

The Rise and Fall of the Railway King Henry Bethel Strousberg: Difficulties of International Railway Investments in Germany in the 1860s

Ralf Roth (Johann Wolfgang Goethe-Universität, Frankfurt, Germany)

The topic of our conference concerns significantly important international financial transactions that have taken place across national borders. In this context I will focus on a major investor, the German railway king Henry Bethel Strousberg. Strousberg first established railway shares not only as an act of national unity but also to create an extensive European-wide network in the 1860s. He worked together with British investors in the construction of some of the German railway lines and later invested a great deal of his own capital in foreign countries like Russia, Hungary, and Romania. I would like to discuss the role of this financier and ask the question:

- When and why were railway investments coming from foreign investors of great importance to the construction of the German railway network?
- How difficult was it for foreign investors to realise their interests in light of the German railway law and Prussian government policy?
- What were the economic and political consequences of railway investments across the borders?

By 1871, the year of the foundation of the German Empire, Strousberg had reached an astonishing pinnacle in his career. First starting out as a merchants trainee he eventually became an established and wealthy member of the educated middle class. As a railway entrepreneur and substantial landlord he could have almost entered the Prussian aristocracy. He moved between the countries of Europe apparently without any trouble and could feel at home in the United Kingdom as well as in Russia or Romania. He invested his own capital as well as that of foreign investors in his railway projects across the border. Although he had broken through several cultural borders of different social milieus he fall

back on the level of an educated citizen at the end of his life. For a while he became the focal point of discussion throughout Europe. This man had initiated a heavy international crisis which involved not only the states of Prussia and the United Kingdom but Austria, Turkey and Romania as well.³¹

Ascent from a small social milieu

Who was Bethel Henry Strousberg? He came from a Jewish middle class family who lived in the eastern part of Prussia. After becoming an orphan at an early age he began training with a merchant in London in 1839 and changed his name from Bartel Heinrich to Bethel Henry.³² Strousberg did not only Anglicise his name but also converted to the Anglican confession and married the merchant's daughter, Mary Ann Swan in 1845. Strousberg was an autodidact and wrote contributions for English newspapers and for his own magazines he had founded meanwhile. He later assumed the leading position various life assurance companies. Although he had been sent to prison for three months for embezzling money from a building society he still successfully managed to maintain a secure middle class livelihood. However it was not long before the forgotten scandal became an object of public interest again in 1854 thus forcing Strousberg to escape back to Berlin. In his autobiographical writings he metaphorically described this as an "insurmountable feeling of returning back to my fatherland". After some difficult years financially he once again successfully embarked upon a second career as a general agent for an English assurance company. His financial rebound and personal success was only possible because the general economic climate in these years.³³

³¹ The historian Fritz Redlich described Strousberg as one of the strangest and most spectacular figures in the German world of financiers in the second half of the nineteenth century. See *Fritz Redlich, Two Nineteenth-Century Financiers and Autobiographers. A Comparative Study in Creative Destructiveness and Business Failure*, in: *Economy and History* 10, 1967, 37–128, in this case 37pp.

³² The conversion of names had a tradition in the Strousberg family. In the course of the general Prussian name conversion of 1813 they changed the family name from Baruch to Strausberg. Strousberg himself became the first name Baruch Hirsch that was changed already at home to Bartel Heinrich.

³³ See *Bethel Henry Strousberg, Dr. Strousberg und sein Wirken. Von ihm selbst geschildert*. Berlin 1876, 23. See also *Joachim Borchart, Der europäische Eisenbahnkönig Bethel Henry Strousberg*. München 1991, 24pp. u. 39pp.

After Germany had overcome the economic crisis of 1857 there were greater demands being put upon new railway lines because an upturn in the economy meant an increase in rail traffic. This concerned, in particular, the industrial regions in Western Germany but also the more rural areas in Germany's east. At this time the railway network of Germany was limited in its coverage leaving out numerous regions from the service of the railway companies. At the same time liberals began to fight for the reform of the Prussian constitution against the conservative government. This period of history was referred to as the "new era". The first thing the liberals managed to achieve was an end to the Prussian railway policy which, step by step, had been nationalising the railway companies since the end of the revolution of 1848. By the end of the 1850s the liberals had cleared the way for a second period of private engagement in the railway sector. But just as in the time before, railway construction was burdened by the restrictions of the railway law from 1838. Governmental control caused expensive planning and construction costs and significantly restricted the trading of shares. Aside from other restrictions shareholders were obliged to pay the entire price when they signed shares and it was forbidden to sell shares under value - under "pari".³⁴

