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Prussian Economic Policy

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WHEN THE STATESMEN at the Congress of Vienna in 1815 established the Germanic Confederation, the number of German states had been reduced from over three hundred to thirty-nine. Yet this statement gives an impression of greater territorial unity than actually existed. By the time the Confederation was dissolved in 1866, the number of states had declined from 39 to 33, through the extinction of dynasties and through certain territorial consolidations. More important than the number of states was the fact that most of these states were made up of scattered provinces. Even Prussia, the largest state, was separated into an eastern and western section. To pass from one to another, all persons, all trade, all troops had to pass over the terrain of some other state. Moreover East Prussia and the former Polish provinces, although parts of Prussia, were not parts of the Germanic Confederation. Likewise some of the Hapsburg Austrian territories were part of the Confederation, others not. The line was not drawn by nationality, however, and the Hapsburgs thrust into German affairs, lands inhabited predominantly by Czechs, Slovenes, Croats, and Italians. Luxembourg ruled by the King of Holland, Hanover ruled by the King of England, and Holstein and Lauenburg ruled by the King of Denmark, were members of the Confederation in spite of their connections with foreign states.

If Germany was territorially disunited, it was even more disunited economically. Railways, of course, did not exist as yet, and it was only in the succeeding years that a real program of paved road construction was undertaken. Nor did Germany have anything like a network of canals. Each state had its own tariff system, and in most

cases there was no uniformity within each state. Prussia, for example, had over sixty different custom and excise rates. Tariffs were normally levied not at the frontiers, but at various interior stations. Tolls were charged on rivers and roads, and transit duties were regularly collected. Over thirty tolls had to be paid between Strasbourg and the Dutch frontier on a cargo shipped down the Rhine! Heavier Dutch duties had to be paid further on. Not only was legitimate trade hampered but smuggling was encouraged by the system.

To territorial and economic disunity must be added political diversity. Joined in the confederation were a portion of an empire, five kingdoms, one electorate, seven grand duchies, eleven duchies, ten principalities, and four free cities. Although there was much difference in the governments, there was, it is true, a common note of authority in all of the princely states. The state constitutions foreseen in the Vienna Act were slow in making their appearance, and when they were granted, even the most liberal of them were in essence conservative documents.

The affairs of the Confederation itself were handled by a Diet which was in reality a body of diplomats representing the different states. Votes were always cast on instructions from the state governments. Various methods of voting were devised. For most purposes, business was transacted in an Inner Council where the 11 large states had one vote each and the lesser states were grouped in six curiae each with one vote. For other purposes the states met in a plenary session where the largest states each had four votes and the smallest at least one. Here a two-thirds majority was needed, although questions

involving the basis and organization of the Confederation required a unanimous vote. This meant that any constitutional reform was subject to the *liberum veto* of even the smallest of the states.

To offset this diversity there was in Germany an awakening spirit of German nationalism, the result of a common effort to overthrow Napoleonic domination. This antagonism to France became increasingly important as a national force driving the Germans to seek strength in unity. This was true in the war scare of 1840 when it was feared that France might offset diplomatic defeats in the Near East by an expedition to the Rhine, and also in the years 1866-70 when Napoleon again cast covetous eyes on the Rhineland. This fear continued into the twentieth century.

Not only German nationalism but also German liberalism favored more unity within Germany. The numerous German princes not only jealously sought to safeguard their prerogatives, but also fought to prevent curtailment of their sovereignty by the creation of a centralized state. Conservatism and reaction struggled to maintain German particularism, while the supporters of liberalism and constitutionalism, and later the socialists as well, sought to create a united German state. It has been the conservatives and not the liberals who have traditionally favored a policy of state rights in Germany. This remains true today.

