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Julius Faucher, John Prince-Smith and the German Free Trade Movement

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Has the population of the Mark of Brandenburg the desire to leave home and farm, wife and child, father and mother and business to raid on the population at the Seine or at the Elbe or in Baden with flame and sword, or vice versa? Nobody has in himself such a desire. As a civilized man, or even as a man who loves his own property, every inhabitant of the Mark of Brandenburg, and even every Pomeranian farm boy, would shudder from feeling as well as from interest. But if he is seized by the state force, put into a regiment and into a uniform, a discipline that destroys all individual emotion, subdued, and in colorful beetle-like clothes with flashing weapon, sounding play and thunderous command that arouse all senses, carried away for a national interest that he does not understand, but is to worship with denial of his whole human nature, then he ruthlessly, as a blind tool of state power, perpetrates the most inhuman horrors. Massive human extermination on military command and on the state's account brings fame and medals, ordinary killing on its own account—[brings] the hangman.

Newspaper *Abendpost*, 1850

People became individuals that find their will, their kingdom of heaven, their liberty and highest satisfaction of life in the act of acting as a free-wanting individual and exchanging the excess of this action against the free excess of other individuals, so that every single one is situated best—arithmetically seen—under liberty of all. And seen through Christian lenses, is this laissez-faire of all not love, not morality, not even love towards enemies? Coercion is never advantage, never morality, never love. But state and church presume that coercion, morality, love and advantage are necessary conditions for earthly and heavenly bliss.

Heinrich Beta, 1851

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Introduction

Gerd Habermann writes in his history of welfare statism in Germany that few German liberals committed to doctrinaire laissez-faire, apart from the young Wilhelm von Humboldt. In France and England, contrastingly, Humboldt's work exerted a much greater influence (Habermann 2013, 126). This work attempts to show that at least some German liberals defended a strict minimal state—in Lassalle's words, the “night watchman state”—responsible only for the production of security. Some of these liberals even discarded the state altogether and adopted an individualist anarchist view. This work presents the history and economic thought of these “orthodox” free traders, which met at the “Volkswirtschaftlicher Kongress” (Economic Congress) from 1858 to 1885. Research on this group is important because it adds to the understanding of German economic history in the 1860s and 1870s. At that time, the (orthodox) free traders were members of parliament in Prussia, the North German Confederation or the German Empire and assumed a “leading position” (Winkel 1977, 40) over public opinion. Volker Hentschel (1975, 283) notes about the free traders’ participation on the legislation between 1867 and 1875: “It created the legal and institutional grounds on which our economic order is still based today. [...] it cannot be denied that the free traders exerted a sustainable influence on German economic history. It appears that this fact was seldom seen so far.” Wilhelm Roscher, the leading economist of the older Historical School, reached a similar conclusion in his history of German economic thought, writing that “these men indisputably rendered an outstanding contribution to the *practice* of Germany” (Roscher 1874b, 1016; emphasis in original).¹ Moreover, a great part of the literature ignores the orthodox free traders or misrepresents their economic views. An example is Dieter Langewiesche's history *Liberalismus in Deutschland* (Liberalism in Germany) that discusses the orthodox free trader John Prince-Smith on a half page (Langewiesche 1988, 117), while the orthodox free traders Faucher, Braun and Hübner or principled attendees of the congress like Böhmert or Emminghaus are not mentioned. In what follows, a closer look is taken at the characteristics of the various groups of free traders at the congress and the literature on orthodox free trade.

i) The Factions among the Free Traders

The orthodox free traders were a subgroup of the visitors of the congress. Hentschel (1975, 17-

¹ The orthodox free trader Karl Braun cited this “testimony of an impartial and knowledgeable man” (page 23) at length to protect the free traders from the accusation of unpatriotic behavior and doctrinairism; see Stenographic Reports of the Economic Congress, 1882, 20-23. If not indicated otherwise, all translations from the German sources are mine.

23) distinguishes between four groups of attendees: a pragmatic group (Michaelis, Wolff, Meyer), an idealistic group (Böhmert, Emminghaus, Lammers, Rentzsch, Gensel), a political group (Bamberger, Rickert, Oppenheim) and the orthodox group (Prince-Smith, Faucher, Braun). Members of the latter are John Prince-Smith, Julius Faucher, Karl Braun and Otto Hübner. The congress attendees Alexander Dorn, Hartwig Samson Hertz, Hermann Maron and the architect Timmermann came close to the orthodox view, while the individualist anarchists Heinrich Beta and Wilhelm Lipke might also be included, although they never visited the congress. In the 1840s, members of the orthodox group established a free trade movement in Germany; Prince-Smith wrote his first articles in the second half of the 1830s. All orthodox free traders argued for a strict minimal state at least at some point of their life. Prince-Smith characteristically expressed their views by saying that “free trade assigns no other task to the state than: the production of security” (Prince-Smith 1866, 441). Faucher, Lipke and Beta went a step further and arrived at an individualist anarchist view in the second half of the 1840s. The orthodox free traders tended to argue for a concrete economic policy from utilitarian lenses. Prince-Smith was influenced by Jeremy Bentham's utilitarianism at a young age and Faucher had been a follower of Stirner's philosophy of egoism, which approximated a utilitarian view as well. Most of them were in favor of a Lesser German Solution—except for the defender of Kleinstaaterei Lipke, and possibly Dorn and Hübner—and sided with Bismarck in the Prussian constitutional conflict. A major reason for the compromise from 1866 was their belief in the primacy of economics over politics and, consequently, their optimistic outlook into the future of free trade. From 1871, they became isolated at the congress after the debate with the socialists of the chair. However, already after 1866, the orthodox free traders intervened less into the discussions at the congress. The reason was that Faucher, Prince-Smith and Braun became members of the National Liberal Party, which was in government with Bismarck. They either had a seat in the second chamber of the Prussian parliament, the House of Representatives, or the Reichstag. The publication organ of the orthodox group was the *Vierteljahrschrift für Volkswirtschaft, Politik und Kulturgeschichte* (Quarterly Journal for Economics, Politics, and Cultural History).² It was edited by Faucher and Otto Michaelis from 1863 and Faucher became the sole editor in 1867. It was the major scientific journal of the free trade movement (Hentschel 1975, 19). The *Quarterly Journal* released little about daily politics due to its rhythm of publication. From 1863 to 1871, it published the stenographic reports of the debates of the Economic Congress. Another short-lived publication organ was the *Abendpost* (Evening Post) from January to July 1850, an anarchist and Stirnerite newspaper. Faucher was the

² It is telling that the attribute “politics” was not added before volume XLV from 1875. Previously, the journal was simply named *Quarterly Journal of Economics and Cultural History*.

editor of this radical paper, while Prince-Smith and Beta contributed to its columns. Another focal point of the orthodox group was the Berlin free trade association in 1847 and 1851, of which Prince-Smith, Faucher, Lipke, Maron and Beta were members. In the 1860s and 1870s, the orthodox free traders met in the “Volkswirtschaftliche Gesellschaft zu Berlin” (Economic Society of Berlin), which they viewed as the successor of the Berlin free trade association.

A kind of split-off from the orthodox group were the pragmatic free traders, which included Otto Michaelis, Otto Wolff and Alexander Meyer. The journalists Wolff and Michaelis had met Faucher and Prince-Smith around 1848 and had collaborated with the *Abendpost*. At this time, Wolff and probably Michaelis were converted to individualist anarchism by Faucher. Until 1866, little ideological differences could be seen between them and the orthodox group, when one reads the reports of the congress. After the German unification, however, Wolff increasingly came into conflict with Böhmert and the Bremen group because he often wanted to compromise on economic principles and give concrete advice on a short-term political issue, while Böhmert preferred the congress to express clear and general principles of free trade. In 1867, Wolff's pragmatic attitude came to light when he said to Böhmert, who demanded a complete abolition of all tariffs:

You can trust that Dr. Michaelis and I are not too stupid to draw the ultimate conclusions of our scientific views, but we are not afraid to make ourselves unpopular by opposing the current liberal trend [...]. Theory and practice are, however, not a contradiction for me. But a difference exists on what is scientifically *popular* and what is practically *popular*.³

Wolff reasoned that the congress had made pacts and had not always stated just doctrinaire principles. In 1868, Böhmert angrily condemned Wolff's advocacy of a rice tariff: “I have to speak for the complete elimination of the rice tariff. The congress has to set principles; its job is not to pact!”⁴ In 1869, Wolff noted that he departed from Böhmert's radicalism and spoke of “several years of struggle”⁵ between him and Böhmert. Michaelis did not participate in these conflicts because he was as an adviser to Bismarck in the Federal chancellery from 1867. However, being “governmental in nature” (Delbrück 1905, 227), he already cooperated with Bismarck's government on economic policy from 1862, as a member of parliament. The publication organ of the pragmatic group was the Stettin *Ostseezeitung* (Newspaper of the Baltic Sea) which had been edited by Faucher before the revolution and went to Wolff from 1852 to 1884. The *Deutsches Handelsblatt* (German businesspaper) was another pragmatic publication from 1871 to 1874, edited by Alexander

³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 172, emphasis in original.

⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 205, emphasis in original.

⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 174.

Meyer. After 1866, Meyer and Wolff intervened very often into the debates at the congress, while Faucher and Prince-Smith became evermore quiet.

The pragmatics often cooperated with a third formation, the political group. Members were Heinrich Bernhard Oppenheim, Ludwig Bamberger and Heinrich Rickert. These men were influential politicians in the National Liberal Party and participated for the first time in the congress in 1869. Their activities were mostly oriented towards what was politically necessary in the given moment, they cared more about state policy than principles of free trade. About more principled, orthodox or idealistic varieties of free trade, Oppenheim stated:

Since no political and social institution can ever completely deny the partial character of its origin, it must not be denied by the Economic Congress that some of its oldest, most popular, and most brilliant speakers sometimes still remind of that unpolitical, determined by the ruling reaction, prevailing party where the state appeared as the adversary of every progress.⁶

It had become necessary “to reconcile the requirements of economic science with the basis of a national and state-building policy.”⁷ Perhaps, these words were addressed to the orthodox group since Oppenheim used to discard the night watchman state and included implicit criticism of some orthodox free traders in his writings. The political group became important in the 1870s, when Oppenheim started the debate with the socialists of the chair. Bamberger was the leader of the free traders in the German Reichstag, in their fight against the protectionists from 1875 on. The short-lived *Deutsche Jahrbücher für Politik und Literatur* (German yearbooks for politics and literature) was their publication organ in the 1860s, edited by Oppenheim, and the weekly *Die Gegenwart* (The present time) that released many articles of Oppenheim and Bamberger in the debate with the socialists of the chair.

