term upward business cycle from 1840 to 1873 the “railway-Kondratieff.” As the undisputed key to national wealth in the “age of capital,” railroads provide an opportunity to study the political dynamic between government and business interests.

During 1848–66 the relations between government and private enterprise passed through two business cycles of approximately nine years each. Both cycles were demarcated by depressions, in 1846–49, 1857–59, and 1866–67, the first and third of which were complicated by significant political events (revolution and war, respectively). Each cycle can be subdivided into similar stages—a period of weakness and recovery in which entrepreneurs were dependent upon the state (1848–52 and 1857–62) and a period of renewed strength in which they were inclined to assert their independence from it (1853–57 and 1862–66). The progress of these cycles is particularly evident in the railroad industry. This chapter studies the first nine-year cycle (1848–57); chapter 7 will examine the second (1857–66).

1848–1852: Recovery and Direct State Intervention

August von der Heydt’s acceptance of the trade minister post in the Brandenburg-Manteuffel government at the end of 1848 surprised many contemporaries. He had been a vocal advocate of the constitutional movement in the Westphalian diet of the 1830s, the Standing Committee in 1842, and the United Diet in 1847. Because his past political career ran counter to Manteuffel’s agenda, his acceptance earned him much scorn. But Heydt’s “liberalism” needs to be examined more closely; it stood closer to conservatism than many of his contemporaries believed. Although the young Heydt advocated pro-
gressive reforms such as the annual assembly of provincial diets, the right of petition, civic equality for Jews, and a constitution for Prussia, these reforms could be reconciled with a “thoroughly conservative mindset, which was the case in the house of von der Heydt.”

The foundation of this conservative mindset was the family’s Calvinism and its profound respect for monarchy. Heydt’s father (also named August) was a particularly stringent Calvinist whose two other sons, Carl and Daniel, led a large number of Elberfeld coreligionists to secede from the state church when it proposed a new liturgy in 1847. These “Wuppertal separatists,” notes historian Jonathan Sperber, “would be politically the most extreme conservatives and Prussian royal loyalists in the entire Rhineland during the 1848 Revolution.”

Certainly August von der Heydt was affected by the conservatism of his family’s Protestant sect, just as he was by the family’s ties to the Hohenzollern family. Heydt, in fact, developed personal ties to the crown prince, highlighted by Friedrich Wilhelm’s two visits to Heydt’s house in 1842 as monarch. Accordingly, the king appointed him in 1845 to head a commission to reform laws on currency transactions in the Customs Union. Hence, when Heydt embarked on a phase of loyal opposition in the period 1842-47, espousing moderate reform, it aroused little suspicion in Berlin.

Before the revolution Heydt publicly admonished the government that it should alter its positions on the Rhenish penal code and on biennial convenings of provincial diets, but his fealty to the monarch was above reproach. His opposition consisted of anchoring Prussian monarchy in constitutional legality.

The king, however, felt betrayed by Heydt’s persistent support for a constitution and his opposition to the king’s religion patent at the United Diet in 1847 (which sought to place Jews in a separate estate), but this contretemps was resolved by a long missive from Heydt that defended his actions as behavior consummate with his allegiance to the king. Heydt clearly drew the line between reform and revolution, having no sympathy whatsoever for democracy or republicanism. In 1848 he refused to run for the constituent assemblies in Frankfurt and Berlin, stating that he could not reconcile these political bodies with his belief in legal continuity. And certainly the course of the revolution in the Rhineland deepened his dislike of popular democratic politics and its excesses. He was a cofounder of Elberfeld’s Constitutional Club, which sought to check the radical politics arising in the Rhineland. Elberfeld democrats publicly ridiculed him with a charivari (Katzenmusik) in August 1848, and his brother Daniel was taken hostage and extorted for money by an angry mob in Elberfeld in May 1849. In sum, having passed muster with his relationship to king and state, Heydt’s experience in municipal and regional government in addition to his skills in banking and commerce made him a thoroughly qualified choice to succeed David Hansemann as trade minister.
“This moderate, elegant, adroit banker possessed a background that made him unassailable for nobles and government officials.”

For a private banker, one whose banking establishment (Heydt-Kersten & Sons, est. 1754) was among the Rhineland’s leading lenders of credit to merchants and manufacturers, Heydt’s advocacy for state railroads appears odd. Although Heydt made large profits from railroads as a director and as a banker in the 1840s and 1850s, he nonetheless viewed state participation as indispensable. As noted in the last chapter, the Rhine-Weser and Elberfeld-Witten projects of the Elberfeld commercial community collapsed in the 1830s because of the shortage of capital. These early impressions perhaps molded Heydt’s view that the state, in enterprises of unprecedented capitalization, was the essential instrument for economic improvement.

In contrast to his fellow Rhenish bankers and entrepreneurs, Heydt believed, furthermore, that the state possessed the right to direct the economy for its own purposes and should therefore never relinquish the controls of strong state paternalism. As minister, he proposed a more ambitious bureaucratic apparatus to regulate economic activity. Equating modernization with bureaucratization, Heydt’s statism advocated the expansion of the regulatory and promotional roles of the state—an economic corollary of the state’s increased political control. In this regard his philosophy as a bureaucrat scarcely resembled the older Prussian mercantilist tradition, which was more modest in dimension, and largely differed with the Prussian Reform-Era philosophy, which sought to efface the state’s presence in the private market. Rather, Heydt’s views were part of a broader historical trend in the 1850s, when the Austrian, French, and Belgian states took a more interventionist role in the economy. Promoting the state ownership of railroads, Heydt believed, served the dual purpose of encouraging economic growth in the private sector (for example, the newly liberalized coal industry) while integrating industrial development with the commercial, fiscal, and military interests of the state.

