CHAPTER EIGHT

Conclusion

In 1864 Otto Michaelis, an editor of the National-Zeitung, labeled the Prussian state a “lazy serf” of railroad entrepreneurs. Michaelis, to be sure, knew hyperbole when he wrote it: between 1848 and 1864 the business class never wielded political dominance over the state. As a political economist, however, he sought to point up the favorable conditions for building railroads in Prussia: a government that had shelved plans for railway nationalization; a trade minister who since 1862 had practiced laissez-faire policies; and a state that used the ample share-capital of the railroad industry to promote Berlin as Germany’s leading financial center. The mixed system had successfully nurtured the railroad industry; its further development and greater profits were now left to businessmen.

Historians have focused on this kind of success to reduce the story of business-government relations to the convenient formula of an alliance, which neatly explains the mid-century amalgam of finance capitalism, laissez-faire, and authoritarian government. The evidence adduced in this study, however, suggests that the idea of an alliance serves more as an assumption to fit larger interpretations of German history than as a description of actual relationships in the political economy of mid-century Prussia.

The idea of an alliance rests on the premise of revolution from above, an overarching view of German history that emphasizes the ability of Prussian conservative elites to introduce just enough reform to stave off revolution from below. The importance of the revolution from above in early modern and modern German history is undeniable; it remains the most secure conceptual handrail to guide students through German history. And yet this interpretation only half explains the formative era of German industrialization. Certainly the Prussian state’s constitution by decree in 1848 was a revolution from above. It sapped bourgeois revolutionary vigor and refashioned the principle of a mixed-powers government toward conservative ends. But this does not explain how the preindustrial Prussian state harnessed the accelerating force of the new capitalist economy, a central element of its Staatsraison.
It does not provide a sufficient explanation of how the bourgeois class that led the industrial revolution established its relationship with the Prussian government after 1848.

The problem is not the term “alliance” but what is meant by it. The assumption that businessmen capitulated to the wishes of conservative elites and swapped political docility for economic concessions distorts both the actions and the sociopolitical outlook of this social group. This oversimplified interpretation fails to convey the complex process by which commercial and industrial elites joined forces with the Prussian establishment. More accurately, the amalgamation of new and old elites in postrevolutionary Prussia constituted an unresolved settlement, a process of accommodation in which opposing interests produced compromises for both sides. To render accurately the political resettlement after 1848, we must recognize entrepreneurial elites as agents of their own interests. Proponents of the structural continuity thesis must modify their conception of the social forces that produced modern Germany’s economic foundations.

Conflicts arose between railroad entrepreneurs and government officials. This was hardly surprising. Eager to promote private enterprise and greater financial independence in the 1850s, businessmen were bound to oppose the policies of a state apparatus accustomed to directing the economy for its own purposes. Businessmen registered their resistance to government policy early on, with their refusal to run night trains. The standoff from 1849 to 1853 between Heydt, who made no secret of wanting to own and administrate all railways in Prussia, and numerous railroad companies characterized the defensive posture of railroad directors toward the trade ministry for the rest of the decade. The litigation over night trains rendered a serviceable image for government-business relations in the 1850s: businessmen opposed to government actions using the state to seek a just, legal settlement.

The strained relations with government are further confirmed by the suppressed royal decree of 1856. Government officials perceived the creation of commandite and joint-stock banks as a powerful instrument of a monied bourgeoisie, whose financial clout posed a threat to the political and economic status of the Prussian establishment. The suppressed decree of 1856 marks two important features: the antagonism of the Prussian cabinet toward the business class in the mid-1850s, and the decline of the power of the state to direct and control the economy. The episode revealed that, when prevented from making money, Prussian businessmen did not abide by government wishes. And by undermining and circumventing state policy, Prussian businessmen set their own terms.

The behavior of railroad entrepreneurs in this period reveals a business class capable of both opposition and cooperation with the Prussian state.
When government interests coincided with theirs, businessmen worked with the state. They welcomed state backing in 1842, state intervention during railroad bankruptcies in 1848, and state construction when private investors showed no interest in building the Eastern Railway. This pattern continued through the 1850s. The Rhenish and Cologne-Minden railways, for example, shrewdly negotiated state subsidies and long-term loans to build the Cologne-Deutz bridge, completed in 1858. Prussian businessmen expected and received state support. They tapped state resources when they could and exploited the state's long history of funding private projects of public interest.