Lastly, there was a fourth major group, the idealistic Bremen free traders. It included first and foremost its leading exponent Viktor Böhmert, Arwed Emminghaus, August Lammers, Julius Gensel and Hermann Rentzsch. Hentschel calls them idealistic because they shared a very optimistic view on human nature, believing that liberty would lead to a moral uplift in the individual. Moral conduct could just develop from free action that was unhindered by the state. Böhmert, the son of a Protestant priest, expressed this view at the congress of 1869, where he surpassed the orthodox Faucher by rejecting any public welfare:

[T]he individual needy person has no right to support; he can only claim mercy of his fellow men, which is directed towards a real communion between the rich and the poor, a communion based on conscience

⁶ *Die Gegenwart*, volume 2, September 14th 1872, no. 34, 162.

⁷ Ibid.

and free love. From the moment when *pressure* to internal efforts is given a try, the feeling for personal aid and the impetus for it inevitably cools down. The free cooperative sense is replaced by a kind of communism, the distribution of part of wealth to the propertyless in the name of law.⁸

Böhmert accordingly spoke of three parties in economics: the first wanted to hand over everything to the state, the second wanted everybody to care for themselves and cede the rest to competition, and the third recognized a sense of community apart from egoism and the survival instinct. This sense of community was able to balance out the hardships of economic and societal life by voluntariness and by moral and religious motives.⁹ This idealistic Christian view distinguished the Bremen group from the utilitarian Berlin free traders. Böhmert, Emminghaus and Lammers followed each other as editors of the *Bremer Handelsblatt* (Bremen businesspaper), a weekly paper that was one of the most important free trade publications. Another organ was the newspaper *Concordia* edited by Böhmert and the socialist of the chair Rudolf von Gneist, which released articles by socialists of the chair and free traders. The *Handwörterbuch der Volkswirtschaftslehre* (Concise Dictionary of Economics, 1866), edited by Hermann Rentzsch, mirrors the views of the Bremen idealists, although Prince-Smith contributed its central article on “free trade”. Thus, the German free traders were a quite heterogeneous movement. What united them besides economic liberalism was the idea of a German nation state.

ii) The Orthodox Group in the Literature

Hentschel notes that the literature about the German free traders is insufficient and one-sided. Their historical significance was hardly seen and they were almost generally slurred as cold-hearted, egoistic and anti-national Manchester men. The reason was a polemic debate with a group of young professors around Gustav von Schmoller in the early 1870s. The free traders labeled these young scholars “socialists of the chair” while the latter made frequent use of the term “Manchester school”. As Hentschel remarks:

[T]he image of German economic liberalism, which Schmoller, Schönberg, and Wagner spread, initially had a much more lasting impact on the opinion of the interested public, and later on the judgment of the historians, than all the original free trade pronouncements. It seems as if it has been entirely forgotten that we are dealing with a polemical sketch from an antagonistic position. (Hentschel 1975, 11)

This is not only true for the free trade movement in general, but also for the orthodox group in particular. For example, the incorrect accusation of the socialists of the chair that Prince-Smith

⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 162, emphasis in original.

⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 179.

denied the existence of social misery in his article *Die sogenannte Arbeiterfrage* (The So-Called Worker Question, 1864) was repeated by many later authors.¹⁰ The literature on orthodox free trade can be divided into three groups. First, there are the monographs about the history of the Economic Congress that review the stenographic reports of the congress. Grambow (1903) and Hentschel (1975) are the only studies that belong to this group. Without a doubt, the best work on German free trade is Hentschel's dissertation *Die deutschen Freihändler und der volkswirtschaftliche Kongress 1858-1885* (The German Free Traders and the Economic Congress 1858-1885). Ralph Raico calls it “a work that is admirable both for its scientific value and its cool objectivity” (Raico 1999, 30-1). Hentschel presents the debates of the congress in chronological order; he reviews the two major free trade papers, the *Ostseezeitung* and the *Bremer Handelsblatt*; and he dismantles the myth of the free traders as anti-national and anti-social Manchester men. However, his work focuses on the ideas and the institutional history of the entire congress. Therefore, he does not look at the individual anarchist *Abendpost* and writes little about free trade before 1858. Because he does not focus on orthodox free trade, he did not study all works by Faucher or Prince-Smith, or investigate the book review section of the *Quarterly Journal*, the stenographic reports of the Prussian and the German parliament and the archives on orthodox free trade. The second study that consulted the stenographic reports is Grambow (1903), who presents an impartial image of German free trade as well. Unfortunately, he does not go through the debates of the congress in chronological order but arranges the extensive material thematically. His approach gives the reader a hard time to track the changes of opinion of the congress attendees over time. It appears as if they were a homogeneous front on most issues, whereas in reality they disagreed most of the times and one visitor might change his view drastically over the years.

The second group of literature does not consult the stenographic reports of the congress. An example is Julius Becker's dissertation *Das deutsche Manchestertum: Eine Studie zur Geschichte des wirtschaftspolitischen Individualismus* (German Manchesterism: A Study on the History of Economic-Political Individualism, 1907). He uses almost exclusively Prince-Smith's writings as a source, which appeared in a three-volume collected edition. He justifies this procedure by stylizing Prince-Smith as the “accepted leader” (Becker 1907, 80) and the “creator and main representative” (Becker 1907, 27) of German free trade. Like many other authors, he then attributes the orthodox views of Prince-Smith to the entire free trade movement. But Prince-Smith's intellectual labor was not that influential that one could interpret him as the leader. He was not even the leader of the orthodox free traders, whose views on taxation and functions of government were shaped by Faucher. Not Prince-Smith, but Böhmert and Schulze-Delitzsch were instrumental in founding the

¹⁰ See, for example, Kruse (1959, 67) and Dittert (1998, 12).

congress in 1858, and Prince-Smith did not become its president before 1869, which was a pure representative position. In general, researchers speak of a “free trade school” (Böhmert 1872b, 134-40; Lourié 1924; Raico 1999, 49) or a “free trade party” (Grambow 1903; Gehrig 1909, 25), and suggest a level of organization and hierarchy that was absent among the (orthodox) free traders. Therefore, the first requisite for an impartial analysis of the free trade movement must be “that the free trade party is no longer seen as an undifferentiated entity in terms of time and personnel, but as a loose union of standalone personalities” (Hentschel 1975, 15). Hence, this work uses the term “movement” instead of “party” or “school”. The Economic Congress must be viewed as the “organizational center” (Hentschel 1975, 16) of this free trade movement. The same holds true for the orthodox free traders, who were not a school of thought that defended a common economic doctrine. Karl Braun, for example, had little contact with Faucher or Prince-Smith before North German unification, since he came from and was politically active in the South German Duchy of Nassau before 1867. What united the orthodox group was their commitment to the strict minimal state, the doctrine of harmony and certain principles of taxation like the benefit principle for municipal taxes. They based themselves on doctrinaire liberals like the young Wilhelm von Humboldt or Frédéric Bastiat. However, to conclude that the state did not mean anything to the free traders (Mayer 1927, 45) or that they were anti-national would be wrong too (Hentschel 1975, 14; Loh 1928, 4). Faucher and Braun were quite militaristic in their parliamentary speeches and even Gustav von Schmoller had to admit that Prince-Smith was a Prussian and German patriot.¹¹ Anyway, Becker's dissertation must be rather seen as “a political lampoon” (Raico 1999, 30) since he goes as far as to libel the free traders, with Lassalle's words, as “modern barbarians” (Becker 1907, 106).

Another study that does not consult the stenographic reports is Gehrig (1909). He too equates the entire free trade movement with the orthodox group, in a section titled “Identity of the view of the free trade party with the teachings of Bastiat and Prince-Smith” (Gehrig 1909, 25). Besides the orthodox Faucher, Prince-Smith and Braun, he quotes the idealistic free trader Emminghaus, Hermann Schulze-Delitzsch and Max Wirth to make his case. He mines the writings of the free traders for quotes that prove his argument and notes with satisfaction: “In this important aspect as well, the result is not analogy but identity of the views of the free trade school with those of Bastiat” (Gehrig 1909, 35). Gehrig is incorrect when attributing the adherence to the Bastiatian thought to all free traders. Michaelis, a collaborator of the radical *Abendpost*, dissociated himself of the doctrine of harmony, writing around 1857: “Bastiat's economic idyll understood in the sense of undisturbed harmony is as much a utopia as Cabet's Icarie” (Michaelis 1873a, 238). Gehrig even presents a

¹¹ *Literarisches Centralblatt*, August 22nd 1874, no. 34, 1125.

distorted image of the orthodox group, because a common economic doctrine or a treatise never existed from which all orthodox free traders departed. When they referred to Bastiat, they praised the French economist for his concise writing style and stringent advocacy of laissez-faire. Moreover, Gehrig does not consider changes of opinion; for example, Braun who distanced himself from the strict minimal state in later years. It can also not be said that all orthodox free traders shared Faucher's methodological views (Gehrig 1909, 31). Braun made statements in which he committed to the historical method. Nevertheless, Bastiat was one, if not the most important thinker for the orthodox free traders, who frequently referred to his writings. Prince-Smith translated Bastiat's *Economic Harmonies* into German and Braun (1880a) released a compendium of Bastiat's works.¹²

The third group of research on the orthodox group are biographies, of which few were written. Otto Wolff authored the only one about his friend and mentor Prince-Smith, which inflates the latter's intellectual significance. The journalist says about Prince-Smith's writing that "his style is left behind by few of the best German writers" (Wolff 1880, 214) and puts him in line with Bastiat and Adam Smith, proclaiming: "His writings will retain their value for the training of economic thought for a long time, alongside the great masters Adam Smith and Bastiat" (Wolff 1880, 370). Wolff comes closer to the truth when he states that Prince-Smith's importance lied in his activities as "a teacher" (Wolff 1880, 369; emphasis in original). Wolff elaborates the time before the *Abendpost* in great detail and investigates the paper *Elbinger Anzeigen* (Announcements from Elbing), for which Prince-Smith wrote articles from 1835 to 1846. However, Wolff concentrates less on the time after 1849. Hence, this work briefly touches upon the time before the *Abendpost*. On Faucher, there is hardly any research, besides the articles by Fehl (1985) and Hegemann (1930) on his work on housing. Two biographies are written about Karl Braun by Grandpierre (1923) and Seelig (1980), which focus on Braun's political activities in the Reichstag and his publicist writings, but put little emphasis on his economic thought at the congress. Therefore, Braun's speeches at the congress are highlighted while his political activities are only presented when they are significant for a general understanding of the orthodox group. No biographies were written on the remaining doctrinaire free traders, on Hübner, Maron Dorn, Lipke, Hertz, and Timmermann. Only Briese (2013) wrote a very informative article about the life and thought of Heinrich Beta. Despite these works, Ralph Raico's excellent history of German liberalism is important. Although he briefly touches upon orthodox free trade, Raico (1999, 62-7) was the first to take a closer look at the *Abendpost*. Thus, there is little research on Faucher, the *Abendpost*, and orthodox free trade at the

¹² A comparative analysis of Bastiat's writings with the literature by orthodox free traders is still missing, as well as a comprehensive impact history of Bastiat's work for the 1850s.

congress. Just two authors studied the stenographic reports of the congress so far, while all writers ignored the archives and the book review section of the *Quarterly Journal* in regard to orthodox free trade.¹³ Being the only study of orthodox German free trade so far, this work attempts to fill these gaps.