And yet portraying Heydt either as a progressive practitioner of Bonapartistic statism or as a forerunner of modern-day state interventionism is only half the story. Equally important in explaining Heydt’s zeal for state railroads was his love of power. As this book will amply show, he was an extremely talented administrator who, in turn, was entrepreneurial in accumulating greater spheres of jurisdiction and influence. In his career as a public servant he antagonized not only the business world but also other ministries. He was consistently at loggerheads with the finance ministry, whose ministers Karl von Bodelschwingh (1850–58) and Robert von Patow (1858–62) advocated budgetary accountability and minimal state paternalism in a private market economy. Heydt, on the other hand, as the ambitious head of a new ministry, interpreted his duties broadly, bending laws and encroaching
upon state revenues as benefited his ministry. To be sure, Heydt's calls in the 1840s to check arbitrary government actions with constitutional legality were not always consistent with his actions as a minister. Biographical accounts of Heydt overestimate his regard for parliamentary control over government action. Succinctly described, Heydt was the consummate empire builder. And because bringing railroads (the most capitalized sector in the Prussian economy) under the aegis of the trade ministry became his pet project, it is difficult to separate his own personal ambition from his railroad policies.

Heydt, then, enthusiastically adopted Hansemann's plan of a state railway system, albeit in modified form. Toward this end he attempted to negotiate a government takeover of the Rhenish Railway in the winter of 1849. Heydt believed the company was in desperate financial straits and that stockholders would welcome converting their shares into state bonds. Reluctantly, company directors acceded to the proposal and asked for 4 percent interest on the conversion from company common stock to state bonds. Heydt offered lower, believing the company had no choice but to accept. The directors held out for a better offer, and when the stock market slowly recovered over the course of 1849, they called off the deal. Once financial markets visibly improved, the directors and major stockholders decided to keep the company private.20 By 1849-50 it was clear that the quick killing envisioned by Hansemann was no longer possible.

In the years 1849-53, plagued by low freight revenues, high construction costs, and obligations to pay dividends, private railroads struggled to stay out of debt. In this unstable period the government played a major role in aiding railways with financial problems, including six in the western provinces of Westphalia and the Rhineland. Railroad companies started in the 1840s in these two industrially advanced provinces now had their solvency threatened by the catastrophic business years of 1846-49. In three instances, the railroads were uncompleted lines that declared bankruptcy during 1848. Two of these were Rhenish lines, the Aachen-Dusseldorfer and the Ruhrort-Crefeld-Kreis Gladbacher railways, with which the state agreed in 1849 to finish construction, administer business upon completion, and guarantee dividends, gaining in return an option to purchase the company shares at par whenever it wished.21 The Köln-Minden-Thüringer railway in Westphalia, however, was completely bought out in 1849; the state indemnified stockholders, dissolved the private corporation, and renamed the railway the Westphälische Staatseisenbahn.22

Owing to similar financial difficulties and an inability to pay dividends, the Berg-Mark railway, the important Ruhr line that connected Elberfeld, Hagen, and Dortmund, agreed to come under state administration in 1850.23 The state already owned 25 percent of Berg-Mark's stock, and because the railway connected with the state-run Aachen-Düsseldorfer line, it became a
logical choice as administrator. In 1853 the state would add both the Prinz Wilhelm and Cöln-Crefeld railways to this Ruhr-Rhine network, making the state a major railroad administrator in the western provinces next to the large private networks of the Cologne-Minden and the Rhenish railways.

In addition, the trade ministry agreed to guarantee 3.5 percent dividends on stock issued by other companies desperately in need of capital. The stock guarantees to such large, established companies as the Rhenish, the Cologne-Minden, the Stargard-Posen, and the Upper Silesian railways enabled them to pay salaries punctually and continue the construction of branch lines. The government believed that this government support benefited all railroad companies, for it propped up assets on the sagging securities market and restored general confidence in future railroad investment. The state guarantees, in short, helped companies stave off further disaster until the mutually reinforcing relationship between iron production, coal mining, commercial manufacturing, and railroad transportation brought business back to prerevolutionary levels.

Although neighboring railways in the Rhineland complained that state-administered lines and state-subsidized dividends in the area would hurt their stock quotes, investors more generally believed that the state action of either honoring partial value of the company paper or offering subsidies was the best deal to salvage these ill-timed ventures. By stepping in and aiding these fledgling start-ups, the trade ministry was fulfilling its expected role of augmenting private enterprise with state support. Only the state could afford to resuscitate lines that were not economically viable in the short term. These actions by the trade ministry were in line with the expectations of the business class when the ministry was created in 1848.

And yet the early relationship between businessmen and the trade ministry was not without problems, chiefly because of more far-reaching plans for state ownership being hatched within the government. Heydt developed a long-term plan to achieve a state rail system through gradual purchase of private railway stock and through the construction of new state lines.

The key to a state railroad system was public moneys. The new constitution of December 1848 had created a legislature whose Chamber of Deputies possessed the power to approve loans and budgets. Thus the Prussian government's decreed constitution solved the prerevolutionary dilemma of raising loans large enough to build railroads. With the National Assembly in Frankfurt dissolved and the Erfurt parliament not yet convened, the Prussian Chamber of Deputies debated in December 1849 a thirty-three million thaler loan to build the Eastern Railway as well as to complete two unfinished lines in the regions of Saarbriicken and Westphalia. As noted earlier, liberals in the United Diet had rejected a government request for a loan to build the East-
ern Railway. With a constitutional government in place, the Chamber of Deputies now backed the Eastern Railway with little hesitation. The ministry viewed the other two lines as commercially and militarily important and argued for their completion as a national task. The Prussian parliament approved the loan package on 20 December 1849.

A significant stipulation accompanied the bill’s passage. The Chamber of Deputies’ Railroad Committee announced that the government must “use every possible means” to transfer all Prussian rail into the hands of the state. The Chamber, repeating arguments advanced in the Standing Committee in 1842 and in the United Diet of 1847, gave its full approval for the government to pursue a policy of state ownership and supplant the “mixed system” of the 1840s that presumed the leadership of the private economy. Although advocacy of railroad nationalization was intermittently popular among elected officials in the decades after 1848, the commission’s report of 1849 was the Chamber’s most pronounced statement of support for state railroads between the years 1849 and 1866. The Chamber’s enthusiasm for state ownership reveals the pessimism among public circles and businessmen over the problems of private ownership.