Yet entrepreneurs equally demonstrated defiance when material interests were at stake. Although dependent on the trade ministry for loans, charters, and authorizations for stock issue, dividend rates, and timetables, railroad directors refused to comply with orders deemed unfair or injurious to business. In addition to opposing night trains and banking policy, railroad businessmen also protested the terms of the 1853 Railroad Tax, the publication of monthly profits, the state order to build a second reserve fund, the government's refusal to charter new railway companies, and the discharging of employees involved with the Revolution of 1848. Directors incurred thousands of thalers in fines while challenging the encroachments of government. The protocols of the Rhenish Railway (one of the few company papers extant) reveal a decade-long adversarial relationship with the trade ministry. The interests and aims of government officials and railroad entrepreneurs were usually in conflict, not in concert.

It is hardly accurate, then, to speak of a symbiotic alliance, when elites of business and finance were compelled throughout the 1850s to fend off an acquisitive government interested in absorbing the most profitable financial sector in Germany. Heydt not only supervised with a heavy hand but also took over financially strapped companies against their will. (Having taken over seven railway companies within seven years—amounting to tens of millions of thalers of lost share-capital—Heydt might well deserve the epithet of the first "corporate raider.") That the business class was able to ward off total state absorption speaks of its political ability to use bureaucratic channels, the new parliament, and the press to defend its turf.

At issue in the struggle between state and private ownership was the need of the business class to develop means to press its claims. Individually each company defended itself through bureaucratic channels, chambers of commerce, and courts of law. On a corporate level, the creation of five railroad Verbände in the 1850s protected private railroads against state dominance; Heydt's hostility toward these associations confirmed their purpose. And on the parliamentary level, various factions—among them free traders—challenged Heydt's use of public funds for state railroad construction. The in-
creasingly vigilant position among liberal deputies (such railroad investors as Robert von Patow, Karl Milde, Friedrich Harkort, and Ludwig Kühne) transformed the issue of the Railroad Fund into a battle of principle over the legislature's budgetary powers. Heydt's illegal bookkeeping and his penchant for constructing state railways on borrowed money exacerbated his relationship with the legislature, which passed the cabinet's bill to dissolve the Railroad Fund. The Chamber of Deputies and House of Lords secured the profits of Prussia's leading sector for private enterprise.

In short, the continued existence of Prussia's private railroad industry was not a concession. The economic-political activity of the business class was not passive or a retreat from politics. Rather, the various dialogues and protracted exchanges that defended and secured private railroad ownership unfolded as a struggle. Railroad entrepreneurs exerted pressure on the government to win particular business-related gains and scored important successes. They showed no hesitation in articulating their material interests, a form of politics that should not be dismissed as secondary to parliamentary activity. Establishing the right to make money is a political process. As Thomas Nipperdey noted: "Economic interests, economic growth, and economic crises became rudimentary political-social facts. The politics of the economy became a central part of politics." Entrepreneurial assertiveness contributed to Prussia's new economic policies in the 1860s, a political shift that had far-reaching consequences for both domestic and foreign politics. The National Liberal party, for example, derives its political origins as much from the modus operandi of the business class in the 1850s as from military victory in 1866.

The assimilation of the entrepreneurial elite should thus be seen as a dual process of two mutually reinforcing factors: a forceful business class that applied pressure on the state to abandon its tradition of paternalism; and the subsequent government response, which reformulated economic policy and gradually retreated from the marketplace over the course of the 1850s. To understand this process, both elements need to be weighted equally. Responding to business interests, the Prussian state acquiesced in key economic questions. It reformulated its economic policy to give the business class greater space to pursue private enterprise. And the business class, by achieving discrete economic reforms through protest, negotiation, and compromise, ultimately lent support to the Prussian state, enabling it to survive in the era of industrial capitalism.

The eventual nationalization of Prussian railroads in 1878/79 merits attention, especially in regard to how it affects this study's argument on government-business relations. By 1865 private railways dominated the Prussian network; their 3,672.75 kilometers outweighed the 1,701.95 kilometers of railway owned and operated by the state. After the reorganization of Ger-
many in 1866, the balance tipped once more in favor of the state, for the Prussian state absorbed the Hessian and Hanoverian state railways. This addition of approximately 1,200 kilometers to the state-owned network gave Bismarck the impetus to propose the nationalization of all railways in 1866–67.

Examining railroad companies in the years 1866–78 reaffirms the assertiveness of business elites in shaping the railroad industry to their needs and not necessarily to those of the state(s). The railroad industry rebuffed plans for nationalization as long as railways wished to remain private, that is, as long as they persisted as a lucrative sector for capital investment. With the help of particularist interests of southern states, profitable private railroads were able to fend off the growing cries for state ownership and a simpler tariff system in 1866–67. An Imperial Railway Office was established in 1873 to streamline the tariff system for private railways but remained ineffective because of what Bismarck called “the railway powers,” finance capitalists who refused to accept the interventionist presumptions of a new imperial agency demanding lower and simpler freight rates. In 1876 Bismarck sought again to nationalize the empire’s railways and was defeated on two counts: first, by the middle German states and private railroad interests; and second, by his own ministers Otto Camphausen and Heinrich von Aachenbach, who in the space of two years could not agree on a smaller bill that would focus exclusively on Prussia. He accused them of passive resistance to his policies because of their close connection to entrepreneurial circles, which was largely true.