In chapter I, the formative years of orthodox free trade from the 1830s to 1857 are treated. Prince-Smith fought for freedom of trade and orthodox and pragmatic free traders united in the anarchist *Abendpost*. In chapter II, the foundation and the first years of the congress are recapitulated. In the first three years, the free traders directed their attention to economic liberty, trade policy and cooperatives. While the orthodox group played a minor role in the process of foundation, it shaped the debates on trade policy. Chapter III is about the time from 1863 to 1866, the “laissez-faire years”. The congress argued for fractional reserve free banking; against patents; against state intervention into railways, canals and other ventures of transportation; and for freedom of trade. But the orthodox free traders were also centralistic by pushing for a German nation state. Michaelis and Faucher were one of the first members of the German Progress Party that demanded a compromise with Bismarck in the constitutional conflict. The split of the liberals in 1867 was the great tragedy of (orthodox) German liberalism from which it did not recover. While the attendees of the congress formed “a fairly closed free-trade phalanx” (Böhmert 1872b, 138) until 1866, they began to disintegrate with the idealists and the pragmatics clashing against each other, while the orthodox group became increasingly silent at the congress. Chapter IV highlights the period from 1867 to 1871, the years of the greatest political success of the free traders. They were able to implement many of their reform proposals in the constitution of the North German confederation. Faucher was very active on the Housing Question, but ultimately failed to improve the housing conditions of the poor in his home-city Berlin. Lastly, chapter V deals with the debate with the socialists of the chair, which initiated a change of public opinion that culminated in Bismarck's turn to protectionism in 1879. From 1872, Faucher and Prince-Smith became isolated among the free trade movement, while Braun distanced himself from his earlier advocacy of the night watchman state.

¹³ Just Loh (1928) takes into account the review section of the *Quarterly Journal* in his dissertation about the theory of state and taxation of the free traders.

I. The Genesis of Orthodox Free Trade (1835-57)

Two men established a German free trade movement in the 1840s, who became close friends and even relatives: John Prince-Smith and Julius Faucher. The former started his agitation for freedom of trade from the East Prussian town Elbing in the mid 1830s. He moved to Berlin in 1846 and married Auguste Sommerbrodt, the aunt of Faucher's wife Caroline. The Berliner Faucher studied philosophy at the Berlin Friedrich Wilhelm University and came into contact with the group of The Free around Bruno Bauer and Max Stirner. He turned into an anarchist and edited the paper *Abendpost* in 1850, the only organ of orthodox, pure laissez-faire in Germany at that time. Although the newspaper perished after five and a half months, it was an important early focalpoint of the movement. Many distinguished pragmatic and orthodox free traders collaborated with the *Abendpost*, like Michaelis and Wolff. Afterwards, the liberal propaganda continued for a short time in the Berlin free trade association in 1851, before years of silence followed from 1853 to 1857. Living in London, Faucher worked for the free trade paper *Morning Star* and was the private secretary of Richard Cobden. Prince-Smith was not politically or intellectually active in this period. In what follows, a closer look is taken at the activities of Faucher and Prince-Smith before the *Abendpost*.

1.1 The Pioneer John Prince-Smith

Prince-Smith was born on January 20th 1809 in London.¹⁴ He attended the prestigious Eton College and had a high knowledge in both ancient languages, Latin and Greek. As a teenager, he spent several years in Guyana in South America, where his father was a governor. As his friend, the writer Ludwig Pietsch, told: “The father, according to his [Prince-Smith's] stories, seemed to have possessed and exercised the power of a small sultan on his island” (Pietsch 1893, 80). His mother died of yellow fever during that time. In 1820, Prince-Smith's family moved back to Britain and his life changed dramatically a few years later, when he lost his father as well. Prince-Smith senior left his son and his daughter penniless. Prince-Smith had to leave Eton and entered the London trading house Thomas Daniel & Co., for which he labored three and a half years. A position as an editor for the paper *The Hamburg Reporter* brought him to Germany in 1828. Three years later, the 22-year-

¹⁴ For the early years until 1850, see Becker (1907, 26-38), Henderson (1950), Hentschel (1975, 38-41), Hentschel (2001), Lammers (1869, 30-3), Pietsch (1893, 77-89), Raico (1988), Raico (1999, 49-55), Rohr (1963, 85-91) and—above all—Wolff (1880).

old became a teacher at the gymnasium in Elbing, an East Prussian town with 20,000 inhabitants at the Baltic Sea, where he taught English and French. He learned German by joining the debate group “Mittwochs-Gesellschaft” (Wednesday Society) and by writing for the local paper *Elbinger Anzeigen*. Prince-Smith never spoke German perfectly and read his texts to a native speaker before they went into print. His biographer Otto Wolff explained about his German skills:

His mastery over the German language was not an absolute his entire life since he used to commit, at least while speaking, mistakes of gender and so forth. Regarding the sheer clarity and absence of all ambiguous expressions and phrases—the essence of the mode of expression—his style is left behind by few of the best German writers. (Wolff 1880, 214)

While living in England, the young Prince-Smith had not studied economics (Wolff 1880, 215). However, his father had published books in favor of free trade and natural law that might have influenced him. When he was four years old, Prince-Smith senior wrote *Elements of the Science of Money* (1813) and two years later *Advice for the Petitioners against the Corn Bill* (Henderson 1950, 295; Rohr 1963, 86). Prince-Smith released his first article on economics in the *Elbinger Anzeigen* on September 5th 1835, foreshadowing the golden law of wages that he put forward against Ferdinand Lassalle. According to this law, the wage was determined by the number of workers and the supply of labor on a market. Ultimately, workers set this ratio because if the wage did not fulfill their needs and was too low to support a family, they did not marry or have children, the population grew at a lower rate and wages increased. Thus, the vision of the standard of life that workers considered to be sufficient for themselves ultimately determined the wage. In Prince-Smith's view, this vision was set by education. This was why the orthodox free traders emphasized the significance of the education to solve the so-called Social Question. During the next years, many articles about money, trade, restrictions on corn exports or protective tariffs followed. In *Bemerkungen über Handel und Geld* (Observations on Trade and Money) from 1836, Prince-Smith defended a conventionalist theory of the origin of money by tracking its existence back to “the difficulties of direct exchange of products” (quoted in Wolff 1880, 218). In another article, he opposed the prohibition of corn exports in the case of a bad harvest.¹⁵ Generally, Prince-Smith wanted to abolish tariffs immediately without giving an industry time for adjustment. He also became politically active in 1837 when the Wednesday Society wrote a letter of support to the Göttingen Seven. These seven professors from the University of Göttingen had protested against the repeal of the liberal constitution by the Hanover government. Three of them were subsequently banished from the kingdom of Hanover. According to Wolff (1880, 227), Prince-Smith motivated

¹⁵ See Wolff (1880, 221-5) for the full article.

and wrote the letter that was addressed to the professor of law Wilhelm Eduard Albrecht, who was born in Elbing. When Gustav von Rochow responded to the Elbing citizens, the letter attracted a great deal of public attention. The Prussian minister of interior wrote that it did not befit a subject to pass judgment on a decision of the nobility, coining the famous phrase of the “limited intellect of the subject”.¹⁶ Two years later, in 1839, Prince-Smith wrote his first extensive work *Andeutungen über den Einfluss des Reichthums auf geistige und moralische Kultur* (Insinuations about the Influence of Wealth on Intellectual and Moral Culture). It did not exert any considerable influence.

As Prince-Smith slowly evolved as a publicist, he quitted his position as a gymnasium teacher in October 1840. This was possibly because of his political activism and his journalism in the *Elbinger Anzeigen*. Under the pseudonym of an “Elbing idler”, he satirized on well-known personalities or private societies from Elbing, with the result of a growing readership. Wolff (1880, 212) explains that Prince-Smith had talent to see the weaknesses of a conversation, and to present ridiculous moments with a “diabolical humor”. Surely, this did not make him popular among the people that were the protagonists of his articles. Another reason for quitting the teaching position was perhaps his inability to drill discipline into his students. After Prince-Smith's death, a former student wrote in the *Danziger Zeitung* (Danzig newspaper): “We learned little English from him and equally little French, which he had to teach as well” (quoted in Wolff 1880, 231). According to the student, Prince-Smith might have been a great teacher for adults or young university students, but not for teenage boys. Nonetheless, Prince-Smith had not become a persona non grata in Elbing because, when he left the school and worked as a full-time journalist, local friends supported him financially. Additionally, the businessman Albrecht—the brother of the Göttingen professor Albrecht—defended Prince-Smith against the protectionist paper *Königlich privilegierte Berlinische Zeitung von Staats- und gelehrten Sachen* (Royal privileged newspaper of state and scholarly matters) that labeled him an “Englishman”. In the *Elbinger Anzeigen*, Albrecht made it clear that Prince-Smith was an “Elbing citizen”:

[...] Mr. Smith now lives for more than ten years in and by Elbing with little interruption, and he did not only become in terms of language but also in terms of spirit a German, a Prussian, who takes the most active part in the fate of his voluntarily chosen fatherland and happily works, for this his new fatherland, with all his heart and expenditure of all his distinguished mental faculties. (quoted in Wolff 1880, 252-3)

Attacks on Prince-Smith due to his English nationality would continue in subsequent years.¹⁷ In

¹⁶ See Wolff (1880, 227-31) for the entire exchange of letters.