And yet when Trade Minister Heydt launched an aggressive supervision of the industry, railroad businessmen criticized and resisted the ministry’s claim to shape policy in the industry. In 1849–50 Heydt compelled Prussian railways to schedule night mail trains. Because the ministry issued the order during a time of heavy financial losses, many companies protested bitterly. We shall see in chapter 4 that this issue became a significant confrontation between private railroad companies and the trade ministry. The government levied fines and threats of suspension for those who refused to comply, and Heydt filed lawsuits against three railways that persisted in their refusals. The government occupied the Bonn-Cologne railway, replacing its privately employed administrators with state officials for a month until the company relented.

Private companies also resisted Heydt’s orders to aid Police President Karl von Hinckeldey and Minister of Interior Ferdinand von Westphalen in discharging employees involved in the 1848 revolution. The government’s order that company presidents draw up lists of politically questionable workers was met with a poor response, prompting Heydt to turn the task over to the Royal Railroad Commissions, the government administration supervising railroad affairs. Considerably less informed about company employees and their histories, the commissioners’ inquiry into railroad personnel and their politics produced meager results. In several instances, railroad companies refused to discharge workers believed to be politically undesirable and reinstated workers fired on orders of the government. In 1852 stockholders
of the Düsseldorf-Elberfeld Railway ignored the governmental wishes during the reactionary period and elected a director who had played a prominent role in 1848, prompting Heydt to nullify the election. Although companies eventually acceded to certain government wishes, their capitulation was grudging and carried out only as a result of repeated threats and monetary fines by the ministry. During the years of acute political reaction, 1851-54, private railroad companies, headed predominately by moderate liberals, did not cooperate with attempts of the Prussian state to purge business and bureaucracy of democrats. The general reluctance to comply with the government's new political direction provoked Heydt to carry out a protracted effort in the king's cabinet from 1853 to 1857 to classify private railway officials as "indirect state servants" for purposes of security.

The most salient example of government-business friction in the early 1850s was the controversial government takeover of the Lower Silesian-Mark Railway in 1850-52. Against the wishes of both directors and stockholders, Heydt replaced the private administration of the Lower Silesian Railway with state officials in 1850. Because the company was one of the largest and oldest railways in Prussia, the incident raised the question of whether the trade ministry wished to work with railroad companies or subsume them. Whereas government takeovers in previous cases had been viewed largely as benevolent—mostly because they rescued unfinished railroad projects depleted of capital—contemporaries deemed this takeover as an unnecessary, hostile intrusion into the affairs of private business. The government justified the takeover with a technical stipulation in a state loan to the company which allowed the state to manage the company if it failed to turn a profit in three years. The company complained that it was grossly unfair to expect a profit in 1847 or 1848 and attributed the losses of 1849 largely to the expense of running Heydt's night trains.

Heydt's action was undoubtedly part of his nationalization scheme. The profitable Silesian line between Berlin and Frankfurt a.O. became the center for a large network of state-owned railways built in the eastern provinces over the next decade. In 1852 Heydt dissolved the company as a private business and incorporated it into the Prussian state railway system. The company contested both Heydt's final appropriation of the company by executive fiat and the stockholders' vote he later manipulated to approve the state takeover. The first two civil court appeals backed the company's claim; the third (in Berlin) ruled in favor of the state. The trade minister had won his case and in the process revealed his intent to use the legal, political, and economic leverage of the state to weaken the power of private management and assume control of Prussia's railway system. The incident sat well neither with entrepreneurs, whose projects seemed at the mercy of an arbitrary minister, nor with investors, who were denied a lucrative option on the securities market.
By the end of 1852, the government owned 912 kilometers of rail and administered an additional 332 kilometers of private rail. The 2,113 kilometers of independently operated, private rail overshadowed the state-owned system (63 versus 37 percent), but it was, by all calculations, a formidable start.\textsuperscript{38} The trade ministry had made good use of this recovery period after the Revolution of 1848 to establish the state as a railroad power.

1853–1857: A Mixed Legacy

The years 1853–57, the most prosperous of the decade, were a period of unparalleled expansion in manufacturing, mining, and overseas trade. The railroad industry also prospered, yet because Heydt’s ministry consolidated its power over railroads, railroad entrepreneurs described their success in qualified terms. The ministry not only increased the mileage of state railroads through more takeovers, but it also exercised greater indirect control over private companies through its supervision of company charters, stock issues, bonds, and the use of foreign capital. Although the mileage of private rail still exceeded that of the state, the trade ministry’s restrictive supervision and expansionist designs put railroad directors in a defensive position.

The trade ministry put new revenues to work to accelerate its nationalization plan. In May 1853 the Chamber of Deputies enforced the railroad tax, a provision of the 1838 law that had never been implemented because of economic crises of the mid-forties. The levy was progressive and drained off profits exceeding 5 percent from private railroad companies that had borrowed from the state.\textsuperscript{39} These so-called extra-dividends flowed into a fund controlled by the trade ministry designated exclusively for railroad nationalization through gradual stock purchase. Thus the profits of private railroads would fund their own eventual demise. This was indeed bitter fruit for such efficient, profitable companies as the Cologne-Minden and Upper Silesian railways, which together over the course of the 1850s contributed over four and a quarter million thalers in extra-dividends.\textsuperscript{40} As we shall see in Chapter 6, the passing of this tax produced lengthy debate in the Chamber where Georg and Karl von Vincke and their faction of old liberals protested the intrusion of the state. In the king’s cabinet, Finance Minister Karl von Bodelschwingh strongly objected to Heydt’s control over the fund independent from the state treasury. In spite of parliamentary and ministerial opposition, Heydt secured by means of the railroad tax additional revenue for quicker acquisitions. The purchased railways, Heydt stated, would “ensure the state a property of immeasurable worth.”\textsuperscript{41}

State regulation of transportation reached new heights in the mid-1850s, encroaching on private administration of railroad companies in a number of
ways. In 1857 the government introduced renewal funds for private companies, an additional sinking fund to supplement the already mandatory reserve funds. The latter was a stipulation of the 1838 railroad law that required companies to set aside a portion of annual profits (from .5 to 1 percent of total capitalization) for renovation. Although the additional fund added more security to company assets, it also restricted private railways from offering higher dividends in order to maintain a competitive profile on the stock market. The fairness of the trade ministry's ordinance appeared especially questionable when it was not enforced on all state-owned railways. The exemption of some state railways from the sinking fund clearly put private railways at a disadvantage.

