CHAPTER SEVEN

The Juste Milieu, 1857–1870

The dissolution of the Railroad Fund in 1859 was not an isolated event but, rather, one element of larger policy modifications in the New Era. Saving Germany’s largest capitalist market from state ownership augured a new era of free-trade legislation and economic prosperity. Other legislation followed that addressed the needs of Prussia’s business class and indicated that the Prussian establishment was undergoing tangible change. Old and new elites searched for suitable terms to accommodate one another. The period 1858–66 is, in fact, a critical era in the sociopolitical formation of the entrepreneurial bourgeoisie. The business politics of large-scale industries played a key role in reconstituting the Prussian state, affecting both government policy and political liberalism. Although the decisive period of Prussian-German state building is often viewed as the years 1862–66—the years of the constitutional conflict and Bismarck’s “revolution from above”—this interpretation, while valid, has little explanatory value for the social group of business elites whose relationship to the state was affected by their economic-political advances in the years of the New Era, 1858–62. These goals, first articulated in the Vormärz era and developed in the 1850s, centered on the creation of a juste milieu for a maturing capitalist class: a social-political atmosphere in which entrepreneurial elites saw their interests nurtured by the state. Entrepreneurs wanted not only to protect the expanding private sphere of the economy from government interference but also to preserve the state’s traditional role in the economy in matters as yet beyond the reach of private capital.

Although the new political milieu after 1858 deserves emphasis explaining why the bourgeois business class came to support Prussian conservatism, this study avoids characterizing the New Era as a turning point or fundamental break in state policy. The New Era must be placed in the context of a complex, evolving relationship between government and business during the period 1830–70. This long-term, unspectacular process fits poorly with dramatic turning points and other narrative designs of political history. In rethinking the importance of the New Era, we should not place the accent on
the newness of the New Era reforms; indeed, many of the reforms discussed below were haltingly initiated before and after 1848. Nonetheless, the New Era is significant because it was after 1858 that businessmen felt that the reform path of the last two decades had widened into a central avenue of state concern. The state's responsiveness in clearing obstacles to greater expansion and growth during the New Era brought to fruition the practical, concrete demands businessmen had articulated since the 1830s. There were, of course, many grievances still outstanding, but the incremental advances made by the business class toward assimilation into the Prussian establishment substantially explain why entrepreneurial opposition ebbed in 1862–63. The juste milieu of the New Era illuminates one key dimension of the multifaceted explanation regarding the collapse of the liberal parliamentary opposition in 1863–66.

The Depression of 1857–1859

Relations between capitalists and the Prussian government were affected significantly by the onset of a sharp downturn in the business cycle in 1857. For a brief period in the mid-1850s entrepreneurs displayed a willingness to abandon bureaucratic ties. The increase in businessmen's criticism of government actions after 1853 was approximately proportional to the health of the economy. The numerous private joint-stock and commandite banks founded in 1853–56 provided capital-hungry entrepreneurs with a fresh source of long-term financing free of government restrictions (see chap. 5). The door to entrepreneurial autonomy opened by a growing international financial network was soon closed by the depression of 1857–59. These new banking institutions might have ensured entrepreneurial independence from state economic policies in the next decade, but the 1857–59 depression reasserted the older pattern of negotiating with the state for financial and legislative aid.

In 1856 overproduction in both agriculture and manufacturing compounded by financial panic unleashed a chain of bank failures in the United States that spread to Europe by 1857. Prussia's and the Zollverein's newer industrial enterprises were not struck as hard as London's and Hamburg's older commercial networks (especially those in grain exports), but the impact of the business depression was nonetheless considerable. The foreign trade of the Zollverein declined by 300 million marks in 1857–59; wholesale prices and stock quotations fell drastically; and the nominal value of the national wealth shrank by approximately 25 percent. The war between Italy and Austria in 1859, and its ensuing diplomatic complications for all of Europe, prolonged the depression in commerce and production. The Prussian Bank's money supply in 1857–60 provides a reliable indication of the depression's
persistent effect on economic growth. In 1857 the money supply stood at 889 million thalers, falling to 820 million in 1858, 815 in 1859, and hitting its low point of 766 in 1860. By 1860 business optimism was evident once again, though raising capital for large-scale projects still remained difficult. In April 1860, Rudolf Schramm could still write to F. W. König, a technical director of the Rhenish Railway, "In these times I believe you [when you write] that you are having difficulty to cover the colossal ongoing costs of construction."

The onset of the first financial crisis of world capitalism enabled the Prussian state to emerge once again as a necessary participant in large-scale business. Under these circumstances Heydt reasserted state leadership in finance. Between November 1856 and February 1857 he lowered the discount rate from 7.5 to 4 percent and advanced loans to companies in need of capital. At the same time he banned the circulation of foreign currency in Prussia, introduced stricter measures to prevent railroad companies from floating loans without government authorization, and forbade the inclusion of future revenues in calculating assets for loan payments. The economic crisis allowed the state to wield greater control over private business.

The 1857 economic crisis narrowed the options for large-scale capitalism. Money and confidence were scarce. Whereas 139 joint-stock companies had been formed in the Zollverein states in the years 1855-57, only 12 were chartered in 1857-59. Business failures greatly curtailed commercial underwriting from joint-stock banks and public investment in the stock market. The depression prevented the joint-stock Darmstädter Bank and the commandite Diskonto Gesellschaft from pursuing their original aim: to supply pools of capital large enough to free German businessmen from restrictive government policies. After 1857 the new commercial banks sought safe investments, practicing conservative finance by taking refuge in state paper and loans. During the depression, the financiers of the new banks became part of the financial establishment of northern Germany known as the Prussian Consortium.

The consortium was a group of leading Prussian financiers, many of them railroad directors, who sporadically aided the Prussian state in raising money for the 1859 mobilization and the subsequent wars of unification. Here one sees evidence of the sea change that had occurred since the mid-1850s. The joint-stock and commandite commercial banks, once considered "French" devices inimical to Prussian state policy, were now included among the members of the financial establishment invited to raise capital for Prussia's bid to establish hegemony over northern Germany. But the consortium's early efficacy in financing bonds is often exaggerated: putting together the loan for mobilization in 1859 was faltering and uncertain. The attempt to float a multi-million thaler loan (which was initially set at ten but whose expansion to fifty million was foreseen) among selected German financiers in May 1859 did
not produce a spectacular subscription. The Frankfurt bankers, wrote Ludolf Camphausen, were “swamped in paper and stocks”; the Darmstädter Bank was “impotent and distressed to fill its own obligations”; and the Luxemburg Bank “also appears to have little capital at its disposal.” In view of the loan’s precarious reception among German banks, Otto Camphausen, president of the Seehandlung, wished that “we could experiment with treasury notes, which would be preferable in the event of peace.” In the end, after refusals from London’s Baring Bros., the government opted for a public subscription of a twenty-four million thaler loan at 5 percent, whose success surpassed the finance ministry’s expectations.

In spite of the depressed stock quotes and the disappearance of investment capital, the railroad industry in general survived the crash of 1857–59 in good condition. Railroad capitalization increased 38.7 percent, swelling from 273.25 million thalers in 1857 to 379 million thalers in 1860, an investment that expanded the Prussian rail network by 23.5 percent. Hence, while the depression’s bear market impinged on the plans of established railways to complete trunk lines and delayed the undertaking of new projects, railroad entrepreneurs spoke more of caution than of catastrophe in the depression of 1857–59. And, not surprisingly, railroads also used the depression to their advantage. The Rhenish, Cologne-Minden, and the Upper Silesian railways, for example, used the crash to postpone the construction of unprofitable lines that earlier state charters obliged them to build and, following the political shift in 1858, to extract better financial concessions from the government, such as the right to borrow against bonds and issue stock without the delay of formal state authorization.

But such companies as the Rhenish, Cologne-Minden, Upper Silesian, and Wilhelmsbahn railways remained in a difficult position. All were committed to extending their lines, plans that required millions in future stock issues. For railroad businessmen the most salient feature of the depression was probably the continued dependency on state dividend guarantees. In absolute numbers, the state commitment to backing railroad issues grew by fifty million thalers. In 1860, 99.7 million thalers of the 286.75 million invested in Prussian private railways were guaranteed (34 percent); in 1863, 140.6 of 334.25 million (42 percent); and in 1866, 154.6 of 377.75 million (35 percent). Although the state’s actual payment to investors was comparatively small (5,039,329 thalers), railroad entrepreneurs continued to use the mixed system’s risk-free offer to investors for expansion in the 1860s, continuing a pattern of government-business relations established in the 1840s.