¹⁷ For instance, his protectionist opponents claimed that he was paid by English special interests (Mayer 1927, 53). For example, the *Frankfurter Oberpostamts-Zeitung* (Frankfurt main post office newspaper) reported that Prince-Smith was

1841, Prince-Smith published a paper article that contained his classic argument for the first time—namely, that pauperism was the result of the military burden imposed on society by the state (Wolff 1880, 234-5). In the same *Elbinger Anzeigen* article, he also elaborated on the history of the English welfare state from 1601 on, criticizing social redistribution to the poor:

Might one have believed that there would be any limit to the number of outstretching hands if there was no limit to charity? If all those, which are not capable of nurturing themselves, are pensioned by the state—who would miss to gain qualification and right for such benefits by indolence and libertinism? [...] The people sigh [...] at pauperism—an illness solely of human origin, which originated from false notions of duty and humanity among statesmen, who should have been more reasonable. (quoted in Wolff 1880, 238)

In 1843, Prince-Smith wrote his first book on trade policy titled *Ueber Handelsfeindseligkeit* (On Hostility to Trade). In the work, he put free trade ideas into an historical and political context. He argued for the elimination of all tariffs and presented a fictitious debate between a nationalist and a cosmopolite. While the government had been small and taxation low during the Middle Ages, the situation changed with the onset of the industrial revolution (Prince-Smith 1879, 78-82). The source of power and wealth was not land anymore but industry (Prince-Smith 1879, 84). The employment of movable capital and industrialization needed a “tearing down of all obstacles to its freest displacement, a peaceful cooperation for mutual profit-making purposes, instead of the warlike discharges of the peoples” (Prince-Smith 1879, 84). People would lose interest in raging war and armed conflicts would disappear once unlimited free trade was introduced (Prince-Smith 1877, 85). The task of the state in such an unrestrained world of free trade would be:

the preservation of law and order, the assignation of justice, the formation of resources, the support of custom and culture. [...] All this requires a wise but not a strong power, as one understands strength now: no great armies, no centralization or rather mechanization are required for that, which lie the entire force of the people into the hand of an absolute will in order to turn it against an exterior danger in every moment. (Prince-Smith 1879, 88)

Prince-Smith (1879, 90-141) then presented a dialogue between a protectionist nationalist and a free trade cosmopolite. Cosmopolitanism was defined in a restrictive sense as the promotion of national wealth (Prince-Smith 1879, 98). For example, by presenting the price-specie flow mechanism, the cosmopolite corrected the mercantile view that gold had to remain in a currency zone. Precious metals tended to increase prices wherever they were abundant, so that more foreign

frequently attacked for his English nationality and that protectionists depicted the Berlin free trade association as an English propaganda institution. Prince-Smith answered to the accusation with a joke: “Not anyone, who is born in a staple, needs to be an ox [idiot].” See *Frankfurter Oberpostamts-Zeitung*, September 9th 1847, no. 247, 1.

goods were imported and specie left the country (Prince-Smith 1879, 102-3). The cosmopolite also introduced Ricardo's theory of comparative advantage without mentioning the classical economist. Even if a country could produce two goods at lower costs than another country, both countries still profited from free trade if each one specialized in the production of one good. In reality, however, since each country was more prolific in the production of certain goods, Prussia would not lose against England in a system of free trade (Prince-Smith 1879, 112). Protective tariffs expanded industries to the point where revenues were smaller than costs of production (Prince-Smith 1879, 121-2). Against the argument that tariffs should just be lowered if foreign countries decreased theirs, the cosmopolite pointed out that a less restrictive nation still benefited because it received the maximum of foreign goods at a low price (Prince-Smith 1879, 127). Additionally, low domestic tariffs incentivized foreign states to eliminate their import duties (Prince-Smith 1879, 128). The nationalist also answered Friedrich List's argument that underdeveloped countries had to refrain from competing against developed states. He advanced the analogy of a less-gifted person, who profited from trade by buying the high-quality products of the gifted worker at a low price, and concluded: "The less advanced nation has the greatest benefit from free trade" (Prince-Smith 1879, 134-5).¹⁸ He rejected state intervention into the economy, explaining: "government interference cannot increase employment as a whole because it cannot increase productive resources" (Prince-Smith 1879, 116).

Consequently, the cosmopolite opposed social redistribution to unemployed people: "If government takes on the duty to feed all the unemployed, everyone will want to be fed without employment" (Prince-Smith 1879, 116). He praised the Zollverein (German Customs Union) for facilitating trade freedom in Germany. Other nations would recognize the advantages of the custom union and liberalize their trade system as well (Prince-Smith 1879, 139). France, England, Belgium, USA and Russia had to join the Zollverein in the future. Prussia was in a special "world-historical position" (Prince-Smith 1879, 146) by being a role model for other states. Some authors have pointed out that Prince-Smith resembled Marxism in his emphasis on technology and material wealth as a driver of political and social change (Mayer 1927, 52). Prince-Smith wrote, for example, in *On Hostility on Trade*:

¹⁸ In 1846, Prince-Smith rejected List's argument in greater detail (Prince-Smith 1879, 261-70). He pointed out that tariffs created more costs than benefits even if a competitive industry developed, and that supporters of List's thesis failed to show the net benefits of their trade policies (Prince-Smith 1879, 265-7). Fransen reasoned about *On Hostility to Trade* that Prince-Smith followed typical Smithean lines when he argued against tariffs. However, when Prince-Smith attempted at showing the advantages of free trade for the nation as a whole instead of its single members, the cosmopolite was "on shakier classical liberal grounds" (Fransen 2002, 19). According to Fransen, Prince-Smith seemed to concede to Friedrich List's argument in allowing for subsidies for young, underdeveloped industries. However, the cosmopolite clearly rejected subsidies for young industries, explaining it was "questionable" whether they could increase workers' productivity. If anything, the subsidy should be spent on public education (Prince-Smith 1879, 138).

The material basis is what mainly determines the form of social and governmental institutions [...]. Changes in property relations have thus brought about the transition from the territorial state to the industrial state [...]. New sources of wealth have been established. The scientific formation of businesses, inventions in mechanics, accumulation of movable property, facilitated communication, increased dexterity, and awakened activity, have brought about productivity which far exceeds all former ones. [...] In the cities, a large mass of wage workers is brought to life by the accrued commercial capital. [...] The industrial system of work distribution and exchange embraces and unites the whole world. [...] Land ownership loses importance against movable capital. The interest of the latter, however, demands, instead of demarcation, the breaking down of all inhibitions of its freest turnaround [...]. (Prince-Smith 1879, 83-4)¹⁹

Thus, Raico comments that “[m]any of Prince Smith's most important theses [...] read like the first pages of the *Communist Manifesto*, only under changed signs and five years before it“ (Raico 1999, 61; emphasis in original). However, Raico views Prince-Smith in line with contemporary sociology and believes in the influence from the French Industrialistes (Raico 1999, 61-2). In 1845, Prince-Smith criticized the *Zeitgeist* and the economic insight of his fellow citizens in the *Elbinger Anzeigen*, writing: “[...] our time does not make enough an effort to gain a thorough understanding by scientific study” (quoted in Wolff 1880, 248; emphasis in original). For a basic understanding of economics, he recommended to begin with Adam Smith, Jean-Baptiste Say, Moritz Karl Ernst von Prittwitz or Carl Heinrich Hagen.²⁰ Adam Smith was surely an important influence, although Prince-Smith criticized the founder of economics for his unclear terminology on value theory, writing that “[t]he unclear economists are the fathers of the socialists” (Prince-Smith 1877, 387).²¹ Another significant influence on the orthodox group was Frédéric Bastiat. Prince-Smith was the German popularizer of the French economist. In 1849, he translated Bastiat's magnum opus *Economic Harmonies* into German and frequently corresponded with Bastiat, writing in a letter:

The friends to whom I have shown your book [*Economic Harmonies*] are enthusiastic about it. I promise

¹⁹ Prince-Smith similarly wrote in *Ueber den politischen Fortschritt Preussens* (On the Political Progress of Prussia, 1843): “The political phase always depends on the social phase; and although the first powerfully acts on the formation of the last, the lasting political changes are always the result of a changed social base. The new social element, which underlies the actual direction of our time as a driving force, is the accumulated capital and the great industry based on it. [...] It is the impulse of accumulated movable capital, however, which has irretrievably and unquestionably promoted the whole of social life in order to remove that which obstructs it, and to build up that which is conducive to it“ (Prince-Smith 1879, 62).

²⁰ Prince-Smith was befriended with the liberal Hagen, a professor of jurisprudence in Königsberg. In 1845, he translated parts of Hagen's book *Von der Staatslehre und von der Vorbereitung zum Dienst in der Staatsverwaltung* (On Political Economy and the Preparation for Service to Public Administration) into English (Braun 1880b, vii). Prittwitz was a Prussian general who had written a book on taxation and on the “limits of civilization”.

²¹ Schüller is in essence correct when he concludes from this quote that “*Prince Smith* was an opponent of classical teachings as far as socialists could rely on them [...]” (Schüller 1899, 80; emphasis in original). However, reading Schüller, one might receive the impression that Prince-Smith was a decided opponent of Adam Smith, whereas he praised Smith as “thorough, perceptive and admirable” (Prince-Smith 1877, 386) and noted: “He presented the tasks of science in incomparable clarity and did remarkably much to solve them” (ibid.).

you that it will be read eagerly by our best thinkers [...] We hope to establish a formal league among the democratic parties and the free traders [...] 'Bring Bastiat here', a leader of the democrats said to me, 'and I promise to lead 10,000 men in a procession to celebrate his visit to our capital'. (quoted in Rothbard 1995b, 452; emphasis in original)