The trade ministry intensified its supervision of private management in several different ways that companies interpreted more as interference than regulation. Heydt transformed the once perfunctory requirement of having all annual dividends approved by the government into a rigorous ordeal, often denying petitions from companies to issue higher dividends. In addition, he insisted that railroad companies publish their profits monthly and punished those directors who refused with heavy fines. Further, company directors needed permission from the trade ministry to issue bonds or a new series of common stock, the negotiations for which were long, arduous, and not always successful. Even worse for railroad directors was dependence on the trade ministry to guarantee company bonds and preferred stock, a power that Heydt used to his advantage.

Moreover, the trade ministry favored the state lines by denying new charters to private companies. To cite but one example, the extension of the Rhenish lines southward to complete the north-south axis in western Germany was delayed at least five years, in part because of military considerations (Cologne and Coblenz were fortress towns), but also because Heydt hoped to win the concession for the state system and deny it to the Cologne-Minden and the Rhenish railways. Overall, during the period 1849–62, the government allowed only two new railroad companies to be founded, rejecting dozens of petitions to build or extend lines. The shortage of funds and the difficulty in placing shares on the market were Heydt's standard excuses, but this answer was not consistently credible during 1850–57, a period when ninety-four joint-stock companies (coal mines and iron works making up fifty-nine of these) placed shares amounting to over 107,985,699 million thalers with little difficulty. It was not the stock market but rather state aims that frustrated both domestic and foreign businessmen in their effort to construct and administer private railways.

Although the Prussian state's interest in owning and administering its own network of rails in all provinces put private railroad interests at a disadvantage, in some cases it helped railroad investors sell unprofitable lines. In
the years 1849–55, for example, the state attempted to take over the Münster-Hamm railway, a small line in Westphalia. The Münster-Hamm was a private line of less than thirty kilometers that was sandwiched between a Prussian state line on one end and the Hannoverian state railway on the other. Because this stretch logically figured in with the governments’ planned network of state lines, the directors and stockholders approached the government with an offer and drove a hard bargain. The negotiations began in May 1849 and were finally ended in 1855; the terms of sale to the state consistently changed to keep pace with the improving stock market and to fetch a higher price. In 1849 the company approached the state ministry offering the sale of its stock at 70 percent; in 1850, the terms were raised to 86 percent and an additional dividend guarantee of 3.5 percent; and by December 1853, the company agreed to sell the railway for state paper yielding 4 percent. The tenacity and persistence of the company nettled state officials, who broke off negotiations three times before finally accepting the deal in 1855. Because the average dividend rate stood at 2.6 percent between 1849 and 1853, investors received a generous settlement. Unlike the Lower Silesian–Mark takeover, this private company was not opposed to state ownership or government takeovers; the stockholders were merely opposed to an unprofitable transaction and knew that they had the upper hand in negotiation.

Overall, businessmen raised little general objection to state involvement in railroads in the early 1850s, for they assumed that the state would serve business needs. This expectation was partially fulfilled. By 1858, for example, the state administrated over 46.7 million thalers of Rhenish private railways, whose average dividend return was 1.37 percent. Privately administered railroads in the Rhineland, on the other hand, capitalized at over 81.1 million thalers (chiefly the Köln-Minden and Rhenish railways) received an average 5 percent dividend. Over the course of the 1850s the state had become the caretaker of indispensable but unprofitable private railways. This curious mixture of private capital and state management in Germany’s leading industrial sector is a feature that has not been satisfactorily integrated into the discussions on the role of the state in industrialization.

Objection to state involvement arose in particular instances when businessmen believed that government policy served only the state. Businessmen believed the state was unnecessarily aggrandizing its administrative influence when the state-managed Berg-Mark Railway absorbed the Düsseldorf-Elberfeld company or retarded the expansion of such profitable lines as the Rhenish and Cologne-Minden railways because of conflict of interest. Similarly, the Stargard-Posen railroad shrugged off the state’s attempt to enlarge its role in the railway. The company was contractually obliged to accept state administration in 1851 following three consecutive subventions to the company.
from the government to guarantee a 3.5 percent dividend. But the company shareholders, in spite of government pressure to vote for a government takeover, voted against complete state control in 1855. The trade ministry’s offer to substitute 4 percent state paper for the company’s common stock was rejected in the expectation that the railway could fare better as a private enterprise.

In the mid-1850s business circles increasingly criticized railroad takeovers by Heydt’s ministry, producing a new level of concern for state involvement in business. Against the staunch opposition of stockholders and directors, Heydt took over the highly profitable Upper Silesian Railway in 1856. The railroad company had resisted and criticized state regulation throughout the 1850s, especially concerning the question of freight rates for coal. In 1855 the company protested the ordinance which allowed the provincial railroad commission to change unilaterally rates on third-class carriages and challenged the jurisdiction of a provincial state commission to meddle in private business. Relations between the railway and the government were made worse when the directors involved themselves in politics and openly backed the opposition party. “In the fall election for the Chamber of Deputies,” wrote a government official, “the most influential executives of the Upper Silesian railway—among them director Kuh—made appearances which aroused general outrage among government loyalists.” The political behavior of the directors annoyed the governor of the province considerably; it was “politically objectionable,” he wrote to the trade minister, that a company employing over a thousand workers should be directed by such people. Shortly thereafter Heydt exploited his ministerial power to bring the railroad under state control.