Bismarck and Albert Maybach, the chief of the newly created ministry of railroad affairs, did however succeed in nationalizing railroads with a law in December 1879. Nationalization was part of the broad-scale tax reform that “refounded the Reich” in 1878/79, jettisoning free trade to revive the interventionist state. Tariff protectionism and a nationalized rail system promoted the interests of both heavy industry and agriculture and appeared to bludgeon railway capitalism—financiers and capitalists were apparently denied the right to profit from administrating railways and trading their shares on the bourse. But, although other commercial circles did complain vociferously about the sweeping changes of 1878/79, the view from the railroad industry suggests that the law was mostly welcomed. Hans Viktor von Unruh and Ruhr industrialists opposed the plan, but most railroad entrepreneurs saw it as a fair settlement. Since 1873 railroad stocks had experienced a downward trend, and the late 1870s were particularly hard. Whereas the average interest rate on German railroad stock stood at 7.3 percent in 1871, it slid to 4.7 in 1874 and 4.4 in 1879. Such returns were not much better than state paper. Railroads yielded to other economic sectors as stock market leaders (electrical engineering, chemicals, and machine building), compelling railroad directors to accept generous state compensation for shares that might never rise to previ-
Thus, unlike earlier attempts in the 1850s and 1860s, a consensus for state ownership existed—most railroads surrendered willingly, seeing it as an opportune time to bail out. Making the best of a persistent commercial slump (and disappointing freight volume), railroad capitalists also benefitted from the swing to state interventionism. Hence the railroad industry, as a sector involved in shipping and international commerce, does not conform neatly to the interpretation that Bismarck, by splitting commercial and heavy industrial interests, could ally iron with rye. The railroad industry was brought into the purview of the interventionist state with the blessings of the major private lines. In this respect, we do not see a great "second founding" in government-business affairs but, rather, a longer continuity of business sectors using the state for their needs. The eventual nationalization of railways was as much a triumph for smart capital as it was for state power.

Overall, then, the revolution-from-above model to explain the political economy of the first industrial revolution clearly has grave limitations. Through the window of the railroad industry, one can mark the growing connections between the state and the business world and the latter's ability to influence policy. Businessmen penetrated ministerial policy-making before 1848, contested state economic policy in the 1850-58 period, and successfully agitated for favorable economic and legal settlements after 1858. Business elites never abandoned their privileged status of direct access to ministries (manifesting the impact of the bureaucratic state on business political culture) yet also used the growing public sphere of the press, lobbies, parliament, and chambers of commerce to press for their needs. After 1858 the government responded to the agitation of railroad companies, lobbies, stock market investors, and the press for business reforms with key economic legislation. The willingness of the trade ministry to prepare bills that pleased the business world marks the many ties, formal and informal, between the bourgeois businessmen and the Prussian state. In fact, business politics after 1840 confounds German historians' general dichotomy of state vs. society and the more specific binary paradigm of bureaucratic-noble state vs. bourgeois civil society. The embourgeoisment of the Prussian establishment is pervasive in sectors pertaining to political economy. In sum, characterizing the state's ability to control the political and economic dimensions of industrialization as a "revolution from above" is empirically inaccurate and conceptually skewed. More satisfactory is viewing postrevolutionary state building as a mutual accommodation of capital and political authority: an evolving settlement negotiated to the full satisfaction of no one party.

In viewing the economic-political goals of railroad entrepreneurs during period 1830-70, we see significant limitations. Businessmen's chief concerns were attaining particular, business-related needs; even economic principles
were dispensable. They ostensibly defended the inviolate rights of free trade, the joint-stock principle, the right to association, and the superiority of private over state enterprises. But the driving element behind these principles was the practical necessity of making money. When their material interests so dictated, businessmen abandoned such time-honored doctrines as free trade and private railways, as they did in 1878/79. The abandonment of economic liberalism in 1878/79 was consistent, however, with the political tactics of the business class since 1830, regularly vacillating between state intervention and free trade as an expedient to profit.