Placing new issues on the market was perceived by financiers to be hazardous. Abraham Oppenheim aptly summarized the financial market’s condition in 1858: “The market still suffers from indigestion with old issues; the
country only has enough capital for the completion of railroads already under construction." To attract that capital (both in new issues and bonds) without driving down the value of stock demanded expertise. The attempt by the Wilhelmsbahn to do so failed dramatically, causing scandal, bankruptcy, and quick government intervention in 1857. The protocols of the Rhenish Railway during these years document efforts to effect a good placement, using to its advantage the experience of seasoned financiers, connections to banking circles, a first-rate network of domestic and international intelligence, and access to government officials. Directors also employed the services of the press, which could bolster confidence in railroad stocks. To fight slumping quotes in October 1859, A. Oppenheim instructed Gerson Bleichröder to place an article in the *Berliner Borsen-Zeitung*. It “would simply say that, according to reliable reports, the directors of the Rhenish Railway do not presently consider issuing a new series of common stock; and such an act would not happen unless they could be placed over par.” Such tactics denoted the precarious state of high finance; railroads drew on all of their resources to stay afloat. An integral part of this resourcefulness was reaffirming ties to the Prussian state and its dividend guarantees, subventions, and loans.

**Business Politics in the New Era**

Although the depression reasserted state presence in large-scale capitalist enterprises, the political tenor of government-business relations differed significantly from the Manteuffel-Heydt era. Had there not been a change of government, the effect of the depression would have exacerbated the existing problems regarding the trade ministry’s intrusive and imperious behavior and strengthened Heydt’s hand in dominating the railroad business. But the prince’s new cabinet put government-business relations in a new key, offering a more receptive ear to business. The political shift in Prussia after 1857 helped private enterprise. Upon assuming the governing duties from the ailing King Friedrich Wilhelm IV in 1858, Prince-Regent Wilhelm dismissed the conservative ministers of the king’s cabinet, most visibly Otto von Manteuffel and Ferdinand von Westphalen, and inaugurated the so-called New Era. Prince Wilhelm’s anti-reactionary views and his promise in 1858 to promote “wise legislation at home” and to support “unifying elements like the customs association” underscored his accommodating attitude toward unification and business needs. The crown prince’s phrases, which pointed to a generous state policy for the upper middle classes, greatly appealed to businessmen whose pragmatic, moderate politics largely strove for progress in alignment with the Hohen-
zollern crown. In October 1858, Otto Camphausen, who hailed from Rhenish entrepreneurial wealth, wrote to his brother Ludolf in Cologne:

On Oct. 26, 1858 I attended the swearing in of the country's leader, just as I did on Feb. 6, 1850. In 1850, I attended as a deputy of the lower house and rebellious councilor third class; now I took part as a loyal councilor first class and even a possible ministerial candidate. This time the act had something uncommonly captivating. The prince spoke plainly but with a dignified voice and conveyed to the world the feeling that such an oath was truly not meaningless, that the constitution had finally attained its true confirmation, and that we further stand on firm ground—as if the confusions of 1848 had never disturbed the path of legal development started in 1847.20

These words capture well the optimism of moderate liberals for the political era that lay ahead under the reign of Wilhelm. The prince-regent's views on constitutions and legislatures moved steadily to the right after 1858, but for the business community the juste milieu of establishing a legal economic framework that promoted capitalists' needs in the New Era remained throughout the 1860s. Although little political headway in constitutional liberalism was achieved in the years 1858–61, the legal and economic advances for the monied bourgeoisie in the New Era were many.

One immediate consequence of the New Era was a deluge of public criticism against Heydt and his economic policies during the 1850s.21 In 1858 the Berlin Borsen-Zeitung, the major financial daily in Prussia, used the less restrictive censorship laws to denounce Prussian economic policy; its editorials urged the Prussian crown to dismiss Trade Minister August von der Heydt and to appoint ministers more responsive to the needs of capitalism.22 Responding to reports that the prince would ask for resignations from Manteuffel's ministry, the criticism against Heydt sharpened. "We must," stated the newspaper, "unfortunately place in the foreground of our statement that the entire industrial and commercial estate, including those whose interests were directly served by Heydt, greet his resignation from office with genuine joy." 23 Without denying the expansion of the Prussian economy that occurred under Heydt's aegis, the newspaper questioned whether the prosperity should be ascribed to his influence: "We would not let the issue go unquestioned, whether all of this would not have developed to be larger and better without the special effect of Herr von der Heydt and whether his many measures had a harmful effect." 24

During 1858 Westphalian, Rhenish, and Silesian businessmen bombarded the government with letters and petitions requesting Heydt's dismissal.25 In the following year, H. F. L. Augustin, a director of the Berlin-Potsdam-
Magdeburg Railway, attacked Heydt in two long essays, charging the minister with gross governmental misconduct. In short,” he concluded, “there is no sphere of business that he does not more or less rule and influence; he has the power to bless or punish any person who pursues a material interest.” Leonor Reichenheim, a parliamentary advocate of free trade, followed in 1860 with a pamphlet that denounced Heydt’s continued defense of the 1849 commercial code, whose paternalistic laws restricted the free movement of labor (guilds) and the free association of commercial enterprises (joint-stock charters). The Chamber of Deputies joined in to criticize Heydt’s protracted role in Manteuffel’s cabinet. What surfaced after 1858 in the business world was not a defense of the trade ministry and its accomplishments but, rather, criticism of the heavy hand with which it regulated taxation, money supply, banking practices, coal mining, and the railroad industry. If the 1850s were an unproblematic period for capitalists, for whom Heydt acted as a governmental administrator for their industrial program, then the enthusiasm with which businessmen, economic associations, and financial newspapers greeted the New Era is mystifying. Entrepreneurs, too, sought relief from the reactionary era.

When Heydt survived the purge of conservative ministers and remained as trade minister, business circles and their newspapers complained vociferously. Heydt never recovered a political base in the New Era, finding little support either in the public sphere or among his peers in business and finance. Upon hearing of Heydt’s appointment as the leader of the short-lived cabinet from March to September 1862, Otto Camphausen wrote, “Our worst fears have been surpassed by reality—the poor, poor king.” As cabinet chief, Heydt was perceived to have drifted so far to the right that such liberal government officials as Rudolf Delbrück, Otto Camphausen, and Friedrich Kuhlwetter refused to enter his cabinet. The minister reached the nadir of his political career in the election of May 1862, when his entire cabinet lost in the elections: “Never has a government been so thoroughly defeated.” Even his hometown of Elberfeld, which had consistently put him in provincial diets and the chamber of deputies for over twenty years, failed to elect him. “Politics,” Heydt wrote in 1863, “has discarded me.” The pronouncement was premature. Heydt returned to parliament in 1865 and to Bismarck’s cabinet as finance minister in 1866. But it surprised few that Heydt’s small faction of arch conservatives in parliament was popularly dubbed the “feudal party” and that his return to government was principally ascribed to his demonstrated talent in circumventing constitutional procedures to generate revenue.

In spite of Heydt’s survival, the business class did find relief in the New Era for three leading reasons. First, moderate liberals in the New Era cabinet ended Heydt’s ministerial dominance over economic policy. He had little
backing from either his colleagues or the Chamber of Deputies and stayed in office only at the king's request. Had Heydt been an English minister, remarked W. O. Henderson, he would have resigned (or have been dismissed) much earlier.\textsuperscript{38} Finance Minister Patow, a staunch opponent of Heydt's bureaucratic abuses throughout the 1850s, became the leading voice in the cabinet for shaping economic legislation. Patow's philosophy of curtailing statist intervention in the economy better reflected the wishes of the business class and consequently the railroad business encountered less government interference after 1858.

Second, the return of liberal majorities in the Chamber of Deputies after 1858 produced a new parliamentary attitude toward government-business relations. The banker David Hansemann remarked: "Three years ago no one would have hardly proposed me as an elector, let alone have me as a deputy."\textsuperscript{39} After 1858 the legislature moved away from a state-controlled economy toward greater liberalization in a number of key industries. As already seen, the demise of the Railroad Fund in 1859 marked a signal reversal in the legislature's accommodation to state policy. Whereas the chamber in 1853 had supported Heydt's scheme for railroad nationalization, it now advocated less government intervention in the economy's leading sector. The dissolution of the Railroad Fund was the first among several key economic bills that promoted the material welfare of businessmen.