In the railroad industry charters were needed to incorporate as a joint-stock company, lay new lines, and issue new series of stock. When, in November 1855, the railroad directory submitted its request for a charter to build a branch line into the coal fields of Tarnowitz and the surrounding coal seams of upper Silesia, Heydt refused. The company considered the procedure of a charter pro forma, for the railway had been promised the right to connect its trunk line with this valley: logic dictated that only this railway should have this charter. Heydt, however, withheld the charter and threw the company into a crisis; investors assumed this branch line, with its long-awaited profits, was a part of the Upper Silesian’s network.

Knowing that these branch lines were vital to the company’s future, Heydt then offered the charter to the company on the condition that the state take over the railroad’s administration. The tactic aroused much resentment from the company directors, who initially rejected it in strong language. They charged the government railroad commission with intrigue and dishonesty, accusations that provoked the commissioners to threaten the directory with suspension. The company directors were all the more appalled when the
The Search for Mutual Accommodation, 1848–1857 • 65

railroad commission insisted—under orders from Heydt—that the board of directors present the option to the assembly of stockholders not as a demand from the state but, rather, as a request from the company. The Prussian government’s attempt to cover up its initiative of the deal and not to appear as the aggressive party was, however, quickly leaked to the press.59

The charter became Heydt’s wedge to separate the board of directors from its stockholders. Heydt knew that the company directors could not justify any principled legalistic fight against the state over private administration to their stockholders if it meant inferior dividends. In this instance, defying the government’s move on the basis of business principles ran counter to the company’s prosperity and profits, giving little or no room for the private management to fight. Resembling nothing less than economic blackmail, the “offer” had its intended effect—the directors capitulated.60 At the annual company meeting in August 1856 the Upper Silesian railroad directors presented their stockholders with the option of either remaining a completely private company with no charter (and lower dividends) or becoming a state-administered railway that would build the branch line and thereby ensure the future health of dividends. As a Breslau newspaper wrote, “The action of the government, in principle, is certainly not to be defended in all respects, but the transfer of the administration to the state is only a matter of time.” 61

The takeover needed a two-thirds majority, and it passed narrowly by 20 votes. More stockholders voted against the measure than those that voted for it, but the latter held more shares. The state, which owned stock in the line and which normally refrained from participating in votes, cast its 54 votes for the takeover.52 Through clear abuse of governmental powers, the Upper Silesian Railway fell into the hands of the government. Heydt received heavy criticism both in the Prussian parliament (the Landtag) and in the press, but the new arrangement came into effect nonetheless on January 1, 1857.63

Months later, the government took over the administration of the Wilhelmsbahn (Cosel-Oderberg), another large Silesian railway. Owing to overexpansion and a depressed money market, the privately owned Wilhelmsbahn—Germany’s most profitable line in 1855—went bankrupt in 1857.64 During the early 1850s the railroad undertook plans to extend two branch lines (Nicolaß-Idahütte, Ratibor-Leobschütz) and build a new one (Leobschütz-Neiss) which would not only connect its lines to more Silesian coalfields but also unite with the Upper Silesian Railway in Idahütte.65 The construction of these lines was approved by the government, but the initial construction costs were grossly underestimated, making it necessary for the company to seek an additional 5 million thalers in 1856 to cover costs. The company decided to raise half the sum by doubling the stock and to raise the other half with a 5 percent bond. In January 1857 Heydt’s ministry granted permission to
the company directors to follow this course of action. This financial maneuver was a risky undertaking; the bourse was already depressed and could not easily handle the volume of these issues. Moreover, new northern Austrian lines were completed which robbed the Wilhelmsbahn of its freight traffic to Galicia, Russia, and Austrian provinces. In March the directors publicized the precarious state of the company’s finances. Investors were told to expect heavily slashed dividends, a move that sent the stock into a downward tailspin on the market. By April of the same year, the company could not pay creditors.

Showing signs of severe insolvency, the directors submitted a proposal to the general assembly of stockholders for a state takeover. The assembly, which was controlled by an elite consortium of Berlin financiers (Bleichröder, Wolff, and Hirschfeld), voted overwhelmingly for state control, believing the government would compensate investors fairly in this fiasco. The state’s below-par indemnification of stockholders, however, was nowhere near to matching the prices that investors had paid for the stock in the 1850s, which had soared to quotes above 200. Stockholders lost fortunes. Many embittered investors spoke of collusion between Berlin banks and government and, more specifically, of ministerial criminality.

During the bankruptcy proceedings, the business community blamed company directors, but, significantly, the state railroad commission received equal, if not greater, condemnation. Investors and financiers were shocked that the commission, which supervised board meetings and ledgers, could allow the business to issue a 16 percent dividend to stockholders in 1855, yet watch it collapse months later. The ability of the state to supervise the industry properly was gravely questioned. The state’s assertion that it preempted private greed and overzealous ambition with a disinterested, above-party expertise was roundly criticized. The prestige of Heydt and his ministry was further compromised when, to finance the state takeover of the Wilhelmsbahn with a 1.5 million thaler bond, he raided the Silesian miners’ welfare association to back a 5 percent bond.

The miners’ association (Oberschlesische Bergbauhilfskasse), which was created by Friedrich the Great, became a detail of special concern for one journalist who criticized Heydt in July 1862 for misusing the fund and “experimenting with it to death.” (Heydt prosecuted for libel; the reporter’s acquittal in 1862 was a cause célèbre for the Progressive Party.) In a similarly coercive move, Heydt forced Silesian coalmine owners to subscribe to the same 1.5 million thaler bond. Those who did not participate were threatened with higher state surcharges. He specifically browbeat the region’s major coal magnates (Herzog von Ratibor, Herzog von Wiese, Kaufmann Dorno, and Furst von Pless) with a surtax of 2 groschen per ton if they did not accede to his wishes. The legality of such a surtax was highly dubious, but “the ultimatum,” as the Breslau railroad commissioners wrote to Heydt, “seems to have had a decisive effect.” The takeovers consolidated
the state system in the east, which, combined with the Eastern, the Stargard-Posen, and the Lower Silesian railways, had grown into an extensive network.