In 1845, the Berlin free traders established an Association for the Dissemination of the Best Writings on Political Economy. Members were obliged to distribute economic writings worth two thalers per year, which they could obtain at a reduced price from the association. Among others, the organization distributed Bastiat's *Capital and Rent, Protectionism and Communism, The State, and Damn Money!* (Bastiat 2019; see also Braun 1880a, vii-viii). In 1845, Prince-Smith published his third book on trade policy *Ueber die Nachteile der Industrie durch Erhöhung der Einfuhrzölle* (On the Disadvantages for Industry of Increasing Import Tariffs). Contrary to earlier writings, the work only dealt with German trade policy and its effects on selected industries, like the linen or iron manufacturers. While his work from 1843 had attracted little attention, Friedrich List reviewed the 50-pages pamphlet, which was addressed to the congress of the Zollverein that met in Karlsruhe in June 1845 (Hentschel 1975, 39).²² Prince-Smith was worried that the incident of 1843 might happen again, when protectionists had successfully agitated for increased tariffs (Prince-Smith 1877, 150). In the work, Prince-Smith accused the protectionists of misrepresenting the facts and following their narrow self-interest by advocating trade restrictions (Prince-Smith 1877, 151-2). In 1843, according to Prince-Smith, protectionists had lobbied for an increase of the iron tariff claiming that the Prussian iron industry was lying on the ground. In reality, during the last six or seven years, more iron had been imported and produced inside of the Zollverein (Prince-Smith 1877, 152-3). Protectionists spread the same false narrative about the cotton, wool and silk industry (Prince-Smith 1877, 155-6). Only the linen industry had declined because it did not keep pace with the technological development in England (Prince-Smith 1877, 157-8). He showed on the basis of statistics that Germany exported more textile fabrics than England (Prince-Smith 1877, 170) and calculated the increased profits that factory owners made due to the duties (Prince-Smith 1877, 172). Once more, Prince-Smith programmatically rejected protective tariffs: “Those duties directly cause only the production of a shortage and are primarily *tariffs of dearness*” (Prince-Smith 1877, 159; emphasis in original). The work from 1845 also illustrates that Prince-Smith was far from being cold-hearted or a apologist of worker-exploitation, for he opposed child labor in factories:

²² Prince-Smith had sent a copy of his earlier *On Hostility to Trade* to Friedrich List in 1843, writing in English: “[...] you will find therein advocated the very reverse of the doctrines which you profess [to].” He implicitly asked for a review, for he stated: “Any critical notice or refutation of any arguments which you may feel inclined to make, will be received by me as a personal favour, for truth can be promoted by controversy alone, and it must contribute highly to my honour to be met by so illustrious and approved a champion as yourself.” However, List did not review the book. See Bayerische Staatsbibliothek, signature: Cgm 6349, Letter from John Prince-Smith to Friedrich List, July 13th 1843.

They become physically crippled and morally depraved, and have no leisure for intellectual education. When they have grown up, they become incapacitated, the pauperlists swell, and through child-making they seek to procure a food source in the wages of their offspring. (Prince-Smith 1877, 163)

Generally, Prince-Smith and the free traders did not succeed in preventing tariff increases in the 1840s. Tariffs had been lower in the Zollverein than in any other Great European power since 1818, but increased in the 1830s. Raw materials were free, manufactured goods were paid 10 percent ad valorem and tropical goods between 20 and 30 percent (Henderson 1950, 296). In 1843, in Karlsruhe, the Zollverein introduced a tariff of 10 thalers on crude iron and in 1846, duties on cotton, linen and other semi-finished products rose (Hahn 1984, 118-21). It was, however, perhaps a success that the Zollverein did not increase its tariffs more drastically. In 1846, Prince-Smith wrote *Ueber die englische Tarifreform und ihre materiallen, sozialen und politischen Folgen für Europa* (On the English Tariff Reform and its Economic, Social and Political Consequences for Europe). The article has been called his “gospel of free trade” (Wolff 1880, 256) and condensed his previous arguments against protectionism. Due to the victory of the Anti-Corn Law League, which had introduced almost complete freedom of trade in England, Prince-Smith was full of optimism about the future of liberalism. The result of the reform superseded “my keenest hopes”, he wrote (Prince-Smith 1879, 193). The English had understood how corn tariffs decreased imports and increased land prices, causing unemployment and falling wages (Prince-Smith 1879, 194). The land-owning class had imposed tariffs because they held the power in parliament but, due to free speech and the free press, the common people could assert themselves against the old elites (Prince-Smith 1879, 195). Prince-Smith seemed to be absolutely certain that the Golden Age of world peace and free trade was imminent, since England would prosper under the new free trade regime, forcing other countries to eliminate their trade barriers as well: “[...] likewise the proclamation of freedom of trade by the English side will necessarily force others to take the same path and implement general free trade” (Prince-Smith 1879, 225). The few remaining tariffs would disappear soon because the disempowered land-owning class would not make a pact with other elite classes (Prince-Smith 1879, 211). The reform would not cause a massive influx of foreign corn into England, but prices would remain high enough for producers to stay in the market and land would not remain idle (Prince-Smith 1879, 199).

Concerning Germany, Prince-Smith viewed its underdeveloped and intervened agricultural and industrial sector as the cause of its social problems. Free competition was the solution because it would lead capital and labor into both sectors, and raise wages (Prince-Smith 1879, 231). Another remedy would be the transition from a feudal to a national form of government, similar as in

England. With the capitalists, a new class of elites had risen to power and the transition brought about freedom of press and speech (Prince-Smith 1879, 236). Prince-Smith condemned the “feudal law” which granted privileges to special interest groups: “The *principle of law* based on natural institutions and recognized by reason demands an *equal unhinderedness* for all human beings to create means of consumption” (Prince-Smith 1879, 237; emphasis in original). However, he was also quite aristocratic in his theory of state. He believed that a power imbalance had to exist among classes of society in accordance with individual wealth. The wealthy classes—for example, the English landowners—had a greater interest in the state’s activities and must have a greater say according to the property they owned:

And to the greatest proprietors [...] must be transferred the major part of legislation, for they have both the strongest impulse and the greatest power to carry out the generally useful. [...] He [the owner] has the most direct interest in the increased growth of all productivity, the entire population and all wealth; his private advantage is identical to the public good [...]. (Prince-Smith 1879, 259)

The tone of *On the English Tariff Reform* was even more optimistic than of *On Hostility to Trade* from 1843. Regarding Prince-Smith's optimism, Wolff wrote with much justification on “a delusion that has played an almost fatal role in our time” (Wolff 1880, 256). In the same year, Prince-Smith wrote a letter to the British Prime Minister Robert Peel and praised the English reforms on banking, income taxes and tariffs. Peel's answer generated a great deal of public attention in Germany and England. The protectionist German press attempted to ridicule its content, so that many citizens started to pay attention to the letter and to questions of trade freedom:

A popular free trade movement transcending exclusive circles of scholars and civil servants and surpassing a low number of interested people dates not until that time [1846] and the impact, which the English tariff reform had on Germany, was fostered by the Elbing letter and the resulting newspaper polemic [...]. (Wolff 1880, 264)²³

In the same year, Prince-Smith moved to Berlin to work for a new-founded liberal newspaper but, ultimately, he did not receive the position. After two unsuccessful attempts, he founded a Berlin free trade association on April 7th 1847.²⁴ His goal was to establish the German civic movement for free trade following the model of the Anti-Corn Law League. 65 persons joined the new association in its first meeting; among them, Heinrich Beta and the later editor of the *Quarterly Journal* Eduard Wiss (Wolff 1880, 268). In comparison to the protectionists, the free traders slowly established lobby institutions for their cause. The beginnings of the Berlin association—or, as it was initially

²³ Prince-Smith's letter and the answer by Peel are reprinted in Wolff (1880, 260-4).

²⁴ On the Berlin free trade association, see Meyer (1912, 44-5), Wolff (1880, 267-9), Kaelble (1972, 217-8) and especially Best (1980, 102-4).

named, “Verein für Handel und Gewerbe” (Association for Trade and Business)—coincided with a small crisis of the protectionist movement. The protectionists had not been able to establish a nation-wide umbrella organization and Friedrich List had committed suicide in November 1846. Additionally, free trade received a lot of publicity due to the victory of the Anti-Corn Law League, and Cobden's subsequent travels throughout Europe (Best 1980, 102-3). Nonetheless, Prince-Smith could not implement the name “Freihandelsverein” (Free Trade Association) until October 1847. This was because a moderate group of 13 professors and various Prussian civil servants joined the new organization. These men elected professor Carl Friedrich Wilhelm Dieterici as president and preferred to begin with a discussion of the pros and cons of trade freedom (Best 1980, 103). In November 1847, the second conflict broke out when the association decided to advocate a regress to the Prussian tariff system from 1818.

A radical minority wanted to propagate the elimination of all tariffs. Prince-Smith, Faucher and the journalist Hermann Maron belonged to this radical faction. As Faucher said, the early free traders demanded the “restriction of the state to what gave rise to it, and what it must exclusively be—bearer and guardian of the necessary *power* for the protection of law and borders and, if necessary, also for the *expansion* of borders” (Faucher 1870b, 157; emphasis in original). However, the free trade association exerted little influence and few entrepreneurs joined its public meetings (Kaelble 1972, 217). As the *Berlinische Nachrichten* noted after the second meeting, this was because “most of those concerned think only of themselves and of their own production, less of its general connection with the entire political life [...]”²⁵ Shortly after, in December 1847, a free trade association was established in Stettin and new foundations were planned in the Baltic Sea cities Königsberg (today Kaliningrad), Elbing and Memel (Best 1980, 104). The Berlin free trade association organized talks, where Prince-Smith and Carl Wilhelm Asher, the director of the railway Berlin-Hamburg, would speak about a visit to the Belgian congress (Best 1980, 103). This visit took place from September 16th to 18th 1847, when Asher and Prince-Smith attended an international congress with 170 participants from twelve countries, mostly businessmen. Wolff denotes the meeting as “the highlight of the first phase of the European free trade movement” (Wolff 1880, 273). The free trade meeting was presided by the Belgian noblemen and liberal politician Charles de Brouckère, who praised Bastiat as the “zealous apostle of our doctrines” (quoted in Rothbard 1995b, 452). The German delegation was headed by Prince-Smith and counted nine members. The French group was particularly active and included Charles Dunoyer, Jerome-Adolphe Blanqui and Joseph Garnier. Bastiat was not present, but the individualist anarchist Gustave de Molinari (Bastiat 2019). The attendees passed a declaration for free trade and decided to meet in the following years,

²⁵ *Berlinische Nachrichten von Staats- und gelehrten Sachen*, June 26th 1847, no. 146, 1.

which was thwarted by the revolution of 1848 (Rothbard 1995b, 452).