Finally, high-ranking bureaucrats of the trade and finance ministries in the New Era were sympathetic to the needs of large-scale business. Among them were Rudolf Delbrück, M. Phillipsborn, Baron von der Reck, Eduard Moeller, Adolf von Pommer-Esche, Friedrich Kühlwetter, Richard Hoene, and Otto Camphausen. With the assistance of their staffs, they drafted the key legislative bills on economic policy, largely anticipating the expectations of the business class. These men knew and socialized with business elites and were not only in better touch with the practical problems of commerce and industry but were also ready to change how the state regulated and promoted the economy.\textsuperscript{40} Since the 1830s, competing interests had eroded the Prussian state bureaucracy's once-uniform identity, replacing it with a more multisided character, whose numerous factions jostled for policy-making influence.\textsuperscript{41} It was only during the New Era that the cohort of liberal administrators rose up to bureaucratic levels that allowed them to influence economic policy. As minister-president, Bismarck resented this power. He believed that the majority of the finance ministry's technical advisers controlled the opinions of their ministers (Patow and Bodelschwingh) and sided with the opposition in the constitutional conflict. These men, Bismarck wrote, were capable of passive resistance and saw the political struggle as a "short episode in the liberal development of the government's bureaucratic machinery."\textsuperscript{42}
In the period 1858–61 economic changes, long demanded by the business class, became law. The coal industry, for example, attained long-sought legislation in 1860 and 1861. The state had initiated the process of restructuring the coal industry in 1851 with pathbreaking laws that reduced its excise tax on mining by half (from 10 to 5 percent) and replaced its paternalistic supervision of mine operations—the much criticized Direktionsprinzip—with one of periodic inspection. But Ruhr, Westphalian, and Silesian coal mine owners still had many complaints; laws still supported guild privileges which restricted the free movement of coal miners between regions and mines; and the continued bureaucratic autonomy of the state’s regional regulatory offices (Bergämter) remained. Regulators’ old habits of intervention and supervision did not entirely cease. During the New Era, business interests criticized Heydt’s failure to adhere consistently to the laws of 1851 and, above all, his unwillingness to effect further reform.

After 1858 the government undertook further reforms: in 1860, a law secured freedom of mobility for miners, thus completing the liberalization of the industry; in 1861, the state further reduced excise taxes and abolished the coal mining offices’ bureaucratic independence, whose remaining jurisdiction over coal operations was transferred to the general state bureaucracy. Mine owners could now mine coal and ore with their own methods and at their own tempo, hire and fire as they saw fit (thus inaugurating a new era in labor relations), and better coordinate hewing and hauling with transportation and forging. Freed from state tutelage and interference, mining and iron firms pursued unrestrained economic growth with greater vigor and began to consolidate their enterprises into the large concerns that would become a major economic and political force in the Kaiserreich. For the Silesian and Westphalian railway directors involved in the coal industry, the possibilities of vertical integration only fully emerged after 1861.

Another landmark of the New Era’s economic settlement was the Commercial Code. Begun in 1857, drafted in 1859–60, and revised throughout 1861, the code was finally published in 1862. The new legal framework for a rising capitalist society received much praise from the business world not only because it demonstrated the state’s commitment to promoting economic growth in northern and western Germany but also because the business class was consulted so thoroughly in revising it. Prussia’s leading business associations and chambers of commerce assessed the bill, offering copious emendations. At its 1859 annual meeting in Trieste the Association of German Railroad Administrations heard and debated the recommendations of the special commission, whose report was submitted to the German Confederation’s diet in Frankfurt. In 1860, Prussia’s railway administrations submitted to the Prussian trade ministry their own position paper which critically detailed how...
the code's "complete lack of expertise" in railroad tariffs and finance "could only harm commercial traffic." The report especially emphasized the disproportionate amount of authority it assigned to state railroad commissioners over private railroad directors.48 The Prussian government, which played the leading role in drafting the code, incorporated such suggestions. The railroad clause of the code underwent three readings before a settlement could be reached between the interests of state and private railways.49

Equally significant for commercial legislation was the Franco-Prussian Trade Treaty, signed at the end of the New Era in March 1862, which erected a framework for greater commercial expansion. Although controversial among businessmen in heavy industries (and those from Austria and the middle German states), the free-trade treaty connected Prussia to the leading western economies and reinforced Prussia's economic leadership in Germany.50 When Otto Michaelis, the secretary of the Chamber of Deputies' trade committee, sought approval from the legislature for the bill, he argued: "The treaty is a compromise of protectionist interests with free-trade demands; it is the first step to the creation of fairness. For this reason one needs to judge openly and freely, so that the discussion of the fatherland's welfare can cease... the contradictions, the interests, and the principles of the provinces have found their reconciliation in the position of the treaty and its tariffs." 51 The bill passed easily in both houses. Similar treaties followed in 1865 with Belgium, England, and Italy.

These laws and treaties delimited the new space that the state was staking out for industrial and commercial enterprise,52 but the most impressive legislative signal that the state was making room for bourgeois civil society was the property-tax reform of 1861. This tax law became one of the essential touchstones of parliamentary political conflict in the New Era, and yet, although a well-known fact, it is not a weighted factor in the literature.53 Since the incorporation of the western provinces into Prussia in 1815, Rhenish and Westphalian businessmen had complained of the unjust tax burden on the western provinces. French occupation had eliminated all tax exemptions in the west, whereas in the east there existed over one hundred varieties of land tax and thirty-three forms of land tax systems—most of them to ensure tax exemption for the nobility.54 In 1858, 41 percent of Prussian land was exempt from taxation,55 compelling the Rhineland province to pay almost eight times as much land tax as the province of Prussia.56

Ending property-tax exemption (Grundsteuerfreiheit) was a reform long advocated by Prussian liberals. The issue resonated among Rhenish liberals in the 1840s, was debated in the National Assembly in 1848, and became one of Hansemann's proposed reforms before the Auerswald-Hansemann cabinet was dismissed in the fall of 1848.57 Equitable taxation of property was fur-
ther included in the Prussian constitutions of December 1848 (article 100) and January 1850 (article 101), though it was never enforced. In January 1850 and in November 1852 the government drafted bills to tax landed property in the east, but this attempt was defeated on the lower house floor in March 1853. The property tax continued to be championed by liberal and business circles (Vincke, Kühne, Harkort, Camphausen, and Hansemann, as well as chambers of commerce) throughout the 1850s.

For this reason, a law barring exemptions on landed property was a leading issue in Wilhelm’s interviews with candidates for finance minister during the formation of the New Era cabinet and became a central goal of Wilhelm’s cabinet. For Otto Camphausen the reform of the property tax was so important that in November 1858 he declined the king’s offer of the post of finance minister so that Robert von Patow could take the portfolio. Patow’s status as a “non-Rhinelander,” Camphausen explained to his brother, could better persuade the upper house to accept the tax reform, and he should therefore—in spite of other shortcomings—fill the post. Camphausen’s belief that Patow’s rank as noble and Gutsbesitzer was essential to passing the law was probably correct, for the bill’s passage through the legislature was a rough one. The lower house defeated the first presentation of the bill in March 1859 because it contained too many loopholes for nobles; the second bill was defeated by the upper house in 1860 because it contained too few. In 1861, however, a coalition of the crown, cabinet, and the lower house’s finance commission overcame the opposition. The strong endorsement of King Wilhelm, who coveted the revenue the tax would provide for his army reform, overcame the fierce opposition in the upper house led by Graf Arnim-Boitzenberg, who in March and April successfully led two rejections of the property tax bill. Even with the strong pressure applied by the king himself, who used his birthday greeting in 1861 to remind the upper house of its duty to pass the bill, the law only passed by a vote of 110 to 81. The crown’s two-pronged parliamentary program, which exhorted the chamber to prevail over the upper house for the property tax while employing the latter to overcome the chamber’s opposition to army reform, would remain only partially fulfilled.

The law of 1861 erased exemptions from the property tax in the six eastern provinces and taxed property uniformly and equally throughout Prussia. The real-estate tax more than doubled in fifty-five counties in the east; ninety in the west paid less. One of the oldest liberal grievances had come to an end. The revised tax structure laid the base for a new social contract; the inviolate privileges of nobility, stemming ostensibly from ancient fiefs and royal prerogative, were dealt a severe ideological, political, and economic blow. And because the finance ministry directly appraised the land and supervised the tax’s collection, the great estate holders were prevented from watering down
the reform through the county and communal governments, which the Prussian nobility had virtually controlled since the Reform Era. Hence the noble class was further brought under the jurisdiction of a centralized, bureaucratic modern state—another tenet of mid-century liberalism.