These issues of nationalization and increased government control of private industry exemplified government-business confrontations of this era. The conflicts often centered on the personality of Heydt, who was alternately viewed as a bold, assertive proponent of state planning, or as an autocrat who, to paraphrase Rudolf von Delbrück, often confused the interests of the trade ministry with the common good. Few would question the competency of Heydt, whose technical, administrative, and financial skills were widely respected. But there was certainly a conflict of interest at work in his role as minister whose ostensibly impartial status as arbitrator in commercial affairs clashed with his other role as director of state railroads. In another example of a conflict of interest, Heydt, who also oversaw the construction of public works, had no compunction in extracting large contributions from all Prussian joint-stock companies for the building of the Berlin cathedral, an action that businessmen interpreted as unethical solicitation.

Economic issues took on a political edge. As already seen, the entrepreneurial circles that built and financed the Upper and Lower Silesian railways backed the opposition party in 1855, contributing to the election of a liberal wholesale merchant, Theodor Molinari, to the Landtag. The esteemed status of Molinari as president of Breslau's chamber of commerce rankled state officials, for he lent great credibility to the opposition party. Other chambers of commerce also adopted an overtly political attitude in lengthy introductory commentaries to their annual reports, criticizing the unwarranted intervention of government into private business and emphasizing the need to end Prussia's patronizing tutelage in economic and civic affairs. The reports of Prussia's chambers of commerce grew so critical in the 1850s that the trade ministry issued a circular in 1857 ordering them to confine their reports to statistical materials—and to leave out complaints and political editorials. The many local committees in the eastern provinces that mushroomed after 1857 to promote the building of railroad lines soon became political bases for the "Young" Lithuanian Faction (Fraktion Junglitauen), the nucleus of the future Progressive Party formed in 1861. Oppositional stances in elections, outspoken petitions and reports, and railroad committees transformed into political caucuses demonstrated how intertwined economics and politics became in the 1850s.

The Prussian state's control of money supply—finance politics—also brought railroad circles into conflict with the government. Rhenish entre-
preneurs, frustrated by the ministry’s tight loan policy, founded commercial banks outside Prussia to fund large-scale enterprises like railroad construction. Similarly, in 1856, a number of prominent railroad men and bankers established commandite banks in Prussia, a maneuver that circumvented the need for a government charter. This act—the subject of chapter 5—greatly annoyed Manteuffel’s cabinet, which interpreted it as defiance of government control. The Diskonto Gesellschaft and the Berliner Handelsgesellschaft were founded by a new breed of entrepreneurs opposed to state tutelage and desirous of greater autonomy in business affairs.

After 1848 the efforts of the Prussian state to participate directly in the railroad business led to the creation of several railroad associations whose purpose was to organize and collectively represent the interests of private companies. The creation of the Norddeutscher Eisenbahn-Verband (1848/52), the Verband mitteldeutscher Eisenbahnen (1852), the Rheinisch-Thüringischer Eisenbahn-Verband (1853), the Ostfriesich-Thüringischer Eisenbahn-Verband (1856), and the Westdeutscher Eisenbahn-Verband (1857) enabled private railroads of different states to coordinate timetables, fares, and freight rates independent of government treaties. These associations introduced the innovations of a general bookkeeping office, luggage transfer, and commonly owned freight trains. They also played a major organizational role in the mobilization of the Prussian army in the Rhineland in 1859.

The associations strengthened the liberal argument that private commerce could handle the larger, overarching problems of the new industrial age without state intervention. Their pragmatic achievements contradicted Prussian government assertions that only the state could coordinate and manage an efficient, interlocking rail network. It was not coincidental that these Verbände arose in exactly the same period that Heydt’s ministry asserted its increasingly larger claims to organize the industry. Their creation was largely a defensive response, and Heydt’s uncooperative behavior toward these private administrations confirmed their success. Called upon by the king to justify a number of prohibitory decrees against the North German Railroad Association, Heydt admitted in June 1857 that the “prevalent” services of this Verband “weakened the influence of the Prussian government.” In spite of Heydt’s arbitrary actions to control the growth of private railroad organization, the associations nonetheless thrived and showed German governments that private companies could indeed serve public needs.

In spite of numerous problems in government-business relations, the Prussian state did have something positive to offer. The Prussian legal system, for
instance, often supported the interests of the business class. Central to the needs of businessmen was civil law, the juridical sphere that presumed "civil society was shaped by contractual relationships freely formed by equal partners." The octroyed constitution of 1850 upheld this tenet—first set down in the Prussian law code of the late eighteenth century—and thus provided commercial circles with what Max Weber called "the calculability and reliability in the functioning of the legal order and the administrative system [that] is vital to rational capitalism." Furthermore, the continued use of commercial courts after 1848 greatly aided the resolution of financial disputes, and the civil courts handled eminent domain disputes fairly. Finally, by its role in drafting of a new Commercial Code for the German Confederation (1857 to 1861), the trade ministry promoted German capitalism.

The ministry of justice, furthermore, restrained the Prussian army on issues important to business interests. The minutes of the state cabinet record its resistance to the war ministry's desire to impose arbitrary ordinances on railway companies, fearing drawn out and unsuccessful court cases. On three occasions in the mid-1850s, the war ministry was forced to compromise with railway companies on the question of payment for military fortifications. Likewise, private railways abolished reduced fares for military personnel. Although the ministry had enforced such exactions on companies earlier, the litigious attitude of businessmen in the 1850s produced more cautious governmental behavior. The protocols of private railroad companies reveal the businessman's confidence in both the independence of the judiciary and its ability to reach fair decisions. Yet the courts could not always check the far-ranging independence of government ministries, whose ordinances often fell outside the purview of the legal system. For this reason, many merchants and entrepreneurs joined liberals in the New Era to demand that ministers be held accountable to the courts under the judicial code.