The sole principle consistently upheld by businessmen throughout this era was perhaps the belief in law, especially as it affected property relations. Before 1848 the antipathy for arbitrary government among liberal businessmen fueled their espousal for a state ruled by constitutional law (Rechtsstaat). But their proposals for a constitutional settlement (before and after 1848) revealed what kind of lawful state they envisioned. It was not such inalienable rights as liberty or universal suffrage (which most businessmen firmly rejected) that made the business class press for a constitution. Rather, they sought laws that distributed taxes equitably, secured property rights, and promoted commercial progress. Rhenish burghers, as we have already seen, devised the three class system of voting in 1845, an electoral procedure that underscored the primacy of wealth and property over equality. The economic brokering that reached new heights in the Reichstag in the 1880s and 1890s was not a "deviation" from German parliamentary tradition. On the contrary, it was the logical outcome of Rhenish-Prussian political practices articulated since French rule on the Rhine.¹¹

Because the business class never challenged the political rule of Prussia's conservative elite, it receives poor marks from historians, who assume modern capitalists should prefer democracy to authoritarian forms of government. This assumption, while perhaps noble, is not historically grounded. Although the entrepreneurial class was the engine of a new economic order, it is anachronistic to assume that industrial capitalists were irremediably estranged from the aristocracy and state apparatus of the old political order. We should place the actions and attitudes of businessmen within the context of early industrialization, a time when businessmen tried to accommodate new economic forces to old social structures. Prussia's entrepreneurial elite, too, was acculturated in the estate mentality of status and occupation. As men of property and intellect, the Handelsstand aspired to rise above local government and strove to integrate into the ruling elite, not to supplant it. Most important, between 1830 and 1870 the Prussian business class never intended to raze the state, but rather to modify it to better serve the interests of commerce and industry.

This accommodating, reformist attitude of the business class derives
partly from its relations to the state in the late eighteenth and early nineteenth centuries. Prussia's bureaucratic machinery preceded the emergence of an entrepreneurial class, which partially owed its early successes between 1770 and 1820 to government reforms. Businessmen first practiced capitalism under state paternalism and benefitted from loans, subsidies, customs unions, and market-oriented law. In spite of manifest disadvantages, businessmen recognized Prussia's economic achievements and consequently admonished the monarchy after 1830 to reform politically or be overthrown. In the pre-March era (1830-48) they advocated modifying bureaucratic absolutism with constitutional checks, a political system that would reform but not undo the army, aristocracy, or even the bureaucracy. Before 1848 businessmen commonly disparaged the Prussian government for its arbitrary actions, unwarranted paternalism, and its slow execution of policy. Nonetheless the business class envisioned political and economic reform within the structure of the Prussian state, which it largely perceived as a guarantor of commercial prosperity. It is not surprising — nor a bourgeois "surrender" — that in 1848 such businessmen as Camphausen, Hansemann, and Heydt accepted ministerial positions and worked with the king and his bureaucracy to arbitrate between new and old. Radical democratic upheaval was never an element in their political outlook.

In the 1850s the business class continued on a similar course. It pursued specific material gains and, in so doing, sought to reform state economic policy. (That many idealist participants in the 1848 revolutions subsequently converted to the Realpolitik of the 1850s should not prevent us from recognizing the political continuity of the business class.) After 1849 businessmen worked with the government but criticized it, too, much as they had before 1848. The lesson of the 1850s, however, was perhaps more significant. Through both conflict and cooperation the business class tested the capacity of the Prussian state to bend to the needs of modern capitalism. With banks, railroads, and coal mines, the Prussian state relented to protests and reformulated its economic policy to accommodate the demands of its business class. Sometimes voluntarily (as with coal mines), sometimes grudgingly (as with commandite banks and railroads), the state relinquished certain controls over the economy, acceding greater autonomy to private enterprise. In a slow and unspectacular way the dialogue that the business class had developed with the Prussian state since the 1830s produced profitable results by the late 1850s.

It is striking that Prussia's business class remained content to negotiate with the state for particular gains; wealthy capitalists sought neither direct political power nor resolutely pursued constitutional issues. The trade minister's unchecked authority, for example, was commonly criticized by business circles. But railroad businessmen readily accepted Heydt's dictatorial powers when it meant the swift execution of favorable decisions (a dividend guaran-
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For short-term gains businessmen tolerated ministerial authority whose potential for abuse they knew first hand. Direct negotiation with ministries also undermined the power of parliament. Ministers like Heydt often presented retroactively the financial transactions between railroad companies and the government to the parliament, making the chamber's task of enforcing its budgetary powers more difficult. In brief, businessmen alternated between direct negotiation with the bureaucracy and indirect arbitration through the parliament, press, and courts to attain their desired settlement. This blend of strategies reveals a greater interest in expediency than in adherence to legal spheres of political rule and administration. The fluid, ill-defined spheres of power in the business world of mid-century Prussia suggest much about the commitment of business elites to constitutions and their ambivalent attitude toward the state.