Entrepreneurs who were interested in taking advantage of the economic upturn of the 1860s had to surmount these obstacles. As it turned out Strousberg was the best candidate with the perfect credentials to deal with the matters at hand: His journalistic abilities ably prepared and guaranteed him success in his public relations work. As an insurance broker he was well versed in the innovative models of financing and as a journalist experienced in economic affairs he was familiar with the newest logistical achievements of modern English railway construction. It was only by chance that he came into contact with an English dele-

³⁴ Shareholders could only profit from a fixed interest which was not very attractive in comparison to the more secure state bonds. Investments in railways were not very attractive and because of that their construction stagnated. For further problems of the railway law see *Karl Ottmann*, Bethel Henry Strousberg. Eisenbahnkönig der Privatbahnzeit, in: *Archiv für Eisenbahnwesen* 70, 1960, 167–199, 178f. and in comparison with the English railway construction see *Volker Then*, Eisenbahnen und Eisenbahnunternehmer in der industriellen Revolution. Ein preußisch/deutsch-englischer Vergleich. Göttingen 1997, 128p.

gation that was looking for opportunities to invest their capital into the Prussian railway network. Strousberg later described this contact in his own words:

“At the meeting of the foundation of the Tilsit-Insterburg Railway I was asked for advice and became a representative of the English finance committee. (...) An English delegate named Hendry offered to collect two thirds of the capital that was necessary for the construction of the railway line, but this was conditional upon the German members bringing in the other one-third. The Germans however, were not convinced. So Hendry had to find further British investors who would sign shares and would also be interested in a place on the advisory board of the company.”³⁵

In the end Strousberg did manage to find a way for these British investors to circumvent the regulations of the railway law. Rather than correlating the shares with money, his trick was to correlate them with services. For this purpose he introduced a particularity of the English system of railway construction into the project. This was the so called “contractor” or “general entrepreneur” which in Germany was translated, “Generalunternehmer”.³⁶ After the railway company had received the concession from the state they hired a general entrepreneur. This man was to be responsible for building the line according to the quality regulations of the law as specified and monitored by the state government. He and all of his expenditures for construction were paid in shares. Unlike the shareholders of the company, the general entrepreneur was not restricted in the trade of the shares. He was able to sell shares under market value which made it easier to raise funds. It was his skill and ability that made possible to come under the projected cost of construction without sacrificing quality. This strategy was referred to as the “Strousberg system”. Although it only met the spirit of the

³⁵ *Bethel Henry Strousberg*, Dr. Strousberg und sein Wirken. Von ihm selbst geschildert. Berlin 1876, 128p.

³⁶ See Dieter Ziegler, Eisenbahnen und Staat im Zeitalter der Industrialisierung. Die Eisenbahnpolitik der deutschen Staaten im Vergleich. Stuttgart 1996, 159; Dieter Ziegler, Eisenbahnbau und Kapitalmarktentwicklung in England im 19. Jahrhundert. Ein Sonderfall?, in: M. Köhler u. K. Ulrich (Hrsg.), Banken, Konjunktur und Politik. Essen 1994, 24–41; *Borchart*, Eisenbahnkönig, 50pp., and Manfred Ohlson, Der Eisenbahnkönig Bethel Henry Strousberg. Eine preußische Gründerkarriere. Berlin 1987, 49ff.

law in a formal sense it did meet with the full approval of the Prussian trade ministry that was responsible for railway construction.³⁷ Indeed Strousberg and the English Finance Committee won the application for a concession of a railway line from Tilsit to Insterburg in the east of Prussia. But of more importance was that Strousberg had shown that private investments in railway construction could once again realise profits. Strousberg had heralded in a second decade of private investments in an ever expanding railway network after its first blossoming in the 1840s.

Between 1863 and 1868 Strousberg completed many further projects in Eastern Prussia. At this time he constructed the line from Berlin to Görlitz and railways even further away in the regions around Breslau, Halle and Hannover. During this period Strousberg had invested 300 million marks in the construction of 1.700 kilometres of rails or 15 per cent of the Prussian network. In only five years he achieved a strategic position in the railway network of Germany. However, he still needed a few more links to complete a connection between the three major industrial regions of Germany, the Ruhr region, Saxony and the industrial regions of Silesia. With this link it also could circumvent the railway hub of Berlin on a southern track.