Positive aspects can also be seen in the relations between the government bureaucracy and private railroads, at least on the lower bureaucratic levels. Although the trade minister desired a tightly coordinated bureaucracy of clearly delineated hierarchies controlled from above, this was not always the case. The mediators between the Berlin ministry and businessmen were the local Royal Railroad Commissioners, who created a dialogue that permitted businessmen to dissent and negotiate. Often recruited from private companies, railroad commissioners possessed the technical expertise and practical experience to form opinions independently of both the trade ministry and the railway companies. Although local officials enforced the ministry's unpopular decisions, they were frequently sympathetic to the needs of private business. Commissioners in Cologne, Breslau, Münster, and Berlin often questioned the pragmatism (and legality) of Heydt's orders and provided a conduit for
businessmen to communicate their viewpoints to the higher echelons of government. In this respect, the dialogue between businessmen and the trade minister was, if not always harmonious, open and fluid.

Entrepreneurs were thus ensured a voice in matters pertaining to their railroads. On such issues as freight rates, line construction, administrative procedures, taxes, personnel, and government bond guarantees, company directors were able to present their views to the government. Railroad directors had excellent access to railroad commissioners, deputy prefects (Landräte), district governors, and provincial governors, allowing a company to enlist the support of other bureaucrats when commissioners or the trade minister were uncooperative. Rhenish and Westphalian companies made full use of their district governor, Eduard Moeller, who was receptive to commercial needs, and they successfully played him off against the more conservative provincial governor, Hans Hugo von Kleist-Retzow. In the Saxon province of Prussia, businessmen played a similar game with Provincial Governor Witzleben and the trade minister.

Many railway directors also infiltrated bureaucratic and court circles. Although overwhelmingly bourgeois in social origin, some had earned the honorary titles of commercial councilor (Kommerzienrat) and privy commercial councilor (Geheimer Kommerzienrat), a status that allowed them to attend court, where connections and influence were found.

The Eisenbahn-Zeitung’s lists of Prussian railroad directors attending the annual conference of the Verein deutscher Eisenbahnverwaltungen in 1850, 1857, and 1860 provide clues to the social composition of Prussian railroad directorships in the 1850s. Of the 68 directors who attended in 1850, 60 were of middle-class origin, with three bearing honorary titles; the remaining eight were aristocrats, with two bearing honorary titles in addition to their noble patent. In 1857, 29 of Prussia’s 32 attending directors were bourgeois, and 15 of these carried honorary titles; of the remaining three, one was a noble with the honor of Regierungsrat, while the other two were military officers. Finally, in 1860, 39 bourgeois and four noble Prussian directors attended; 28 of the 39 bourgeois directors had honorary titles, as did two of the four nobles. Although the percentage of bourgeois directors remained constant from 1850 to 1860 (88 versus 91 percent), those who had closer contact with the bureaucracy and the court by dint of their cachet rose (5 versus 66 percent). In short, bourgeois businessmen apparently gained access to the Prussian establishment and used its networks to their advantage. There is little evidence, however, to correlate honorary titles and political docility. In the many disputes between the government and railroad companies, most of the directors of the larger railroads bore honorary titles. Access to court did not stop them from criticizing and resisting orders from the trade ministry and other gov-
ernment agencies. The increase of honorary titles among businessmen points more to an entrepreneurial pragmatism, the exploitation of influential affiliations, rather than to obsequious “feudalization.”  

Access to higher echelons of the government bureaucracy presupposed a certain social status. Government officials perceived these businessmen as members of the commercial estate (Handelsstand), which had the right to petition and negotiate with the government. Prussian ministers followed the growth of rail networks in neighboring countries—especially France—and respected the practical achievements of Prussia’s entrepreneurial class. Railroad entrepreneurs also saw themselves as an urban elite, leaders in the country’s commercial affairs. These patricians, bankers, and entrepreneurs wanted a greater voice in the bureaucracy’s decision-making process. Nurtured by a long tradition of state promotion of economic enterprise, businessmen expected close contact with the Prussian state—and the influence that accompanied it.

This attitude toward the state was not necessarily inconsistent with businessmen’s ties to liberalism. These businessmen had grown up in the milieu of notables’ politics, the prerevolutionary tradition of elites assuming leadership in urban civic affairs. Although they opposed the aristocratic belief in the privilege of birth and rank, business elites nonetheless believed that men of wealth and property deserved a greater weight and representation in the affairs of government than those with little or no means. As noted earlier, such railroad entrepreneurs as David Hansemann, Ludolf Camphausen, and Gustav Mevissen all participated in designing the three-class voting system, first used in the Rhenish local government law of 1845. This suffrage system, which distributed voting power according to income, suggests why the business class was made up of moderate liberals in 1848. The system was intended to assign wealthy businessmen and landed aristocrats equal political power. Their advocacy of such a system in the 1850s demonstrates the businessmen’s consistency; their aim was not to undo completely the underpinnings of status society but to attain greater recognition within it for the new monied class. Understanding railroad entrepreneurs not only as market-oriented businessmen but also as notables with presumed privileges and honors is not unimportant. Recognizing the residual persistence of status relationships and the slow, uneven movement toward a class society in mid-century Prussia helps explain the negotiating behavior of business elites.

In spite of shared elitist attitudes, it would be extravagant to characterize this interaction as “symbiotic.” Local government officials often imposed controversial ordinances on railway companies. As the agents responsible for overseeing all public stockholder meetings, attending board of director meetings, and inspecting company books, local commissioners embodied the gov-
ernment’s suspicion of private association and private commercial enterprise. What resulted was not a mutually beneficial friendship but, rather, a hard-fought process of negotiation. Mutual respect existed, but both sides recognized the fundamentally adversarial relationship between the trade ministry and the business world, whose interests and aims were often diametrically opposed. Hardly symbiotic, relations between businessmen and the state are better described as tenuous, fluctuating, and variable. The business class displayed its willingness to use semipublic institutions such as the chambers of commerce to achieve reforms. But when these internal channels of representation ceased to deliver results, businessmen turned to public criticism and the Chamber of Deputies. It is the combination of using the new power of the public sphere (the public opinion of Landtag and press) while continuing to negotiate directly with the state that characterized the ambivalent political practices of the business class. It welcomed the new constitutional advances but in no way wished to surrender the older privileges of the Handelsstand acquired during the era of absolutism.