The property tax reform was, of course, a questionable move for political liberalism. Liberal factions, so focused on using the state to strip Prussian nobles of their birthright, failed to understand that they, by granting the state a new source of steady revenue, were weakening their power of the purse in parliament. By making the annual budget less critical for the administration of the state, they diminished their power to influence state policy after 1861. Once Wilhelm had gained the property tax for his army, he began to repair the divisions between crown and nobility to steer a course away from the liberals—a course, to be sure, more true to his nature. Because four years were required to reappraise all landed property, the tax could not be levied until 1865, at which time, ironically, its revenue helped Bismarck to continue governing without parliament's approval of the state budget (the constitutional conflict).

For many businessmen and political liberals in 1861, the law demonstrated the state's willingness to mediate between an old established elite and a newly emerging one. Otto Camphausen wrote to his brother Ludolf: "We can all be very satisfied with one another about the results of the legislative period. The number of important bills passed into law is quite considerable; above all the property tax reform. . . . Personally both of us can be very satisfied and congratulated for our hard work." The legislative sessions from 1859 to 1861 had produced undramatic but solid, concrete gains for businessmen. The property tax reform, the commercial code, the liberalization of the coal industry, the reaffirmation of private enterprise in railroads—all spoke of major victories for a social group that saw in commerce and industry the foundation of civil society.

Special-Interest Politics

The Camphausens' buoyant mood is perhaps justified by an examination of how enmeshed business interests had become in the Prussian political network. Businessmen, business associations, and lobbies successfully peddled their interests publicly (Landtag), semi-publicly (ministerial channels), and privately (personal contacts). The history of economic lobbying in Prussia certainly did not begin in 1858. Small associations can be traced back to the early nineteenth century, but it was the railroad associations of the 1850s (discussed in chap. 3) that provided other industries with a model for both political lobbying and industrial organization.

Citing the success of the railroad associations in the 1850s, directors
joint-stock companies founded the Central Association of Rhenish-Westphalian Joint-Stock Companies in 1858 to lobby more effectively for the modification of commercial law and for the general interests of stockholders. Friedrich Hammacher, one of principal organizers of the association, subsequently helped to start the Coal Mining Association, whose widespread general support, he noted, was partially attributable to the "moral force" of the central association. In December 1858 the Trade and Commercial Association for the Rhineland and Westphalia was founded to provide a better link between businessmen and the press, government, and chambers of commerce. The era of commercial and industrial interest groups had arrived.

The principal task of the Central Association of Rhenish-Westphalian Joint-Stock Companies in 1858 was to protest both a 2 percent tax on the net profit of joint-stock companies in 1857 and the accompanying state supervision of internal business affairs that this tax demanded. In 1861 the Landtag rescinded the tax, and the association disbanded with its chief mission accomplished. The Coal Mining Association achieved similar success with efforts to stimulate the eastward shipment of Ruhr coal. "The agitation for the reduction of coal tariffs seems to have had good success," wrote Hammacher in 1858. More impressively, the association not only contributed to the passage of the coal mining laws of 1860/61, but it also attained from the state the provision that all future government ordinances on security and supervision of mines must first receive the approval of the association. In this instance, the special-interest group had become an advisory organ of the government. By 1861 business associations in Prussia numbered more than one hundred, an indicator of their success in affecting the legislative process. Economic associations became an important component of Prussian politics during the New Era.

The protocols of the state cabinet during the New Era reveal that the criticisms and recommendations of chambers of commerce were reviewed at the highest level of government. Businessmen's positions on postal reform, the stamp tax, banking laws, and railroad freight were weighed at the highest level. Even the demand by business circles that a professorial chair for commercial law be established at a Prussian university was given serious consideration by the cabinet. The Berlin Trade Corporation thanked the government in 1859 for its "liberality" by heeding the association's advice in reforming the insurance industry after ignoring "so many earlier annual reports." When ascribing causes to the abolition of the Customs Union's transshipment tariffs in 1860, the National-Zeitung cited the participation of chambers of commerce in the public agitation for change as decisive. The chambers acted once again as both lobbies and advisory organs to the government, roles that Heydt had often denied them in the 1850s.

In 1860 the government acquiesced in the request of chambers of com-
merce and business associations to convene collectively (Handelstag) to discuss amendments to the Commercial Code and the Customs Union's tariff system. Certainly the presence of David Hansemann and Hermann Beckerath as presidents of the government-authorized Handelstag in 1861–62 was significant. Both had been active critics of the government during the 1850s.\textsuperscript{81} “It had taken battles, many battles, before the enterprise [Handelstag] came into being,” trumpeted the \textit{National-Zeitung}. “But the promising idea of a convention of the monarchy’s entrepreneurial classes has won, and it is the first step toward this common enterprise, which is not merely [a recognition] for those directly participating but also highly advantageous for the advancement of our economic conditions.”\textsuperscript{82} The Prussian Handelstage of 1859 and 1860 were followed the next year by the Deutscher Handelstag held in Heidelberg, a national forum for commercial and industrial interests that lent further strength to the growing unification movement.\textsuperscript{83}

In the 1860s chambers of commerce and other business associations exercised additional influence on bills affecting the economy. When the Landtag deputy Heinrich Kruse, a Rhenish journalist connected with business circles, sought to prevent passage of a bill in 1863 that would grant the state a monopoly on telegraphic communication, he appealed to Mevissen to mobilize chambers against the move. “It would be of assistance, when petitions from chambers of commerce could be \textit{quickly} assembled and presented to the president of the lower house (within eight days) to either oppose the drafts of the government and the commission or, more generally, appeal for more moderate legal guarantees to benefit private telegraph companies.”\textsuperscript{84} This connection between the legislature and an extraparliamentary association of businessmen enabled Kruse to sink the bill.

The legislature’s responsive behavior toward specific interests suggests greater public access to policy making. F. Diergardt, the Rhenish entrepreneur who sat in the upper house, complained in 1860 that requests and petitions from his province kept him working “deep into the night.” What troubled him was not his toil but the petitioners’ belief “that one can execute affairs around here as if we were on the Rhine—that is, discuss the matter over a bottle of wine and settle the issue.”\textsuperscript{85} Business elites possessed privileged contacts with both parliamentary lawmakers and government policy makers. Gustav Mevissen used his fellow Rhenish businessman Diergardt as his proxy in the legislature. During the parliamentary deliberations on the army bill in 1860, he easily made his views known to key actors, although he was nowhere near Berlin. “I have done as you said,” wrote Diergardt to Mevissen, “and gave copies of the political content of your letter to the diligent president of the military commission, Herr von Vincke, as well as to the president of the Chamber of Deputies, Herr von Simson, and discussed the same with Profes-
sor Duncker, a member of the house." In matters of business, Mevissen's Berlin contacts also garnered important information for his railroad company from trade ministry officials regarding sensitive procedural matters for procuring charters, loans, and company mergers. The presence of businessmen in Berlin's political circles was certainly not new, but the increased willingness of politicians and government officials to respond to their concerns after 1858 visibly increased. Moreover, businessmen's ability to influence the political process through lobbies, personal contacts, and bureaucratic channels strengthened their inclination not to seek positions in the lower house. Wealthy businessmen sought entry to the ruling classes of the Prussian establishment but not necessarily to the political class of lawmakers.

After 1858, the Prussian state accorded more official respect to business elites than before, signaling a willingness, albeit reluctant, to assimilate them into the establishment. In 1860 Friedrich Diergardt and Ludolf Camphausen were called into the upper house; Mevissen followed in 1865. Diergardt interpreted the honor, which was accompanied by the entailment of his estate, as a "welcome sign that in Prussia closed castes no longer exist." By 1861, over 130 businessmen in the county of Düsseldorf had been given honorific titles (mostly Kommerzienrat) by the court. Although certainly ancillary to the priorities of business politics, the assimilation of commercial elites into political, bureaucratic, and court circles speaks persuasively of an embourgeoisement of the Prussian establishment.