The revenue from these railways made it possible for Strousberg to expand his area of activity to the east and south-east of Europe. Between 1870 and 1873 he lengthened his railway line in eastern Prussia from Lyck to Brest-Litowsk and from Brest to Gajewsko in Russia. He built the North-east Railway in Hungary which connected the industrial North of the country with the Lemberg-Czernowitz Railway which acted as a connecting line to the European network. But Strousberg's most ambitious project were four railway lines in Romania. All four lines started in Bucharest and then led to Roman, Pitesi, Tehatsch and Berlad. It was ambitious for two reasons, first its size and second, the fact that the state of Romania had just been established and did not possess a workable street network. Nevertheless, the state would eventually receive the most mod-

³⁷ See *Strousberg, Sein Wirken*, 129p., and *Ohlson, Strousberg*, 54p.

ern traffic system available at that time which would provide an infrastructural backbone that would be able to support the rapid transition of the state into a modern society.³⁸

The first chief of a German trust

Aside from building railways, Strousberg also established the first vertical trust in Germany and in only three years. This trust included ore and coal mines, furnaces, rolling mills for rails and machine and locomotive manufactures where locomotives were produced on an assembly line, a long time in fact, before Ford.

In all of these companies Strousberg raised the efficiency of the production and expanded the output of the manufactures. He engaged a rapid growing labour force which he attracted from all over Germany. He increased the attractiveness of his companies by offering workers a wide range of social benefits which extended from schools, pubs, consumer associations to insurance and saving banks. He also reduced working time and built company housing for his workers. Although these activities were hotly debated in the press, he profited immensely from having a peaceful workforce in his factories which made it possible for him to realise his numerous enterprises at the same time. Friedrich Engels wrote to Karl Marx at September 5 in 1869,

“The next thing this guy will do is to become German emperor. Everywhere one goes, everyone is speaking only of Strousberg. By the way the guy is not bad. He has a sense of humor and is a bit of a genius. At any rate he is immensely superior to the railway king, Hudson. (...) Beside his success he has the clear imagination that he will end up as a poor devil. His past is totally unknown, some say he has studied law while others say he was a brothel keeper.”³⁹

³⁸ For the railway projects in Hungary and Romania see *Strousberg, Sein Wirken*, 331–347, and *Borchart, Eisenbahnkönig*, 115ff. u. 122ff.

³⁹ Letter from Frederic Engels to Karl Marx from 5 September 1869, in: Karl Marx/Friedrich Engels, *Werke*. 40 Bde. Berlin 1965, Bd. 32, 370. His social policy did not mean that

Aside from his strategic position in the German railway network his complex enterprises made it possible for him to produce everything that railway constructors needed in one big company. Because of this Strousberg was able to save the profits that would have been realised by the railway suppliers. But even after achieving all of these accomplishments the entrepreneurial vision of Strousberg did not come to an end. He was also engaged in the sale of the railway service. He wanted to run the railways he had constructed himself. Because of this he introduced measures for the establishment of new markets. One such innovation was the creation of market halls and slaughterhouses in order to supply Berlin with fresh food, another was the development of touristic regions in Thuringia. All in all, Strousberg ran a gigantic economic empire united under one hand. His realm stretched from the raw products of mines up to the end product of railways and the distribution of their service. This economic potential was unique in Germany. For a while Strousberg engaged 100,000 workers and was the biggest entrepreneur in Germany.

Strousberg first began his projects at a time when there was a scarcity of capital. Back then railway construction in all of the European countries demanded large sums of money. Nevertheless, Strousberg was able to move tremendous streams of capital without having enough of his own capital. He was in the fortunate position of being financed by four groups of investors. In the beginning there was a group of English investors who were then followed by certain members of the Prussian aristocracy as well as a lot of smaller shareholders in the regions of East Prussia. Shares of Strousberg's railways were eventually traded on all of the European stock markets. But there was one group missing in Strousberg's finance investors. Contrary to the railway construction in the Western parts of Prussia the traditional private banks did not support his proj-

Strousberg did not act as a patrician in his factories: "One would be mistaken if one would believe that I would have presented my workers with anything. In my factories I was the principle and everyone had to fit in with my wishes or those of my directors. The workers had to do something for their loan, and everything I created for them they had to pay for. The worker did not need any handouts." *Strousberg, Sein Wirken*, 48.

ects. They kept a critical distance to the Strousberg system and to the free trading of shares.⁴⁰