Before the revolution of 1848, Prince-Smith attained financial independence by marrying Auguste Sommerbrodt, who was born into a rich Berlin banking family. As his friend Wolff said, he came into “a well-off bourgeois position” (Wolff 1880, 285) and did not have to care anymore about money. In March 1848, during the revolution, Prince-Smith was elected to the Berlin city council assembly and remained its member for two years (Wolff 1880, 285). In August 1848, he went with Faucher to the national assembly in Frankfurt (Wolff 1880, 297), as a representative of the Danzig businessmen (Wolff 1880, 286). He also published *Petition um Schutz gegen Beschränkung des Verkehrs* (Petition for Protection against Restriction of Trade, 1848). He demanded from the Frankfurt deputies “to recognize the unrestrained freedom of trade, in the exterior and interior, as the basic condition of your task” (Prince-Smith 1879, 328; emphasis in original). Prince-Smith described the pre-revolutionary European governments as a “system of armed resistance” and wrote on a “rule of special interests” (Prince-Smith 1879, 321; emphasis in original). The basic features of the political system were mutual threatening of states, huge armies, general pauperism and exhaustion of the people by taxation (Prince-Smith 1879, 321). It was a “madness” (Prince-Smith 1879, 322; emphasis in original) to aim at raising national wealth by introducing trade barriers. The argumentation was the same as in earlier writings, but the harsh tone of Prince-Smith, who was usually reserved and objective on politics, was new and probably due to the revolutionary turmoil. He denounced that “[t]he existing trade restrictions are among the most obvious sources of mass impoverishment” (Prince-Smith 1879, 324; emphasis in original). By protectionist policies, certain individuals made a profit at the expense of the general public “due to cowardly distrust into their own productive power” (Prince-Smith 1879, 324; emphasis in original). He concluded: “In vain will Germany struggle for political liberty as long as it tolerates monopolies” (Prince-Smith 1879, 327; emphasis in original). In Frankfurt, two thirds of the members of the economic committee were free traders and discussed the unified tariff system for Germany, but without success since the revolution failed (Faucher 1870b, 162).²⁶

Prince-Smith did not join a political party during the revolution because the liberals were protectionists, like the leading South German liberal Moritz Mohl. On the other hand, the conservative junkers supported freedom of trade because they had an interest in the low duties for foreign manufacturers. Bismarck explained, for instance, at that time: “We pay high prices for cheap English iron to support the Silesian miner” (quoted in Henderson 1950, 298). Moreover, Prince-

²⁶ The protocols of the debates of the economic committee would probably yield more information about Prince-Smith's and Faucher's time in Frankfurt. Unfortunately, these documents are not printed. See Schneider (1923, 23) for more information on these archives. See Habermann (2013, 91-4) for the liberal economic policy of the Frankfurt parliament, from which notions of welfare statism were absent among the majority of deputies.

Smith was always reluctant to engage in the political struggle. His hesitance to take sides prevented him from entering the Prussian parliament, although he was a prospective candidate in 1849.²⁷ In February and March 1849, he gave speeches in Stettin and Hamburg to gain support for a German umbrella organization for free trade (Wolff 1880, 297). In May 1849, Prince-Smith was successful and the “Zentralbund für Handelsfreiheit” (Central Union for Free Trade) was founded (Wolff 1880, 304). Its influence was minor because it counted few members and mainly consisted of associations from sea cities, the traditional places of support for trade freedom. These associations raised money by which Prince-Smith tried to found a school of journalism for young free traders. But he could not find enough applicants and the project failed, and he lost a considerable amount of money (Wolff 1880, 309-10; Best 1980; 232-3). The attempt to establish the paper *Berliner Revue für Politik, Wissenschaft, Literatur und Kunst* (Berlin Revue for Policy, Science, Literature and Art) also remained without success (Wolff 1880, 313). Finally, Prince-Smith joined Faucher's paper *Abendpost* after early March 1850 (Wolff 1880, 315). So far, the free traders had not conquered public opinion or prevented increases of tariffs. Prince-Smith already recognized in 1850 that the socialist movement might gain power, so spreading liberal ideas among the democrats was of paramount importance. In face of Bastiat's writings that were distributed in Berlin at that time, he wrote in a letter to a mister Steinbart:

We must conquer the mass here—gain a broad base as a party, otherwise we do not cut through with anything but remain, as hitherto, idealists whose humane and partly justified aspirations are mentioned with respect, but should not be considered for the determination of practical politics. [...] Time is working for us if we use it vigorously. We can still win the popular vote for us in the north. If we do not do anything right now, then we are discredited for all time as a party that could not achieve anything, when the situation was as favorable as it seldom happens and never twice. If the free traders do not provide enough food to the volksgeist [spirit of the people], it will turn to the diet of the socialists—since it must have something. As Napoleon said: 'after fifty years, Germany is republican or Cossack', so I say: 'after one year, the Berlin People's Party is free-trade-minded or socialist.' (quoted in Wolff 1880, 315; emphasis in original)

Three months later, in June or July 1850, Prince-Smith was pleased with his collaboration with the *Abendpost*. In the second letter to Steinbart, he noted that he had made free trade popular among the liberals, who had been—as seen—mostly protectionists, and the democrats: “I put the free trade doctrine back on the map among the extreme left; free trade and bureaucracy, or competition and exploitation, are no longer considered identical to the party whose perverse notion of property made it dangerous” (quoted in Wolff 1880, 315-6).

²⁷ On January 11th 1849, in a letter to the person that thought about suggesting him, Prince-Smith was quite enthusiastic about the possible candidacy (Wolff 1880, 295). See Wolff (1880, 289-95) for the full letter.

1.2 The Ingenious Dilettante Julius Faucher

Intellectually and personally close to Prince-Smith was Julius Faucher, who was married to the cousin of Prince-Smith's wife. He was born on June 13th, 1820 in Berlin.²⁸ His father was of French Huguenot origin while his mother was German. Faucher studied philosophy at the Berlin Friedrich Wilhelm University in the 1840s and made acquaintance with many well-known intellectuals in Berlin. The writer Theodor Fontane was his friend and portrayed him in the autobiography *Von Zwanzig bis Dreißig* (From Twenty to Thirty, 1898). The famous German author got to know Faucher at the house of Hermann Maron, a mutual friend, in Berlin in 1840. As Fontane explains, Faucher was born into a wealthy family and lived in the noble district Unter den Linden. He invited the 21-year-old Fontane into his house and read to him poems of the Austrian writer Nikolaus Lenau (Fontane 1898, 45-52). Fontane remembers: “I was entranced, which visibly pleased him. [...] The impression on me was a grand, overwhelming one. Three days later I had the poems. The copy bought at that time has accompanied me through life and I still read in it” (Fontane 1898, 52). Fontane considered Faucher to be an ingenious outsider, writing in his autobiography:

Much more significant than Maron and by far the most significant of the whole circle was Julius Faucher. In my long life, few have come to me, who would have been more gifted, and never have I met anyone with whom one could demonstrate so wonderfully what was then called a 'genius', as with him. (Fontane 1898, 49-50)

Other contemporaries thought likewise about Faucher. As Hentschel trenchantly formulates, Faucher stood out due to “a certain genius dilettantism” (Hentschel 1975, 67). Max Wirth (1878), a friend, believed that Faucher could have been a great poet or reach any other position, if he had had enough discipline and energy for work. The free trade companion Otto Hübner said: “Julius Faucher finds a diamond and throws it away, another man picks it up and a third one polishes it” (Wirth 1878). Howsoever, when Fontane writes on a “circle” in the before-cited passage, he refers to a group of Young Hegelians that Faucher visited from the early 1840s, “Die Freien” (The Free).²⁹ The informal gatherings of them took place in various Berlin restaurants, best-known is Hippel's wine bar on Friedrichstraße. Other attendants included the famous critic of religion Bruno Bauer and his brother Edgar Bauer. The inner core of the group also encompassed the journalists Ludwig Buhl, Eduard Meyen, Friedrich Sass and the philosopher Max Stirner (Mackay 1898, 70-6). Very famous

²⁸ For the early years until 1850, see Böhmert (1878), Faucher (1870b, 155-62), Fontane (1898, 49-90), Lippert (1900) and Wirth (1878).

²⁹ For The Free, see the Stirner-biography of Mackay (1898, 67-93), Mayer (1913, 42-91), Meyer (1912, 48-51) and Sass (1846, 70-7).

men visited the group at least once, for instance, Karl Marx, Friedrich Engels and Hoffmann von Fallersleben. Some other free traders that became members of the Berlin free trade association were part of the outer core. Those included Heinrich Beta, Otto Wolff, Eduard Wiss, a mister Stein, Prince-Smith and Otto Michaelis (Mackay 1898, 80-1). From spring 1842, The Free were atheistic but they continued to endorse the institution of the state, for they hoped for democratic reforms. Their hopes were destroyed in 1843 when the Prussian King abolished press freedom, which he had introduced a year before. They started to reject authority as such and some of them turned to anarchism (Mayer 1913, 51-55). Edgar Bauer published the book *Der Streit der Kritik mit Kirche und Staat* (The Struggle of the Critique with Church and State, 1843), where he endorsed anarchism and rejected private property (Mayer 1913, 83-5; Nettlau 1925, 178). Max Stirner published his magnum opus in November 1844 that opposed authority and may be interpreted as an anarchist work. His *Der Einzige und sein Eigentum* (translated as *The Ego and Its Own* in 1907) exerted an important influence on Faucher.³⁰

Around that time, with 24 years, Faucher wrote his first and lost work that dealt with the Housing Question. To fight the Berlin housing shortage, he proposed to build houses that were owned by various landlords, of whom each one possessed a single floor. As Faucher told the Hamburg Economic Congress in 1867, the idea was tried out in Berlin at that time but had not proven successful.³¹ This first work might be seen as an early example for “his laborer-friendly attitude” (Lippert 1900). Out of the circle of The Free, Faucher released two articles in Bruno Bauer's *Allgemeine Literatur-Zeitung* (General Newspaper for Literature). One was titled *Englische Tagesfragen* (English Daily Questions) and its three parts dated to June, July and August 1844. The second article was named *Das Berliner Armenwesen* (The Berlin Poor People) and was published in August and October 1844. Faucher did not display his decided laissez-faire position yet, for he believed in a power imbalance between workers and capitalists on the free market. Referring to the English land-owning class, Faucher (1844a, 2-3) explained in *English Daily Questions* that with the onset of industrialization, England exported industrial merchandise to foreign countries and imported agricultural products, whose price was not set on domestic but world markets. Subsequently a new class of elites arose with the capitalists, besides the land-owning class. Because landowners wanted to maintain their power and rape some of the benefits, they lobbied for corn tariffs to supposedly secure higher wages for day laborers. In reality, wages decreased and workers had to pay the high domestic price of corn instead of the low world price:

³⁰ Bruno Bauer similarly moved into an anarchist direction. As Tomba (2005, 125) writes: “The criticism [of Bauer] was no longer directed to a specific type of state [in 1844]—defined by Bauer as a Christian state—but to the state as such [...]”

³¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 125-126.

Knowingly or not, they [the capitalists] were envied by the landowners for the tribute that foreign countries paid to the factories, and they sought to seize the fruits of an effort to which they did not make a contribution [...]. The protective tariff on food reached this purpose. (Faucher 1844a, 5)

In the last thirty years, the capitalists steadily increased their power and became capable of opposing the land owners with the help of the Anti-Corn Law League. However, according to Faucher, not only the landowning class but also the capitalists exploited the laborers: “The relationship of the landowner to the farmer was repeated by that of the mill owner [capitalist] to the worker” (Faucher 1844a, 6). This was because the capitalists were allowed to form a trust and dump wages, whereas workers were forbidden to form coalitions:

The poverty of workers in the countryside, as shown above, drove and drives them into the soliciting counties of the North, and the mill-owners [the capitalists] only had to choose from the overcrowding of hands and they only take the minimum demanders, of course. *A union of the workers to increase the wage is prohibited by the state.* The fact that wages in the factories have not quite fallen to the level of the daily wage in the countryside is only prevented by a circumstance which does not improve the lot of workers by any means. Instead they work more persistently and for a longer time every day. In the countryside, nature has set certain limits, the excess of physical labor, the summer heat [...]. The eternal fire of the factory knows no change of temperature [...]. (Faucher 1844a, 6; emphasis in original)

Therefore, the workers were exploited by the capitalists, who formed trusts and dumped wages. However, Faucher argued that such exploitation would also occur on a free market, even if workers would not be prevented by the state to form coalitions. All benefits from an elimination of the Corn Laws would go to the capitalists, because wages would decrease in proportion to the fall of food prices. Although prices of the goods sold by the capitalists would also fall, the capitalists could easier form trusts to artificially raise prices (Faucher 1845, 6). Hence, property tended to accumulate in a few hands on a free market, as Faucher explained in *The Berlin Poor People*: “The goal and necessary end of competition is the centralization of property [...]” (Faucher 1844d, 27). Although property was indiscriminate towards a single citizen, it solidified the distribution of wealth established by earlier feudal privileges and hence poverty among workers:

As wealth always becomes wealthier, poverty must always become poorer. But because they [citizens] are trapped in the archaic forms [of the feudal privileges], because the point of view of the mass always lags behind real historical development, they expressed the qualitative difference of free property in the states of its unfreedom. (Faucher 1844d, 26)

Concerning Berlin, Faucher gave as examples the monopoly rights and privileges that Frederick I had granted to certain entrepreneurs in the 18th century (Faucher 1844d, 28). However, Faucher

leaned towards liberalism in both articles. *English Daily Questions* contained a critique of a draft bill by the Tory Lord Ashley, who argued for limiting child labor from twelve to ten hours per day. Faucher commented that Ashley, if he was truly led by humanitarian reasons, had to argue for a lower daily working time. A limitation would establish a caste system, because workers would be unable to move up in the social hierarchy by greater diligence (Faucher 1844b, 33-4). Additionally, a ten-hour-restriction for certain industries did not increase wages because children would be employed in other sectors at a lower wage (Faucher 1844b, 37). The third part of *English Daily Questions* was about a proposal by David Ricardo for a tariff reform. Ricardo suggested to decrease all duties except for the corn tariff (Faucher 1844c, 31). Faucher spoke against “the mercantile system” and was astonished that these trade policies still enjoyed popularity among English politicians despite their rejection by economic science (Faucher 1844c, 32). In *The Berlin Poor People*, Faucher also discarded social redistribution by the state. Although he opposed private almoners because there would be a lack of care for the poor without state officials managing social welfare (Faucher 1844e, 54), he did not believe that welfare payments by the state would finish pauperism. They would merely crowd out private welfare that a poor person might receive from his relatives. If a person did not have a supportive family, he had to go to a hospital or an orphanage. Public welfare paralyzed the poor man's impetus to work himself out of his situation (Faucher 1844e, 55). Another problem was alcohol if the poor received monetary payments:

The awful distance from the pleasures offered by wealth, the grieving feeling of dependence on alms giving and the increased anxiety and insecurity at a time, when only capital makes carefree, drives the poor to look for a negative pleasure in the oblivion of their own personality, whose size and attraction is to be measured by the sufferings which he has to forget. The remedy for this is brandy [...]. (Faucher 1844e, 56)

Faucher's two articles did not pass unnoticed. Shortly after, Karl Marx and Friedrich Engels published the book *Die heilige Familie* (The Holy Family, 1845), in which they criticized the thought of *The Free* and dedicated the second chapter to Faucher. Engels wrote the eight-page text that outlined Faucher's errors about some historical facts and translations. Faucher had not known that the English workers possessed the right of association since 1824 (Mayer 1934, 200) and he had translated millowners (factory owners) to “Mühleneigner” (windmill owners). He also made mistakes on the chronological order of some innovations in the spinning sector during the industrial revolution. Engels keenly concluded, due to Faucher's errors, that *The Free* intentionally misrepresented English history (Marx and Engels 1845, 12). Engels was probably upset because Faucher pictured the English workers as enthusiastic followers of the Anti-Corn Law League.

Faucher wrote both articles before Stirner's *The Ego and its Own* came out in November 1844. Perhaps he was under the influence of Bruno Bauer's philosophy at that time, because Briese (2013, 133) writes about Faucher's articles: "They transferred—simply put—the Bauerian philosophy of subject and liberty to economic processes and moved into the direction of an economic liberalism, which critically opposed protective tariffs." One year later, in 1845, Faucher published the book *Die Vereinigung von Sparkasse und Hypothekenbank und der Anschluss eines Häuserbauvereins* (The Unification of Savings Bank and Mortgage Bank and the Affiliation of a Union for Housing Construction) that was a proposal to solve the Housing Question. In this work, he rejected socialism for the first time:

And in the face of the progress of our time, which freer competition brought to fruition, in the face of canals and railroads, giant steamboats and discovering expeditions, tunnels and gaslights that require the association of thousands, we laugh at the swear word of particularization, and openly declare that if strain and misery are still in the wake of these ventures, they must be attributed to the residuum of 'socialist abstraction'. We want to fight against this residuum [...]. (Faucher 1845, 4)

Faucher's turn to liberalism might have been caused by his encounter with Prince-Smith. The latter moved to Berlin in 1846, but since Heinrich Beta knew Prince-Smith since 1844 (Briese 2013, 134), Faucher probably made acquaintance with him around the same time. At least Faucher had corresponded with Prince-Smith before the free trader moved to Berlin (Pietsch 1893, 79). Moreover, Prince-Smith's wife was the aunt of Faucher's spouse.³² In 1846, Faucher defended free banking for the first time (Faucher 1846, 27) when he released *In der Bankfrage gegen Gustav Julius* (Against Gustav Julius on the Banking Question). It was a reply to the journalist Gustav Julius and his *Das Bankwesen: Ein neues Gespenst in Deutschland* (The Banking System: A New Ghost in Germany, 1846). In 1846 or 1847, Faucher became a journalist for the Stettin liberal newspaper *Börsennachrichten der Ostsee* (Stock Market News from the Baltic Sea). Founded in 1835, the paper advocated "a classically liberal program that knew little compromise" (Bader 2011, 238) and attacked the protectionist doctrine of Friedrich List. It rejected communism, nationalism and early socialist thinkers like Robert Owen, Charles Fourier and Henri de Saint-Simon. It wrote on the latter's socialist plans on February 8th 1841:

Most of these philanthropic proposals are excellent and plausible in theory, but fail for a twofold reason in practice, partly because they completely destroy individual freedom, partly because, on a larger scale, the punctual observance and exact control of the established principles becomes impossible. (quoted in Bader

³² According to Pietsch (1893, 75-82), Faucher's wife Karoline Sommerbrodt was the wealthy and orphaned niece of Auguste Sommerbrodt, Faucher's landlord. In the 1840s, his family possessed a millinery in Auguste's house at Unter den Linden. When Prince-Smith moved to Berlin in 1846, Faucher gave him an accommodation in his house, where Prince-Smith got to know Auguste. He then married Auguste two years before the revolution in 1848.

2011, 239)

Its solution to the Social Question was “unrestricted entrepreneurship” (quoted in Bader 2011, 240). Even civil servants considered the *Börsennachrichten* to be an outstandingly-edited paper, despite of the heavy censorship it was submitted to before the revolution. The paper was not allowed to write on politics for most of the time before 1848. In 1847, Stettin hosted a great banquet for Cobden, where Faucher and 80 attendees—mostly businessmen—commemorated Cobden's triumph.³³ After the victory of the Anti-Corn Law League, the English free trader was celebrated throughout Europe and met the Pope in Rome. He traveled from Vienna to Dresden, and continued his journey to Babelsberg and Berlin. He met two times Prince William I, the later King, and William's brother Frederick William IV, the present King of Prussia. Cobden stayed in Berlin from July 22nd to August 5th. On July 31st, a great dinner was hosted with over 180 free traders, where Asher, Faucher and the Berlin mayor were present (Morley 1908, 479).³⁴ Afterwards, Cobden left to Stettin where he was on August 7th and 8th. In December 1847, a free trade association was founded in Stettin and Faucher and Benedikt Adam Ludwig Altvater, the editor of the *Börsennachrichten*, became its presidents (Best 1980, 104). Besides Bordeaux, Stettin was the main center of free trade in Europe (Ayçoberry 1980, 300) and its free trade association counted 174 local members (Best 1980, 384). This was because, due to the shipping trade with England, the merchants of the Baltic city had a great interest into low duties. As Cobden wrote in his diary when he was in Stettin:

The protective duties of the Zollverein are particularly injurious to the Baltic provinces of Prussia, which export wheat, timber and other raw produce. The manufacturing districts of Rhenish Prussia are entirely cut off and detached from this part of the kingdom: they receive their imports and send out their exports by the Rhine, not through a Prussian port; thus the protective system stands in the way of the increase of the foreign trade in the Prussian ports, and stops the growth of the mercantile marine without even offering the compensation of an artificial trade in manufactures. In fact, owing to her peculiar geographical position, the maritime prosperity of Prussia is more completely sacrificed than any other State by the protective system. (Morley 1908, 481-2)

When Faucher was in Frankfurt in the summer of 1848, a group of young economists crowded around him, like Max Wirth (Faucher 1870b, 162) and Otto Wolff (Braun 1893, 131-2). At that time, Faucher was already an anarchist. In 1849, he moved back to Berlin to found the *Abendpost* with Eduard Meyen.