**Railroads and Politics**

In the New Era the railroad industry also registered positive advances for entrepreneurs. The Rhenish Railway, for example, experienced immediate relief from the new ministries. Throughout 1858 it had sought permission to issue a new five million thaler bond (4.5 percent interest), but Heydt repeatedly denied the company's request. The directors refused to accept the minister's rejections, in which they recognized a "form of paternalism being practiced." Permission was finally granted, however, in December 1858—a month after the political shift to the New Era—without explanation for the reversal, suggesting that Heydt's heavy administrative hand was less tolerated in the new cabinet. In 1860 the government also permitted the Rhenish Railway to absorb the Cologne-Crefeld Railway. The Rhenish Railway had attempted to absorb the smaller company in 1855 and 1857 but was denied because of the restrictive demands of the state, which administered the private railway. In 1859, however, the government dropped the charter's more onerous obligations (among them, building a branch line between Heerat and Neuss) and
enabled the Rhenish Railway to acquire this important line connecting the middle and lower Rhine commercial centers. The company advanced toward its long-term goal of establishing an unrivaled network on the left bank of the Rhine.  

The company gained the upper hand in its affairs with the government. It repeatedly rebuffed the government's attempts to compel the company to adhere to deadlines to begin construction on two branch lines (Düren-Schleiden and Herbesthal-Eupen), provoking the trade ministry's undersecretary to comment, "The directors of the Rhenish Railway appear to assume it is merely up to them when and if the branchline between Herbesthal and Eupen should be built and, moreover, that it is solely their financial interest that decides the matter." The trade ministry nonetheless cooperated with the company in its project to extend its lines to Nassau and erect a bridge in Coblenz, volunteering to abide by its dividend guarantee in the event of delayed construction and promising to defend the company's cause in the Landtag. The ability of the Upper Silesian and Cologne-Minden railways to modify or repudiate contractual promises to the state also suggested that directors and investors of joint-stock companies found themselves on better footing with the trade ministry. Overall, one sees a gradual shift back to the earlier mixed system, with private business reasserting its leadership but gladly accepting the supplemental support of the state.

The business politics of railroad companies were further aided by the Prussian Landtag, which continued its trend of upholding the principle of private enterprise. In September 1859, following the abolition of the Railroad Fund, the legislature comprehensively reviewed the impact of Heydt's interventionist policies for the growth of Prussia's railroad industry. It questioned the ratio of growth to state investment, noting that while 113 million thalers of state investments produced 1,946 kilometers of rail in 1844–50, 56 million thalers had produced merely 548 kilometers in 1850–57. More crucially it stated that one could consider the entrepreneurial spirit in Prussian railways to be "fully oppressed." In paraphrasing the debate, a Berlin daily wrote, "Nobody wishes to place money in operations whose profitability shrinks when it no longer rests on the natural conditions and objective development of traffic but, rather, on this element of administrative regulation that one has tried in vain to put on a lawful basis numerous times." If Prussia was going to sustain its necessary rate of expansion, it needed to return to a more rigorous basis of legality. With arguments of arbitrary regulation and unhealthy intervention, the legislature fiercely opposed Heydt on his newly proposed freight rates on state railroads and further criticized the state's unprofitable involvement in the Rhein-Nahe Railway, which needed an additional unforeseen six million thaler bond to resume construction.
In 1860 and 1862, Leonor Reichenheim introduced motions to reform the Railroad Law of 1838, proposing the revision of fifteen paragraphs. The reform took aim at the trade minister’s overly large scope of power, because his function as impartial supervisor of the financial affairs of private railroads (loans, reserve funds, fixing of dividends, etc.) was incompatible with his other role as administrator of state rails, which competed with private rails. The reform also sought to limit the demands the state could enforce on railroads. Using the night trains incident of the early 1850s and the more recent demand that the Rhenish Railway build the unprofitable Düren-Schleiden line as examples of excessive state inference, Reichenheim called for greater limitation of state authority. Although the proposal initially received the support of all liberal factions and spurred a public debate critical of Heydt’s railroad policies, it fell from the agenda.

Reichenheim’s oratory was not completely in vain. He sat on the committee for trade and commerce that in 1862 rejected the proposed charter for a state railroad between Kohlfurt and Waldenburg. The committee cited the state’s past “unhealthy” railroad policy, especially its unfair pressures against private companies, as the reason for the rejection. A month later the same committee ruled in favor of petitioners who requested full access to the books of the Rhein-Nahe Railway, which had been a perennial loser since the state took over its administration in 1856. The petitioners challenged both the competency of the Railroad Commission and Heydt’s right to forbid any inspection of state administration. Heydt’s autocratic tendencies during the Reaction were no longer tolerated in the New Era.

A parliamentary commission also reviewed the petition of a Silesian businessman who in 1862 asserted that the government had mismanaged the affairs of the Upper Silesian Railway, whose profits had steadily declined since the government’s administrative takeover in 1857, as well as those of the province for not building a line on the right bank of the Oder River. The petition grew out of a movement of company shareholders, who had striven since 1859 to put the company back in private administration. The commission upheld the claim, submitting a stinging indictment of governmental mismanagement. It charged the government with fixing artificially high freight rates, which “a private administration never would have permitted,” and attributed the neglect of the province’s canals and overall infrastructure to the government’s interest in protecting the revenues of the state-owned Lower Silesian-Mark railway.

Although the trade ministry defended its overall record publicly, intraministerial memoranda show that the ministry recognized its own shoddiness. For example, in 1861 Albert Maybach, a ministry official and future minister of railroad affairs, harshly criticized the “deficient operational competency” of the government officials managing the Saarbrücken and Rhein-Nahe rail-
ways, which had cost the government millions in dividend subsidies. Portraying them as inefficient, irresponsible, unqualified, dilatory, and technically limited, Maybach recommended transfers for all (save the chief director) and reorganization of the entire office.105

By 1862 the business cycle had completely recovered from the downturn in 1857–59, showing signs of strength in both production and trade. Significantly, free trade and the growth of the private railroad system prospered during the years of the constitutional conflict, the parliamentary struggle that began over a military reform bill but became a constitutional issue when Bismarck began to govern without a budget approved by the Chamber of Deputies. Count Heinrich von Itzenplitz replaced Heydt as trade minister in September 1862. Unlike Heydt, the new minister had little interest in retaining the state railway system and supervised economic activity with a lighter hand. During his tenure as district governor in the coal-mining region of Arnsberg in the 1840s, Itzenplitz had acquainted himself with businessmen and come to respect their efficiency and pragmatism. With regard to business politics, Itzenplitz effected a seamless transition between the juste milieu of the New Era and the constitutional conflict.

Businessmen were, of course, acutely aware of Bismarck’s reactionary reputation and his hard-line defense of royal prerogative, but the key question for many of Prussia’s capitalists was whether or not Bismarck’s cabinet would roll back the economic policies of the New Era. When Itzenplitz reaffirmed Patow’s noninterventionist policies, it appeared that the decade-long struggle to accommodate capital and political authority had borne fruit; the conservative political establishment had recognized the needs of the new elites of commerce and industry and would not touch the reforms. It is nonetheless evident that alongside spheres of cooperation there remained spheres of conflict. Ambivalence, as we have seen, is the operative word for businessmen’s relationship to the Prussian state from the Vormärz period through the 1870s.

Itzenplitz’s alacrity to reduce the role of government in the economy eased the strained relationship between the trade ministry and railroad companies that had developed under Heydt. His inclination to charter new private railroads and authorize the expansion of established companies prompted Bismarck to dub him a “signature machine.”106 In his memoirs Bismarck judged him to be a weak leader who lacked the “necessary energy” to run a complex ministry. Unable to master the technical details of railroad legislation, administration, and regulation, Itzenplitz effectively surrendered ministry policy to such subordinates as Rudolf Delbrück,107 who favored a private railroad industry. Indeed, the governmental ministries offered fewer obstacles to building and administering lines than ever before, and parliament enthusiastically backed private ownership. The financial world’s good will toward private rail-
roads also increased in direct proportion to rising dividends. Public confidence in private enterprise grew; many new lines were proposed and constructed without government support.\textsuperscript{108}

In this era, private companies completed the major trunk lines and began the development of branch lines. The year 1862 surpassed 1857 as the most profitable railroad year, with increases in passenger conveyance (1.1 percent), freight transport (14.5 percent), gross income per mile (63,271 thalers versus 61,839 in 1857), and ratio of profit to invested capital (7.27 percent versus 3.76 percent in 1857).\textsuperscript{109} After 1862, stock market quotations swelled,\textsuperscript{110} drawing even more investors and businessmen (many of them English)\textsuperscript{111} into the Prussian railroad world. Private railroad companies were in their heyday.