THIRD FORCE

In 1815 Austria was accorded the presidency of the Confederation, and for decades Metternich steered a reactionary course under the jealous eyes of the Prussians. In Bavaria and Württemberg a movement arose to set up a counter to these two great powers by creating a bloc representing "pure Germany" within the Diet. After all, both Prussia and Austria ruled over non-German lands and their policies were affected by this fact. But this plan of creating a third force, a Triad as it was termed never materialized, although it cropped up from time to time. The South German princes were jealous of each other and the leadership which Bavaria would

inevitably assume was not attractive to them. Nevertheless this idea was evidence of the need for greater political consolidation.

It was realized at the Congress of Vienna that greater economic unity within Germany was desirable. In Article 19 of the Federal Act it was stated that the Confederated States reserved "to themselves the right of deliberating at the first meeting of the Diet at Frankfurt upon the manner of regulating commerce and navigation from one state to another . . ." Some unsuccessful attempts were subsequently made in the Diet to deal with these economic questions. But the Diet was not constituted in a fashion to facilitate tariff bargaining and each state sought to maintain its own advantage. Moreover, Metternich was more interested in establishing a common tariff for the Hapsburg lands than in the tariff problems of Germany. What Austria was not interested in doing, Prussia was willing to undertake. Prussian statesmen sought to achieve some economic unity within Germany and as this took shape worked untiringly to use it as a foundation on which to erect a united Germany under Prussian leadership.

Prussian agriculture, industry, and commerce emerged from the Napoleonic wars in a depressed condition. Foreign products flooded the country and when attempts to obtain tariff concessions from other European states failed, Prussia undertook a thorough revision of her own tariff system. Only then would she be able to bargain in negotiating trade treaties. In 1818 Prussia worked out a uniform tariff law for her eastern provinces which went into effect in September of that year and another law for the western provinces which became effective January 1, 1819. "It was not until 1821 that a single tariff law became effective for the whole Prussian kingdom. The collection of tariffs was now as a rule transferred to frontier stations and a modern tariff system came into being. The duties were very moderate, amounting to about 10 per cent of the value of manufactured goods and about 20 to 30 per cent on colonial products.

The new Prussian tariff was not well

received. Since Prussian territory completely surrounded bits of territory of other German states, the very existence of these states was jeopardized by the Prussian tariff and transit duties. In October, 1819, Schwarzburg-Sonderhausen signed a treaty which incorporated its scattered enclaves into the Prussian customs system. Prussia was to collect all duties but was to share tariff proceeds in accordance with the ratio of the population of these Schwarzburg-Sonderhausen territories to the population of the eastern provinces of Prussia. Within the next few years, various other enclaves were incorporated into the Prussian tariff system on this basis. It required a certain amount of coercion before Anhalt-Köthen and Anhalt-Dessau could be brought to join the Prussian system in 1828. These petty princes had found that it was a lucrative business to convert their territories into a smuggling center.

Reaction in other states to the Prussian tariff was immediate. Counter unions were attempted, but Prussia scored first when it was able to conclude an agreement in 1828 with Hesse-Darmstadt. This united Prussia with a middle German state and gave it a springboard to the south. This agreement is also of prime importance because it set the pattern for subsequent accessions to the Prussian customs system. Tariff proceeds were to be divided in accordance with relative populations (which was like the agreements with the enclaves), but each state was to be responsible for collecting tariffs at its respective frontiers. This was unlike the enclave agreements where Prussia administered the tariff, and Hesse-Darmstadt entered the tariff union as an equal party. Future changes in tariff were to be made by mutual agreements. This treaty presaged the future federal form of political unification of Germany.

The conclusion of the Prussian-Hessian treaty coincided with a painstakingly negotiated Bavarian - Württemberg customs union in 1828. In that same year, 18 middle German states formed a Middle German Commercial Union. This was not strictly a customs union but rather a trade federation, the main purpose of which was to prevent the northern (Prussian-Hessian) and

the southern (Bavaria - Württemberg) unions from expanding. Yet most of Germany had now been consolidated into three economic areas. Still going their own way were Austria and Baden in the south, the Mecklenburg states in the north, several minor states, and the free cities.