Business cycles played an important role in the dialogue between businessmen and state officials. It would be an exaggeration to link directly the behavior of businessmen to cycles of economic growth, but a rough correlation is present. The constitutional movement of 1830–47, and its accompanying criticism of state paternalism, occurred during an overall period of economic expansion. The decline in production between 1846 and 1849 and the threat to property in 1848 encouraged greater reliance on both state credit and state authority.

Similarly, the boom cycle of 1850/51–57 produced a critical, independent spirit among business elites. The willingness of railroad entrepreneurs to undermine state banking policy and to contest numerous ministerial rescripts spoke of assertive opposition. But the depression of 1857–59 returned government-business relations to their old course. The first financial crisis in world capitalism reasserted the business class's reliance on the state, for it narrowed the options for large-scale capitalism. With money and confidence scarce, railroad entrepreneurs looked to the state for regulatory laws (increased money supply, suspension of usury ordinances), direct assistance (loans, dividend guarantees), and safe investment (state paper, loans to government). With promotional commercial banking made riskier after 1857, Germany’s new investment banks turned to state loans as a cautious but profitable undertaking. Once reviled as “agents of the French” by the government in 1853–56, such railroad financiers as Gustav Mevissen, Abraham Oppenheim, and David Hansemann became the chief figures of the Prussian Consortium, the collection of bankers that intermittently financed war loans during the era of unification, 1859–71.

In retrospect the contingency of the 1857 crisis and the accompanying shift in government-business relations was a critical juncture in German history. It decisively influenced relations between high finance and politi-
cal power. By reestablishing the Prussian state as an economic necessity, it shaped the contours upon which the economic foundation of the future German empire was laid. How this change exactly affected the business class during the Prussian constitutional conflict of 1862–66, which occurred during a pronounced upward swing in economic growth, is difficult to measure. It is, however, hard to dispute the overall effect of the long business cycle of 1850/51–1873, which benefited both the business class and the Junker landholding class (whose grain sales rose on the free market). That the economic interests of these two classes coincided with each other during a crucial period of state building—especially during the constitutional crisis—remains an essential structural peculiarity of modern German history. We could speak, then, of a conjunctural Sonderweg, but only in qualified terms.\(^{12}\) To refer to business cycles without reference to the larger context of Prussian political culture would be a facile, unconvincing approach to the problem.

The effect of the 1857 crisis was consolidated, furthermore, by the political-economic gains of businessmen in the New Era. Their interests were weighed by both the cabinet, which researched and initiated important economic reforms, and the legislature, which cooperated with ministers and passed their bills. Between 1859 and 1862 strong signals of a juste milieu between old and new elites appeared. In 1859, at the tail end of the depression, the government plan to buy out all railways was abandoned. In 1861, the Landtag passed a property tax for the landed estates in the eastern provinces, and the government lifted in the same year the final restrictions of the direction principle in coal mining. In 1862 Prussia signed a free trade treaty with France and completed the Commercial Code (begun in 1857), which earned the applause of businessmen.

These changes suggested the willingness of the Prussian establishment to compromise on long-standing grievances (like the disproportionate tax burden borne by the western provinces) and grant legal and practical reforms that allowed businessmen to expand their markets and industrial base. These gains showed the ability of Prussia's New Era cabinet and legislature to arbitrate between business and landed classes, state and private interests. Similarly, such incidents as the suppressed decree of 1856 showed the relative worth of the constitution as a check to royal arbitrary actions.

The developments from 1858 to 1862 supported the contemporary popular belief that material progress would inevitably bring political advances. The appointment of Heinrich von Itzenplitz as trade minister in 1862 capped a series of events that seemed to anchor bourgeois interests in the center of Prussian politics. By the time the constitutional conflict began to escalate to crisis proportions in 1862, business elites had seen that pressure on the government brought results—a favorable economic policy. Business elites had
learned over the course of the 1850s that industrial capitalism could flourish within the constraints of the Prussian conservative state.

The case-by-case process through which business and government elites established terms to accommodate capital and conservative political authority played, then, an indisputably important role in the consolidation of Prussian state power after 1848, and it became an essential precondition to unification. If historians are to understand the structural continuities in German history, we must begin to recognize the role played by businessmen in establishing the conditions for that continuity in the postrevolutionary state building period. Placing the political aims and actions of Prussian entrepreneurs in proper context in the period 1830–70 supplements our explanation of how industrial capitalism and authoritarian government uneasily accommodated one another in mid-century Germany.