The trust of investors

The greatest and most valuable asset Strousberg possessed was the belief and trust his investors had in his business acumen and abilities. Their shared opinion that such a well-educated and cultured figure and talented insurance agent was able to run an economic empire of this size so successfully was nourished by Strousberg's numerous activities and the successful realisation of even greater projects. On another level, his luxurious lifestyle and public persona supported the view that he was indeed a very special individual in society. His lifestyle was composed of many facets. They ranged from his engagement in both the political and social spheres as well as participating in impressive public events. In addition to this, he was also endowed with academic titles and honours and owned land and house properties, not to mention his own newspaper. Contrary to many German entrepreneurs at that time, Strousberg was politically active and was not only a member of the toll parliament but also a representative of the Prussian parliament. For a while he was even member of the parliament of the North-German-Union. He felt at home in the conservative wing and was especially sympathetic towards the free conservatives even though he was not allowed to take part in their faction. He possessed the Post, a daily newspaper that served not only as the mouthpiece for his various political stands but also as an effective means of promoting his industrial enterprises through advertisement. What further honed his image was his very generous social beneficence and his gift of the doctoral scholarship that had been spent by the university of Jena in absentia in 1857. As a result of his actions he received many honours and decorations.

⁴⁰ For the long list of aristocrats who were Strousberg's business partners see *Friedrich vom Rhein*, Enthüllungen über Dr. Strousberg und sein Rumänisches Eisenbahnunternehmen. Berlin 1871, 18. See also *Borchart*, Eisenbahnkönig, 54p., 60p., 66, 116 and 124p., and *Ohlson*, Strousberg, 60–67.

Luxury properties completed his lifestyle. Worthy of mention here is his Wilhelmstreet palace that stood at the political centre of Berlin. There were similar palaces maintained in Vienna and London and served as locations for luxurious receptions. Aside from owning palaces in various capitals, Strousberg also purchased no less than 19 manors which covered an area of 473 square kilometres and had an estimated value of 40 million marks. The most impressive piece of real estate that he possessed was without doubt the 250 square kilometres that belonged to the castle of Zbirow in the countryside around Prague. The castle that had been renovated at a huge cost was intended to be the summer residence for his family.

The life of Strousberg exemplifies and presents up with a vivid impression of the economic and political dynamic in the years between 1860 and 1870 when the German empire was in its first birth throes. The current environment at that time enabled Strousberg to rise from the humble economic beginnings of an educated citizen to become a railway entrepreneur on a grand European scale and even later to become the leader of a gigantic trust and landowner of a small principality. But as glorious outer appearances may have at first seemed, under closer scrutiny the incredible fragility of Strousberg's enterprises became very apparent. To those who were more closely looking, it was the more immediate speculative risks that raised the danger signal. On 6th of November 1869, Gerson Bleichröder was already writing to the Chancellor of the German Empire, Bismarck, warning him: "The man is very clever but the way he camouflages enterprises to cover old holes is very dangerous. In one moment of difficulty his entire business could crash and submerge millions of credulous shareholders."⁴¹

The breakdown

The first signs of instability of his trust appeared with the problems he was having with the railway construction in Romania. Strousberg had underestimated the difficulties of the political affairs between the native inhabitants and the new

king who was a member of the Prussian royal house Hohenzollern. On top of this, Strousberg was also plagued by the consequences of a non-existing infrastructure. He later wrote:

“One could not imagine a more difficult situation for construction than that of Romania before railways had arrived. Labour market and the means for communication were of the worst condition. There were no railway lines. Locomotives, wagons and everything else that had to be brought there had to be transported by water to Galatz and put together there. Factories did not exist, a skilled labour force had to be picked up from long distances. There were lines of twenty miles where there was not one heap of construction material available. Rivers flooded several times a year and the number of rivers that had to be bridged was enormous. There were no river regulations in place nor were there fixed riverbeds. Quicksand had been witnessed and one had to fight against bad quality wood which was only available at certain localities. All of the construction materials were of poor quality and had to be brought from afar.”⁴²

Delays in construction could not be avoided and Strousberg eventually had problems paying off the interests of the shareholders. The main obstacle Bleichröder had envisaged arrived when France and Germany went to war in 1870. This war came out of the blue for Strousberg and struck in the middle of his construction process, causing numerous projects to stop. The flow of revenue being made from railways that were finished and in operation, was delayed while his obligations in paying the interests of his shareholders went on. On 1 January 1871 Strousberg was forced to declare his insolvency against the shareholders of the Romanian Railways. In his autobiographical documents he described how he had to apply the brakes on his enterprises:

⁴¹ Letter from Gerson Bleichröder to Otto von Bismarck from 6 November 1869. Quoted by Fritz Stern, *Gold und Eisen. Bismarck und sein Bankier Bleichröder*. Frankfurt am Main u. a. 1978, 440.

⁴² *Strousberg, Sein Wirken*, 341.