It was not any sense of German nationalism which drew these states to unite their economies but rather a desire for individual gain. Jealousy and rivalry, not love, brought them together. This motivation continued. Antagonism to the Middle German Customs Union led to a trade treaty between the Prussian-Hessian Union and the Bavaria-Württemberg Union in 1829. The Prussian-Hessian treaty was due to expire in 1834, and the Middle German states had all pledged themselves not to enter into any customs union before that date. As this critical year approached, tariff negotiations took on a quickened tempo. It was largely due to the tenacity and insight of some members of the much maligned Prussian bureaucracy that on January 1, 1834, the three unions of 1828 were combined into one *Zollverein*. Although special privileges were accorded to some states, at least 18 states were united by common economic ties. Among them were the major ones with the exception of Austria, and they occupied an area of 162,870 square miles with a population of over 23 million. Henceforth their representatives were to meet in a common body and discuss tariff problems, but changes still required the approval of each state. Fifteen such tariff congresses were held between 1834 and 1863.

The first reaction to the *Zollverein* was the formation in the northeastern section of Germany of a rural customs union known as the Tax Union (*Steuerverein*). This consisted of Hanover (still connected with Great Britain through a common sovereign), Brunswick, Oldenburg, and Lippe-Schaumburg. There remained the three Hansa towns, the two Mecklenburgs, Schleswig-Holstein, and Lauenburg in the north, Nassau, Baden, Frankfurt-am-Main, and Austria in the south. Within the next years, a number of these states were to join the *Zollverein*.

Even within the territory of the *Zollverein*, complete freedom of trade did not yet exist because of different internal excise taxes. Some states also retained certain monopolies. There was no uniform system of weights and measures, nor was there a common coinage system. In 1838 a ratio was worked out between the Prussian *thaler* and the South German *florin*, and it was agreed that in addition to their own coins each state could issue a *Vereinsthaler* (called the double *thaler* or champagne *thaler*) equal to two Prussian *thalers* or three and one half South German *florins*. It was not until the German Empire was created that Germany had a common coinage.

Germany was at this time predominantly rural with pitifully small industries and very few industrial centers. Yet in these very years the industrial revolution began to make its way, and with it the pressure for economic unification increased. In 1835, the year after the *Zollverein* was founded, the first German railway was built. As Treitschke puts it: "It was the railways which first shook the nation out of economic stagnation completing what the *Zollverein* had merely begun. So vigorously did they influence all habits of life that by the 'forties Germany had already assumed a completely different aspect."

The *Zollverein* treaties were of such mutual advantage that no difficulties were encountered when it was time to renew the agreements in 1841. Indeed, most of the states except Saxony benefited at the expense of Prussia. Total as well as per capita revenues were largest in Prussia, and yet distribution was on an equal per capita basis. Prussia not only furnished the leadership but also to a large extent financed German unification.

The united German state which the Frankfurt Assembly attempted to establish in 1848 would have brought German economic union as well. But this movement for a united Germany failed. Even the later Prussian effort to establish a smaller Prussian union was shattered before the opposition of Austria and the displeasure of the Czar of Russia. While Austria had her way in re-establishing the Germanic

confederation, Prussia was successful in maintaining the economic leadership of Germany.

Austria in 1850 established a uniform tariff for all the Hapsburg lands, and in 1852 introduced a system of lower tariffs. In comparison to those of the *Zollverein*, these were still protectionist. This appealed to the South German states who were at this time opposed to Prussia's free trade policy. Making capital of this South German sentiment, Austrian statesmen made a serious effort to obtain admission to the *Zollverein*. A large economic unit embracing Germany and the Hapsburg lands did offer certain enticing prospects. The Prussians were unalterably opposed since it would cost them their leadership in Germany. They countered the Austrian proposal by bringing about the dissolution of the northern Tax Union and the admission of these states to the *Zollverein*. For the first time, the *Zollverein* territory extended to the North Sea. Faced by the possibility of a Prussian-North German economic front, the South German states were unwilling to sacrifice their favorable financial arrangements in the *Zollverein*. Austria had to be content with a tariff treaty and the promise to discuss her admission to the *Zollverein* in the future.