In piecemeal fashion, the state reduced its direct role in the railroad business. Between 1860 and 1863 the state relinquished administrative control of Cologne-Crefeld, the Aachen-Düsseldorf, and the Ruhrort-Crefeld-Kreis Gladbach railways, lowering the percentage of private rail under state administration from 41 percent in 1857 to 32 percent in 1866.\textsuperscript{112} The trade ministry continued the completion of its earlier projects but granted charters to private firms to build and operate lines within the state rail network in the eastern provinces (the Tilsit-Insterburger and the Ostpreussische Südbahn). These charters announced tacitly the state's capitulation to private railroad construction. Itzenplitz's statement, "I don't care who builds the railroads—as long as they are built," reflected the new pragmatic attitude in the trade ministry.\textsuperscript{113} Whereas private rail swelled from 2,960 to 4,280.7 kilometers between 1858 and 1863, the state's portion of the industry rose modestly in the same period from 1,265 to 1,580.6 kilometers.\textsuperscript{114} This development, which amounted to a new policy, canceled Heydt's vision of a state network and promoted consolidation of larger railways.

In the years 1858–66 the rising advocacy of private capitalist enterprise dovetailed with the growing issue of national unification. The founding of the Kongress deutscher Volkswirthe in 1857 tokened a "growing awareness of economic problems and a widespread desire among liberals to give their search for freedom in Germany a more practical orientation."\textsuperscript{115} Railroads were, of course, topics at the economic congresses. Unanimity did not exist on the question of how railroads could best facilitate a single German market and whether private ownership was the best course. Nonetheless, the principles of self-administration, free association, and free competition in business prevailed.\textsuperscript{116} Financiers championed private railways, for they were more profitable than state administered lines, as did industrialists, who thought it better to sell their goods to many clients instead of one.\textsuperscript{117} Friedrich Hammacher expressed a commonplace sentiment in 1863, when he stated at a meeting of German chambers of commerce that "placing the railroads in the hands of the
state governments . . . means nothing other than practicing communism . . . and paralyzing the railroads in the fulfillment of their industrial mission for the common good.”

But the advocacy of private railroads among business circles was not completely uncritical. Whereas private companies had earlier charged the government with unfair business practice, chambers of commerce and industrial businesses now criticized private railroads for exploiting their consolidated networks and better organized associations to fix unfair freight rates. Laissez-faire advocates further argued that Prussia's railroad system should be thoroughly overhauled; it was “unnatural” that railroad companies should enjoy monopolistic charters, dividend guarantees, sole use of rails, and other arbitrary practices that produced higher prices. In 1863 Rhenish and Westphalian chambers of commerce and business associations protested extensively against the Rhenish Railway's bid to absorb the Aachen-Düsseldorfer and Ruhrort-Crefeld-Kreis Gladbach railways, fearing the Rhenish Railway's exclusive control of the left bank of the Rhine. Itzenplitz was inclined to permit the merger but yielded to regional protests.

In this instance, the laissez-faire principle of fair competition prevailed. But, although much ink was spilled in the cause of Manchester laissez-faire policies, the practice of businessmen showed little purist devotion to the doctrine. For this reason the editors of the National-Zeitung, a decidedly laissez-faire liberal daily, criticized the lack of political independence among business elites, who, when it suited their interests, were all too willing to work within bureaucratic agencies. “For every petition that demands free and independent movement of trade and commerce, there are ten requesting support in one form or another; for every one that is braced with the consciousness of autonomy and its own power, there are ten appealing to dependency on the zealous, good will of the state powers.” In this editorial the National-Zeitung summed up the fundamental ambivalence that characterized the economic and political stance of the Prussian business class in the 1860s. On the one hand, this increasingly self-confident interest group supported the liberal economic agenda of laissez-faire, which called for ever more freedom from state direction of economic life. On the other hand, it could not bring itself to abandon fully, perhaps prematurely, the benefits and privileges that stemmed from the state's long-established role as the promoter and director of economic growth. There were benefits in both directions, and Prussian businessmen wanted to have it both ways—both the new and the old, the way of the future and the way of the past.

Itzenplitz's policy of relaxing regulation did create room for abuse, illegal profit, and schemes for stock market killings. The most prominent exploiter of the trade ministry's leniency in these years was the "railroad king" Be-
thel Henry Strousberg, who amassed millions through his "general contract" procedure in the 1860s. His shady business operations, mistreatment of stockholders, and many contacts in the Prussian government occasioned a scathing Reichstag speech by Eduard Lasker, which led to a public scandal and brought about Itzenplitz's resignation in 1873.123

Businessmen and Constitutional Politics

The dovetailing of the business cycle's upswing in 1862 with the mounting conflict between parliament and crown posed a potential dilemma for the railroad industry: would the Landtag use its right as cosignatory for all railway-building charters as a political weapon in its confrontation with the crown? Dividend subsidies to railroad investors were part of the budget, so railroad finance could be employed to obstruct government policy. In the early phase of the conflict, however, the chamber budget committee avoided bringing such areas of finance into the debate about a 25 percent increase in taxation to cover the planned expansion in the army. Bills on state aid for railways pitted liberal principle against local self-interest and would serve Bismarck's aim of dividing the opposition.124 Hence most spheres of railroad policy were left alone, which enabled railroad companies to receive twenty-four major charters involving trunk and branch lines in this period.125 In the years 1863–66, the government distributed 4,885,662 thalers in subsidies to railroad companies.126 Some charters came with immediate subventions from the budgetless government: in June 1863 the Landtag approved a 200,000 thaler subvention for Berg-Mark Railway's branch line between Rittershausen and Lennep.127 In December 1864 the chamber did modify the language of a Rhenish Railway charter to emphasize more fully the chamber's power of coauthorization (which the cabinet accepted) but did not challenge the 4 percent dividend guarantee that accompanied it.128 Up until 1865 the Landtag's liberal factions avoided linking business politics directly with parliamentary politics. And railroad directors clearly had not objected to receiving charters and moneys for their companies from a budgetless government in conflict with parliament over the power of the purse.

In mid-1865, however, the Landtag's liberal majority did turn to its budgetary power and elements of railroad finance to press the government for concessions. The time for a shift in tactics, wrote Ludolf Camphausen in June 1865, appeared propitious: "By the end [of the legislative session] the relationship has changed. In five months the government has had no foreign-political success; it has made no forward movement, even regressed, and the government must build internal strength through approbative declarations from the
lowly regarded deputies, who refuse to do so. The deputies have used this predicament to gleefully reject railroad projects.” The factions that made up the liberal opposition to Bismarck’s government, however, were initially divided on how to use railroads as a political weapon. In March 1865, when a railroad bill was put before the chamber, the commission reviewing it (headed by Otto Michaelis) recommended postponing the vote until the budget had been legally established. The recommendation was voted down 178 to 108, with members of the Progressive Party defecting. Instead, the chamber passed the alternative motion that the government should sell its railroad stock, which had accumulated in the years of the Railroad Fund, to cover the costs of proposed construction. By rejecting the loan, the chamber retained its stance of principled opposition yet did not undercut the future prosperity of the railroad market. With this maneuver house members upheld constitutional right without injuring economic self-interest.

In 1865 the Landtag rejected the government’s bid to tax foreign railroad companies using Prussian rails. It further blocked the government’s attempt to sell its Westphalian line to the Berg-Mark Railway in 1865 for fourteen million thalers. But the chamber had been unable to prevent an earlier deal closed between the railroad and the government. In 1863–64, when the government surrendered administrative control of the Aachen-Düsseldorfer and Ruhrort-Crefeld-Kries Gladbacher railways to the Berg-Mark Railway (another private railway administered by the state), it exercised its option to purchase all privately held shares in the two railways. The Berg-Mark Railway bought the options in May 1864 but paid the actual sum (1,247,000 thalers with common stock) much later, in January 1866. The chamber was also unsuccessful in thwarting the government’s sale of its options on shares of the Cologne-Minden Railway in August 1865. By selling its stake in the company, the government stood to gain nearly thirty million thalers with which to finance a possible war against Austria. This incident, in conjunction with the Berg-Mark deal, caused considerable debate in the chamber’s liberal factions, raising the question of what the finance and trade ministries would do with the vast portfolio of railroad stock acquired over twenty-five years.