“All kinds of demands for payment of which I normally do not have to deal with were being addressed to me. My securities became worthless, my income suddenly ran dry, the subcontractors became incapable or indignant to work in the usual way. (...) For my manors I had to cooperate with the usurer for loan and business expenses. I had to sell the crops before harvest under bad conditions, the spiritus before it had been brewed and so all business came to a halt.”⁴³

His most important capital, the belief in his economic competence was heavily shaken by this moratorium. Strousberg was forced to ask for the help of banking houses in order to tide him over his financial crisis. But these banks were in many respects his competitors. This was especially true in respect to the Disconto Society under the leadership of Adolph Hansemann and the banking house of Gerson Bleichröder. Strousberg had organised a modern infrastructure for the traditional elites in the east of Prussia who ruled in thinly populated agrarian regions. It was for this reason that he had put pressure on the capital market with his unusual methods of financing. This in turn exacerbated the problem of a lack of money, money that was needed for the development of the Rhenish industrial regions and the Ruhr region. Furthermore, his railways stood in competition with railways of the Rhenish bankers and the big railway companies of Berlin. So it was no wonder that the same financiers who had funded him were the same financiers who then forced him to sell the biggest part of his trust. They bought his blocks of shares and with them they successfully drove Strousberg out of all of the important positions in the railways he had built. In this way they cut him off from receiving any profits in the future. Strousberg was financially decapitated.

The end of the war and the beginning of the so-called “founding era” (Gründerzeit) contributed to a temporary recovery. But two further backlashes caused a total breakdown of Strousberg’s enterprises. One of these was the attack by the

⁴³ *Strousberg, Sein Wirken*, 427. See even *Borchart, Eisenbahnkönig*, 153–159, and *Ohlson, Strousberg*, 179–190.

national liberal member of the Prussian parliament, Eduard Lasker who had denounced the practise of the Prussian administration's handling out of railway concessions. His speech provoked an enormous scandal that shook the Prussian government. The very next day an investigation committee was set up and would, a short time later, demand the resignation of several high-ranking Prussian administrators including the minister of trade, Graf Itzenplitz who had for a long time supported Strousberg. In the course of the scandal the stock market in Berlin came to a halt on 10 May 1873 and the economy declined in the following months. Parallel to this, the Prussian government completely changed its railway policy and made an about turn in favour of state run railways. The other German states followed suit and copied the Prussian example.

As a consequence of this Strousberg lost the rest of his personal credibility. The final breakdown brought about his arrest in Moscow on 25 October 1875. Three days later followed a double bankruptcy in Berlin and Prague because of his principality in Zbirow. The rest is speedily told. Strousberg's income made a steep dive but not into extensive poverty as he would later claim. He found himself again back in the position from where he had started his career. He found himself once again serving as an editor of small pamphlets. He then founded and founded the "Kleines Journal". Surprisingly enough he also ran a factory that had been saved from bankruptcy by his sons and some friends. But he was unable to repeat the success story of the sixties and died in relative obscurity in a small two-room apartment in a hotel in Berlin in 1884.

The Phenomenon Strousberg

A spectacularly meteoric rise in fortunes and an equally dramatic rapid crash, both were possible in the unique economic and political climate of the 1860s. The economic upturn and the political period of reforms triggered a dramatic change in the railway policy. A similar situation occurred in many European countries. Gigantic amounts of investment capital were required for railway construction to flourish. Institutional preconditions such as big banking houses for the channelling of this flow of capital did not exist at that time. That was the reason why a certain genre of "risky railway king" suddenly appeared on the scene

in many European countries. Belonging to this special group of entrepreneurs were George Hudson in England, Jules Isaak Mirés in France, Baron Ofenheim in Austria and in Russia, Poliakoff.

In Germany this type of railway investor first began their enterprise using foreign capital from across the border and helped to surpass the stagnation in railway construction that had existed since the revolution of 1848. Strousberg's achievement in particular, was the surmounting of hindrances of the Prussian Railway Law of 1838. He then proceeded to successfully develop a vertical trust for the first time in Germany and demonstrate the full dynamic potential of such a combined enterprise.

However, acting as his own negotiator in transactions and then further negotiating his own capital and expertise into foreign countries eventually overextended Strousberg. The first role he could play perfectly but in the second he was overwhelmed by the inherent risks of big investments in foreign countries. Uninsured financial obligations were on a sure collision course with the slow expansion of the productive base of his enterprises. The real development of the transportation market and the wishful thinking of the shareholders drifted in different directions. Bankruptcy and insolvency resulted and led to the ruin of numerous small shareholders. They protested against the "Strousberg-System" afterwards. That was one aspect of economic and social processes that followed the foundation of the German Empire. After the initial euphoria had vanished and disillusionment began to set in and dominate the scene, the union of the German states fundamentally changed its railway policy.