BISMARCK

Thanks to the Crimean War and the Italo-Austrian War of 1859, these discussions were delayed, but they came to the fore when negotiations got under way for the renewal of the *Zollverein* treaties which were due to expire in 1865. By this time Bismarck was at the head of Prussian affairs. The South German states did not like the free trade treaty which Prussia had negotiated with France in 1862 and which now was ready for approval by the *Zollverein*. Bismarck had to threaten to break up the *Zollverein* and negotiate agreements with those states which were willing to cooperate with Prussia before the South Germans agreed to a renewal of the old *Zollverein* treaties. Again Austria remained outside the fold. Economically Germany was definitely being organized on a "small German" basis, i.e., without Austria.

Political tension grew. The events of 1848 had shown the impossibility of achieving political unification in either Italy or Germany so long as multi-national Hapsburg Austria was involved in their affairs. Italy's unification was achieved through the wars of 1859 and 1866 against Austria. Likewise German unification was the result of the war of 1864 when Denmark was removed from German affairs, the war of 1866 when Austria was forced to withdraw from Germany, and the war of 1870 when France was forced, at least temporarily, to give up her opposition to German unity.

In the War of 1866 with Prussia, Austria was joined by a number of German states. Yet, so firmly was the *Zollverein* established, that these same states continued to send their tariff collections to Berlin. As a result of the war, Bismarck was able to engineer the establishment of the North German Confederation, made up of all German states north of the Main River. Since this was both a political and an economic union, it threatened to disrupt commercial ties between North and South Germany. No one really wanted this, and the South German states were eager to sign a new *Zollverein* agreement. This time, however, tariff questions were not to be subject to the approval of each separate state but were to be settled by a Tariff Parliament. This was to be created on special occasions by adding representatives from the South German states to the Upper and Lower Houses of the Parliament of the North German Confederation. Since Bismarck had provided that representatives to the lower house should be elected by universal manhood suffrage, this meant that for the first time since 1848 popularly elected representatives from all Germany sat in one representative body.

The hopes of many that the Tariff Parliament would broaden its competence to other national affairs did not materialize. As a matter of fact, there was hardly time for that. The South German states had supplemented their economic ties with the North German Confederation by negotiating defensive alliances. These came into operation during the war with France in

1870 and from that conflict emerged the German Empire.

Often in discussing the unification of Germany, Bismarck's "blood and iron" policy is expounded, while the extent to which he and Prussian statesmen before him forged an economic basis for Prussian leadership is neglected. Prussia had carefully not created a unitary economy, but had united a number of economies on a federal basis. This was also the basis for the political unification which Prussia engineered. Bavaria, Württemberg, and Baden were guaranteed not only special economic privileges, but also special political rights. Indeed some states were even permitted to be a part of the Empire without being a part of the tariff system. Thus Bremen and Hamburg did not join the Imperial Customs Union until 1888. On the other hand, Luxembourg, while politically independent, was a part of the German customs union until 1919. Germany was the only European state outside of Switzerland to be organized on a truly federal basis.

There are greater differences in federal than in unitary states, and the German Empire had its share of distinctive features. In contrast to the United States where all states have to be republics, the German Empire was a union of kingdoms, grand duchies, duchies, principalities, and free cities. In the United States all states have equal rights, while in the Reich some states had important special privileges. In the United States, national citizenship is primary; in Germany, state citizenship was primary and by being a state citizen a person became a citizen of the Empire. In the United States there are special federal officers and special federal courts to enforce federal laws; in Germany federal laws were normally enforced by state officials and state courts. In the United States, as in Germany, the federal government had enumerated powers. Yet the sum total of power delegated to the national government was greater in Germany. Above all, it had the authority to enact federal commercial, civil, and criminal codes of law, which exercised a great influence in continuing the work of national unification.