The initiative for the transaction came not from the government but from the railroad company. In December 1862 Gerson Bleichröder, the railway’s financial agent in Berlin, prepared a deal that proposed a purchase price of ten million thalers for the government’s options on the Cologne-Minden Railway. Bleichröder noted to Bismarck that “the leading idea of the enclosed proposal is to serve the fatherland,” but the trade ministry believed that his patriotic efforts undercut the worth of the government’s share in the railroad by nearly ten million thalers. The deal was refused.
The matter remained dormant until negotiations were once again resumed in the first half of 1865. Dagobert Oppenheim, a director of the railway, negotiated for the company and packaged a larger deal in May. The new deal offered a ten million thaler indemnity for the surrender of the government options amassed under the Railroad Fund; the government's release from retaining company stock acquired under the Guarantee Fund of 1854, whose liquidation value was reckoned between seven and ten million thalers; and the conversion of the government's remaining financial commitments into common stock, which the state was entitled to sell. The company directors boldly planned a split in the common stock to create the necessary paper for the transaction. The deal enabled the government, if it exercised all elements of the plan, to realize the sum of 28,828,500 thalers. Three weeks later, Oppenheim sewed on coattails, requesting a number of charters for branch lines that would guarantee the company's dominance in Westphalia's emerging coal and iron industrial complex.

The government contested only the company's ten million thaler amortization offer for its options, claiming the figure was much too low. Officials in the finance ministry fixed the sum at 14,903,632 thalers, but the government settled on a compromise of 13 million, which the company accepted. On 18 July 1865, the two parties signed a provisional contract, whose final form was notarized on 10 August. The agreement became binding upon the approval of the company shareholders (28 August) and the crown (13 September).

On three occasions in 1865 officials in the finance ministry demonstrated the illegality of signing a deal that involved equities of the Guarantee Fund without the legislature's approval, but these legal considerations were overlooked.

The deal benefited both parties. For the government, the immediate receipt of millions was the driving logic of the deal: the trade minister knowingly accepted a low price in order to obtain the funds for mobilization in the event of war with Austria. The company paid 3 million in hard currency in October and another 2.7 million in January 1866. Without these cash infusions Bismarck could not have pulled the trigger in 1866. In addition to Cologne-Minden's partial cash payment of 5.7 million thalers, the liquidation of other railroad stock in 1866 contributed to the war chest. The sale of Bergmark (1 million), Upper-Silesian (500,000), and Cologne-Minden stock (2.2 million) in 1866 helped cover the costs of the Austro-Prussian War.

For the Cologne-Minden railway, the purchase was nothing less than salvation, for the acquisition of the options nullified the government's right to buy out the railroad. According to the contract of the 1842 Railroad Fund, to which the Cologne-Minden was bound, the government retained the right to purchase the company after thirty years; the Guarantee Fund of 1854 also
stipulated state ownership of certain lines after fifteen years. Facing imminent absorption into the state rail system in the 1870s, the private company negotiated with the government on several occasions after 1858 to abrogate the state’s claim to ownership and did not hesitate to exploit the government’s need for money after 1862. Although doubling the common stock produced consternation among shareholders (for fear of value loss), the directors argued at the extraordinary stockholder’s meeting convened to vote on this change that dividends after the split would fall from 15 to 9 percent, a drop that represented gain for the 1:2 conversion. The shareholders approved.

The willingness of railroad directors to conduct million-thaler transactions with the government had a direct bearing on the ongoing constitutional crisis, since it suggested the readiness of business interests to allow the government to continue operating illegally (by acquiring funds through extra-parliamentary means) as long as such tactics served the economic interests of private business. For Heinrich von Wittgenstein, the president of the Cologne-Minden Railway, as well as the company’s directors, the release from eventual state ownership appeared more important than constitutional principles.

The incident is important because it typifies the behavior of Prussia’s industrial, financial, and commercial elites. In 1864, following the Prussian-Austrian victory over Denmark, Adolf Hansemann, G. Bleichröder, G. Mevissen, Alexis Meyer, and a long list of notables (headed by Heydt) initiated proceedings with the Prussian government to organize a joint-stock company to build a Baltic-North Sea canal, an enterprise promising great profit. In the same year Alfred Krupp offered the Prussian government a long-term credit for armament deliveries amounting to two million thalers. In August 1865, following the Cologne-Minden sale, the directors of the Rhenish Railway entered into negotiation with the government to purchase the state-owned Luxemburger Railway; they further offered to buy the state-owned Saarbrückener Railway in 1866. In 1863 and in 1866, Cologne financiers approached the government with the offer to convert state coal mines into joint-stock companies.

It is clear that the business politics of entrepreneurs did not play a supporting role for the parliamentary opposition. Their eagerness to buy the state’s capital assets, receive government subventions, and cooperate with the government in matters of pragmatic business to pursue consolidation and expansion strongly suggests that the politics of business were more paramount than questions of constitutionalism.

It would certainly be wrong to exclude all entrepreneurs from the political struggle in the years 1862–66—a clean, conscious break is not there. Businessmen, according to E. N. Anderson, served widely on election committees and “devoted many hours of service to secure the election of liberals from their districts.” Of the 448 electors chosen in Cologne in the 1861
November election, 181 (40 percent) were businessmen, which rose to 222 in 1862. Hartmut Kaelble’s study of Berlin Wahlmänner in 1862 shows that 89 percent of businessmen voted for the Progressive Party. Of the 231 names that accompanied the printed election program of the Berlin chapter of the Constitutional Party (old liberals) in November 1861—backed prominently by David Hansemann—41 identified themselves as businessmen. And, to be sure, some businessmen directly engaged in political activity: Friedrich Hammacher, Hans Viktor von Unruh, and Hermann Beckerath were prominent in the Progressive Party’s right-wing faction in the struggle against Bismarck. Most financial and business elites, however, were even more moderate in their views and leaned toward the old liberals, whose political outlook demanded that the constitution and the interests of the Handelsstand be recognized but rejected a direct confrontation with the crown.

The rift between moderates and the left-wing Progressives was evident by 1860. The old-liberal stance of loyal opposition had little in common with the principled constitutionalism and confrontational style of such emerging popular leaders as Benedikt Waldeck and Hermann Schulze-Delitzsch. In 1860 Hermann Beckerath publicly criticized Waldeck as a “political nullity,” whose name was “connected with revolution, blood, and civil war” and who was one lawyer among too many jurists in parliament. Similarly, Graf Schwerin, a New Era minister, declared to his constituency in 1860 that he would resign as chamber deputy if Schulze-Delitzsch were elected in the same district, announcing his incompatibility with Schulze-Delitzsch’s democratic views. The central difference between old liberals and Progressives was the former’s willingness to accommodate liberal reforms within the royalist-bureaucratic traditions of the Prussian state. Ludolf Camphausen, writing in 1859, succinctly captured the ambivalent posture of the old liberals, whose deference toward state power precluded genuine parliamentary governance: “In domestic affairs much has happened and we are entitled to expect more, if the deputies succeed in convincing the prince that they are very good, right-minded, and also rather obedient but nonetheless people whose will, even to the crown, has meaning.” Old liberals such as Camphausen sought greater political recognition and social esteem for the bourgeoisie but ultimately believed that constitutional development should only be aligned with monarchical prerogative and state interest. Such a view precluded a decisive break with Prussia’s brand of mixed-powers government, for it was unwilling to advocate either popular sovereignty or firm, parliamentary procedures that would enable the legislature to check arbitrary actions of the executive.

Regardless of political stripe, few businessmen stood as Landtag candidates during the New Era, and even fewer lent their economic clout to the liberal cause after 1862. Liberal newspapers lamented the lack of experienced
businessmen in the Landtag: “Although the people vote in its interest . . . and although the class division in the electoral system apportions the great powers of trade and industry a privileged influence, it is nonetheless evident that few representatives of these elites have entered the lower house.” Indeed, D. Hansemann declined the nomination to stand as a candidate in Berlin, but he urged Mevissen (in vain) to do so, noting that “it would be very unjust, if Cologne did not send a businessman or industrialist to the Landtag.” Friedrich Diergardt also disapproved of the “passive behavior” of “independent industrialists” who chose to use the new business associations rather than bring their expertise to the Landtag.

During the constitutional crisis, the elites of the business class further refrained from active engagement in oppositional politics. When reporting to his brother about a political gathering of Cologne’s liberals and democrats in October 1862, Ludolf Camphausen noted that the “estate of wealthy businessmen was completely missing,” adding that their absence “is attributed primarily to indifference; that they also show a new direction is clear in itself.” The accuracy of Camphausen’s remark is borne out by businessmen’s subsequent public displays of solidarity with the government, such as the Rhenish Railway’s lavish banquet in November 1862 to celebrate the laying of the cornerstone of its Coblenz bridge. Attended by the queen and high-ranking government officials along with the company’s principal investors and the region’s economic notables, the banquet’s convivial atmosphere was in sharp contrast to the open break between the chamber and crown that began in September. Mevissen’s banquet peroration, “Such jointly created enterprises of peace form the tight knit that inextricably ties together nation and monarchy,” was not just harmless, ceremonial phrasemaking; it also signaled support for the crown. In 1865, the company’s political stance was explicitly articulated when a director issued an advisory that admonished company workers not to vote for Progressive Party candidates “like Classen-Kappelman and Horst, who stand in constant opposition to the government.”