In July 1859, Anton von Polski, an aggrieved railroad investor, approached August von der Heydt while dining in his Bad Kissingen hotel (Bavaria) and publicly slandered the state minister in a menacing manner. Von Polski hurled a packet of worthless stocks at Heydt, insulting him loudly with an impressive string of expletives. The act of slander brought von Polski immediate arrest and eventual prosecution for public defamation of character. The man had lost 40,000 thalers in the Wilhelmsbahn crisis of 1857. He believed that the Prussian government had illegally colluded with Berlin banks to drive down Wilhelmsbahn stock to enable the state to take over the railway’s administration. His verbal abuse of the minister was the culminating act of a long fruitless campaign in 1858–59 to petition the trade ministry, the parliament, and the king for just recompense. “The blood of investors, widows, and orphans,” he wrote King Friedrich Wilhelm IV, “stains the state moneys that purchased the railroad.”

The image of a wronged investor publicly sullying a Prussian trade minister’s good name is striking. Rarely did the actions of high railroad finance and government economic policy cause public scandals, and such financial dailies as the Berlin Börsen-Zeitung were quick to report “l’affaire Heydt” with tinges of schadenfreude. But as exceptional as von Polski’s response was, it does point to important changes in Prussia’s economy in the 1850s, a period when the Prussian government significantly altered its prerevolutionary relation-
ship with the leading sector in big business. In the years 1848-57 it became a prominent competitor in the railroad business, realigning its connections with the business class. In this period the Prussian state not only regulated private railways with a new severity in regard to finance, taxes, personnel, and day-to-day procedure but also constructed five state-owned railways and, in addition, administrated twelve out of the twenty-six private railways in Prussia. Of the 301,264,000 thalers capitalized in Prussian private railroads in 1858, over one-third (105,343,000) stood under state administration.\textsuperscript{103}

Prussia’s economy in the 1850s underwent great changes and clearly affected the politics of businessmen. While there is some validity in pointing to 1848/49 as a significant mark on the political economy of the Prussian-German state, one must not exaggerate the revolution’s impact on businessmen’s dealings with government officials. The creation of the constitution, bicameral legislature, and the trade ministry were indeed important milestones. Yet this “turning point” did not achieve a fixed settlement in government-business relations, and it does little to explain how the Prussian state and the business class came to terms with one another over the politics of making money. As the railroad industry demonstrates, there was much to be resolved on the question of state power and private profit.

The changes in the original terms of the mixed system produced in turn a mixed legacy in the years after the recovery, 1853-57. Although railroad entrepreneurs showed a willingness to do business with the state and accept the Prussian government’s role as owner and administrator of railroads, they were also quick to contest state actions believed to be unfair and injurious to businessmen. Spurred by an unprecedented boom in economic growth, the business class articulated positions independent from the government. Conflicts between the trade ministry and business interests reinforced the identity of the business class as a new interest group.\textsuperscript{104} Mixing equal doses of conflict and cooperation, businessmen were resolute in insisting on an economic and political framework that would accommodate business as well as government.

The relationship between the business class and government elites is explained not in discrete events (such as 1848 and 1866) but rather as a fluid, opportunistic, politically ambivalent process. The most marked feature of government-business relations is not clear oppositional identities but, rather, the shifting, unfixed postures of both government and business. During the 1850s the Prussian government vacillated between two positions: whether to continue a two-hundred year tradition of directing and intervening in economic life or to allow businessmen the freedom to pursue profit as they pleased—and tax them accordingly.\textsuperscript{105} While relinquishing its “direction principle” in coal mining in favor of a laissez-faire policy, the state intervened and asserted control over the railroad industry. The trade minister repeatedly
attempted to weaken private railways, but he failed to break their power. He vacillated and steered a course that simultaneously hindered and promoted private railways. The inconsistency was caused partly by the lack of state funds to pursue a more radical policy of takeovers and by the exigencies of time, which demanded that Prussia keep pace in railroad construction to maintain its preeminent role in the Zollverein. As we shall see in chapter 6, Heydt was forced to capitulate to public and parliamentary resistance in 1859 and accept the supremacy of private railways.

The numerous spheres of conflict that arose between business and government in the 1850s suggest that explanations assuming an unproblematic alliance between business and government fail to recognize the economic and political complexities in reconciling an expanding capitalist economy with Prussia's conservative political establishment. Instead, the 1850s are better characterized as a decade-long search for mutual accommodation between business and government, a search for an equipoise between private entrepreneurial profit and state power. The search for this balance was an ongoing, case-by-case process and one that was never adequately completed in the reactionary period, 1850–58. The following three chapters amplify this theme.

In 1857–59 significant changes in Prussia's political economy would alter the course of government-business relations, making this brief period an economic and political watershed. The depression of 1857–59 clipped the wings of industrial and financial circles that strove simultaneously for expansion in industry and greater independence from state economic policy. After 1857, curtailed production and scarcity of investment capital reinforced an older pattern of large-scale enterprises looking to the state for aid and favorable legislation to promote long-term development. The depression, however, was accompanied by important political changes in central Europe, among them the moderate-liberal cabinet of Wilhlem I in the "New Era," the brief period of political thaw (November 1858–March 1862) between the decade of reactionary politics and the Constitutional Conflict. After November 1858, the new Prussian trade minister's economic policy eased strained relations between businessmen and government officials. This economic and political rapprochement between the business class and the Prussian state (the theme of chapter 7) would have a long-term impact on the course of liberalism, capitalism, and state building in Prussia-Germany.