The swan song of elite businessmen’s political engagement during the constitutional conflict was the petition of 6 January 1863 and its accompanying meeting, which was held in a Cologne hotel and hosted by Joseph Bürgers, Heinrich Claessen, and Dagobert Oppenheim. Drafted by Hermann Beckerath and signed by one hundred Rhenish and Westphalian notables, who reportedly represented over 300 hundred million thalers in capital assets, the petition was strategically submitted to the king on the eve of the new legislative session to “warn, remind, and maintain [to the king] that an understanding with the present chamber is possible.” Its text viewed the government’s course as illegal: “The basis of a constitutional monarchy is the law, and when the state government does not operate its finances on the basis of a con-
stitutionally confirmed budget, the law is broken." The petition underscored the people's loyalty to the crown, their recognition of the king's power, and the monarch's "wise views" on reforming the army. Although conciliatory in tone, the petition concluded by requesting that the crown consider the "reduction in service time that is generally desired" and the implementation of army reforms within the limitations set by Prussia's "economic conditions and financial capacity." It thus asked the crown to abide by the present norm of a two-year service period and relinquish its demand of enforcing the legally permissible three-year service period, which would require higher taxation and larger appropriations.

The exhortation to the king to seek a compromise with the parliament evoked the voice of muted, moderate opposition. It pointed up the ambivalence of industrial wealth in Prussia, which saw no reason to jeopardize the prosperous reign of Wilhelm, yet yearned for the court and state to recognize the supremacy of law. Typical for the business class, the petition stressed the financial burdens of three-year service rather than the political objection of left-wing Progressives regarding the ramifications of extended military service for a liberal civil society. Although Beckerath, Diergardt, and Abraham and Dagobert Oppenheim signed the petition, doubts about the wisdom of public agitation arose. Camphausen, for example, declined the invitation to sign the petition and refused to attend the conference. Diergardt worried about the petition's reception in court circles and conferred with Mevissen and Heydt about placing a "correct commentary" on the petition in the Spener'sche Zeitung to redress any misperceptions about the intentions of the Handelsstand. Mevissen, too, criticized the spirit of the petition, which implicitly supported the parliamentary opposition. At the meeting he recognized that Bismarck's ministry had broken constitutional law, but he argued that the parliament's obstructions were also unlawful, being "injurious to the welfare of the state." This argument, which posited that political opposition undermining material prosperity was unjustifiable, was not solely Mevissen's. The annual reports of chambers of commerce in 1862-66 echoed the belief that the economic well-being of Prussia overrode political doctrine.

At the height of the political crisis in July 1863, with the new press restrictions in effect and the breach between Bismarck and the chamber ever wider, Cologne's liberals and democrats fêted Rhenish deputies in public demonstrations of "passive resistance" that included a banquet, a Rhine cruise, and entertainment criticized as "saturnalia of the German bourgeoisie." Yet "none" of the city's business notables "was to be seen, which very much astonished the visiting guests." In September of the same year F. Diergardt acknowledged the de facto dissolution of the old-liberal faction, to which many businessmen belonged. "There is no longer an organized old-liberal party. Of
communal action and personal sacrifice there is not a word. This is unfortu-
nate but not to be changed.”  

The low profile of the business class in the legislature affected the terms of debate during the constitutional conflict, which for businessmen became overly theoretical and impractical, remote from reality. Friedrich Hammacher, who joined the Progressives in 1863, lamented this development. In 1865 he wrote, “I won’t complain any more that a large part of the country’s businessmen remain apathetic and have abandoned the [political] terrain to doctrinaire democracy.” Hermann von Beckerath, who attempted reconciliations with the crown in 1862 and 1863, retired from the party in 1863, frustrated with the party’s course of action. Heinrich von Sybel, the historian who represented the commercial center of Crefeld, also remarked that “most of the Progressive Party’s activity is averse to practicality and reality.”

The rapprochement between Otto von Bismarck and Hans Viktor von Unruh in 1865 also revealed one businessman’s search for a way out of the fruitless stalemate. Although Unruh was a founding member of the Progressive Party, his experience as a railroad entrepreneur (Magdeburg-Leipzig Railway) embodied the practical, nationalist sentiments of many businessmen who had prospered during the economic boom of the 1850s but still criticized Prussia’s excessive bureaucratic supervision. In 1865 Unruh tried to persuade Bismarck that he, with greater restraint, could have received budgetary approval from the Chamber and that liberals were prepared to work with his government.

A year later, Unruh led the moderate faction of the Progressives to form the National Liberal Party and to work with Bismarck by consolidating the economic foundations of the Reich. The old-liberal party, which atrophied in 1862–66 because of its hesitancy to abandon its position of loyal opposition, saw many of its precepts about law, commerce, and civil society resurface in the program of the National Liberals.

\[\textbf{Salus publica suprema lex}\] was the motto Mevissen quoted in July 1866 to frame his written arguments for ending the constitutional conflict, repairing the division between crown and legislature, and building the North German Confederation into a vital political and economic entity. Mevissen’s political credo, that the public welfare is the supreme law, can be seen as a palimpsest that reveals deeper traces of political ambivalence and economic opportunism. Progressives unconnected with commerce and industry were quick to infer baser motives. As a chamber deputy in 1866, Rudolf Gneist inveighed against the forces of materialism that had ostensibly divided the opposition.
“We know that acquisition rules the world,” he stated, and “that . . . a separate governing system has arisen, which on ethically foul-smelling ground has shrewdly combined all the factors to control people through the salability, characterlessness, and the shortsightedness of interests.” In 1866 Hermann Baumgarten sarcastically posed the question: “How could these millionaires inconvenience themselves with the predicaments of a nation that did not want to advance loans, approve lucrative charters, and generally live in disadvantageous conditions?” The bitter anger of Gneist and Baumgarten was grounded in their belief that the business class had been lured away from the liberal parliamentary opposition by the commercial policies of the Prussian state during the constitutional conflict, which split the forces of Prussian Bürgertum and allowed conservatives to divide and conquer. Many historians have since adopted this position.

Yet it would be wrong to assign the conflict ministry’s economic and foreign policies in 1862–66 as primary factors for the economic-political behavior of the business class during the years of German unification. Although 1866 is the decisive year of political conversion of the liberal opposition, it is apparent that Mevissen, Hansemann, Camphausen, Bleichröder, and others of the business class worked with the budgetless government throughout the conflict years. The support the business class lent to Bismarck after 1866 is partially explained by the military victories in 1864 and 1866, but Bismarck’s dramatic steps in foreign policy do not explain the prevalent disposition of businessmen to work with the government before 1864.

Before the parliamentary contest of 1862–66, the Prussian government of the New Era demonstrated its flexibility in bending to the needs of industrial capitalism. For businessmen the economic reforms of the New Era largely obviated the need to remake the Prussian state, thus partially decoupling bourgeois capitalism from political liberalism. In the New Era we see how moderate liberalism’s emphasis on economic and juridical reforms in civil society became more estranged from the political-constitutional vision of liberalism. Although the sociopolitical formation of the business class is a fluid process stretching back to the eighteenth century, the New Era was a moment in this development at which political affinities between capitalists and liberals were not strengthened but weakened. The conflict and cooperation of the 1850s left a decidedly mixed legacy, but, significantly, a juste milieu emerged for commercial and industrial capitalism during the New Era. Its economic settlements reconfigured the terms of dialogue, reconfirming the belief of the business class that the Prussian state and crown, while primarily the instrument of agrarian interests in the east, was nevertheless capable of acting as an honest broker in balancing the needs of the new and old elites. Before the constitutional conflict and Bismarck’s “revolution from above,” the New Era govern-
ment had demonstrated to the emerging elite of industry and commerce that the Prussian state still remained flexible in bending to the needs of industrial capitalism. The crucial transition of the monied bourgeoisie from old liberals to National Liberals occurred less with the military victories of 1864–66 than with economic reforms of 1858–62.