³³ *Börsennachrichten der Ostsee*, August 9th 1847, no. 64, 1632-3 and *Königlich privilegirte Berlinische Zeitung*, August 11th 1847, no. 185, 2. See also Bader (2011, 240).

³⁴ For Faucher's attendance, see *Königlich privilegirte Berlinische Zeitung*, August 2nd 1847, no. 177, 1-3.

1.3 The Berlin *Abendpost*: A Stirnerite and Individualist Anarchist Newspaper

In 1863, Ferdinand Lassalle defended himself in a curious way in front of a Berlin court. The socialist tried to gain sympathy of the judge by reasoning that they both were on the same side, namely on the side of the state. He said: “*You, gentlemen, do not belong to the Manchester men, these modern barbarians who hate the state, not this or that specific state, not this or that form of state, but the state as such!*” (Lassalle 1863a, 136; emphasis in original). He continued that these Manchester men “want to eliminate any state, they want to give justice and police to the minimum demander and they want to let stock companies wage war [...]” (Lassalle 1863a, 136). Lassalle referred to an episode in the history of German free trade that happened 13 years earlier in Berlin. At that time, Faucher founded the *Abendpost* whose political philosophy was individualist anarchism. Little is known about the newspaper. It just existed for five and a half months, from January to July 1850, before it was suppressed by the Prussian state. It had a small readership of approximately 1000 readers and was frequently confiscated by the police. Moreover, when Faucher, Michaelis and Prince-Smith became respected public figures as members of parliament in the 1860s, they tended to obscure their involvement with the *Abendpost*, which took a radical anarchist, free trade and nihilist position. Hence, most issues of the *Abendpost* seem to be lost and source material is not easily accessible. The sole researcher, who investigated the *Abendpost*, is Ralph Raico (1999, 62-7). He conducted research in secondary sources, but did not investigate the remaining issues of the *Abendpost* or Berlin papers of 1850. Research on the *Abendpost* is relevant for historians of political thought, because the paper advanced a completely new political philosophy, a synthesis of Stirnerite egoism and individualist anarchism. The findings can also be interesting for Stirner researchers who want to know how his contemporaries received *The Ego and Its Own*.³⁵ Moreover, liberal anti-state ideas have been “an adjunct of mainstream liberalism from the seventeenth century to the present” (Hart 2007, 392). In the history of thought, such ideas emerged as a synthesis of classical economic thought and political anarchism. While dying out during the first half of the twentieth century, they experienced a revival from the late 1950s, due to Murray Rothbard and later David Friedman. In what follows, the history of the *Abendpost* and its main ideas are presented and then a look is taken on the quasi-anarchist Hermann Maron and the anarchists Heinrich Beta and Wilhelm Lipke.

³⁵ In his history of anarchism, Ernst Viktor Zenker (1895, 87-8) views the *Abendpost* and Faucher as the only representatives of Stirnerite thought during the mid of the 19th century.

1.3.1 The *Abendpost's* History

The origins of the newspaper date back to the 1840s. As seen, Faucher and some free traders visited the group of The Free, of which the philosopher Max Stirner and Eduard Meyen, the second editor of the *Abendpost*, were also members. Many of its visitors would collaborate with the *Abendpost*; namely, Faucher, Meyen, Michaelis, Wolff, Beta and Prince-Smith.³⁶ Faucher (1870b, 164) identifies as contributors Eduard Fischel; Walter Rogge; C. Hoppe; a mister Dankwart, who wrote about law and philosophy of law; the writer Adolf Mützelburg, who reviewed theater; and the famous conductor Hans von Bülow, who was responsible for music.³⁷ The *Abendpost* evolved from the newspaper *Wächter an der Ostsee* (Guardian at the Baltic Sea), which was released in Stettin from 1847 and was founded by the democratic and free trade journalist Wilhelm Lüders (Wolff 1880, 313-4). The *Wächter an der Ostsee* was transferred to Berlin at the beginning of 1850 and changed its name to *Demokratische Zeitung* (Democratic newspaper). Due to its small circulation, according to Wolff (1880, 313-4), its editor Meyen looked for the journalists that were willing to publish articles. He accepted the offer from Faucher to enter the editorial team with his free trade friends. Thus, radical democrats united with the free traders, who had been rather uninterested into political questions (Wolff 1880, 313-4). The *Demokratische Zeitung* was relaunched under the name *Abendpost* on January 28th 1850.³⁸ It continued to bear the title *Demokratische Zeitung* as a surname until early April 1850. The circulation of the *Abendpost* was small compared to other Berlin papers. The unknown author A. M. speaks of 700 to 800 issues in his article about the Berlin press from 1850 (AM 1850, 414).³⁹ This was “because it was written in a way that was too reflective for the workmen, and it was not sufficient for the sophisticated newspaper reader in terms of the manifoldness of its political content” (AM 1850, 414). Nevertheless, the *Abendpost* managed to attract many new readers during its short existence. The writer Karl August Varnhagen von Ense (1865, 139) writes in his diary that Meyen and Prince-Smith visited him on April 19th 1850. He

³⁶ See Braun (1893, 132), Wolff (1880, 313-7), Faucher (1870b, 164), Beta (1865, 22) and Max Wirth in the *Neue Freie Presse*, July 26th 1894, no. 10748, morning issue, 2. While Mackay (1898, 69) identifies Faucher as a member of the Free, Bunzel et al. (2006, 47-8) dispute this classification. They distinguish between three groups of Young Hegelians that were active in Berlin in 1842: The Free (members included Ludwig Buhl, Eduard Meyen, and Max Stirner), a circle around Bruno Bauer (Edgar Bauer, Faucher, Ernst Jungnitz) and other intellectuals that were equally far from these groups on ideological grounds, like the Privatdozent and publicist Karl Nauwerck. Eßbach (1988, 42) arrives at the same classification. There is no consensus on who must be considered as a member of the Free, since contemporaries even disputed the existence of the group in the 1840s (Eßbach 1988, 30, 62; 42).

³⁷ The Bülow-biographer Walker (2010, 46-7) tells that Bülow was unable to find surviving copies of the *Abendpost* in the 1860s, while preparing his reflections, because every issue seemed to be destroyed. His wife Marie von Bülow called the *Abendpost* “an anarchistic organ” and suppressed Bülow's political commentaries when she published his collected letters and articles. According to Mackay (1898, 10-1), Bülow was an admirer of Max Stirner and knew the philosopher personally.

³⁸ See *Magdeburgische Zeitung*, February 1st 1850, no. 27, 7 and *Urwählerzeitung*, January 28th 1850, no. 24, 2.

³⁹ The *Demokratische Zeitung* wrote of 800 own subscribers too; see *Kreuzzeitung*, January 26th 1850, no. 21, 1.

then notes that the *Abendpost* gained 300 new subscribers during the last quarter year. The Austrian paper *Die Presse* (The press) reported a “the rapid increase of its subscribers” that turned the *Abendpost* into “a dangerous rival of the democratic newspapers”.⁴⁰ Nonetheless, this was a small readership compared to other democratic newspapers.⁴¹ The readers of the *Abendpost* mainly belonged to the radical part of the educated classes, although she was also read by the working class (AM 1850, 419).

Radical was an adjective that was often used to describe the *Abendpost*. In explaining why it often cited the *Abendpost*, the *Deutsche Reform* (German reform) wrote that “this radical newspaper has a certain vividness in its reporting, it is characterized by a great sincerity of confession.”⁴² The paper *Die Presse* praised the “soundness of its economic knowledge and views“ and added the *Abendpost* was not afraid to criticize “the favourite ideas of the German democratic movement“:

Only one Berlin paper—a short while ago unremarkable and today already a dangerous rival of the democratic newspapers, the 'Urwählerzeitung' and the 'Nationalzeitung', due to the soundness of its knowledge and views on economics and the rapid increase of its subscribers—only the *Abendpost* is not carried away by the whirlwind of events, despite all of its apparent extravagances and fantasies, because it alone has a solid principle under its feet. In its columns, neither tragic sighs nor bragging about fulfilled prophecies can be found. It does not hesitate—and at least the rivals acknowledge this honorableness of the paper—to submit the favorite ideas of German democracy to subversive critique, to tear apart the ruins of the Frankfurt edifice without personalities, without love and hate, without laughter and crying and to shed light on the bad spot of the whole question in an appropriate historical debate: whether the pursuit for state power can be the correct way towards liberty at all, whether the later can be realized in the coercive state at all.⁴³

Die Presse touched upon a subject which first became apparent in February 1850—anarchism. The *Abendpost* was an anarchist newspaper and demanded frequently the elimination of the state. The paper was also nihilistic and atheistic and some texts resemble the ideas of Max Stirner. There is, however, no evidence that Stirner wrote for the *Abendpost*. The paper *Der Leuchtturm* (The lighthouse) wrote that Ludwig Buhl used to join the editorial team of the *Abendpost* at night after they finished the production of the newspaper, to take a drink, and that the journalist had left the

⁴⁰ *Die Presse*, May 3rd 1850, no. 106, 2. The unidentified A. M., who probably wrote his article in June or July 1850, spoke of 1000 new subscriptions during a quarter year (AM 1850, 418).

⁴¹ The author A. M. estimates the number of Berlin subscribers of the *Urwählerzeitung* to 8000 to 10000 (AM 1850, 411). The total number of subscribers of the *Nationalzeitung* is specified with 14000 (AM 1850, 413). The conservative *Kreuzzeitung* counted 6000 to 7000 subscribers (AM 1850, 406) and the *Deutsche Reform* less than 5000 (AM 1850, 408).

⁴² *Deutsche Reform*, April 22 1850, no. 862, evening issue, 1.

⁴³ *Die Presse*, May 3rd 1850, no. 106, 2.

circle of The Free at Hippel's wine bar: "Ludwig *Buhl* has also joined them [the editorial team of the *Abendpost*], he has left Hippel. The trio *B. Bauer*, *Stirner* and *Buhl* is destroyed."⁴⁴ Thus, the quote suggests that Stirner had no direct ties to the paper and that The Free had still met at Hippel shortly before May 1850. In early March, the democratic newspapers started a debate on whether the democrats should participate in the elections for the Prussian House of Lords, the first chamber of the Prussian parliament. The *Nationalzeitung* (National newspaper) and the *Abendpost* were against participation, while the *Urwählerzeitung* (Primary voter newspaper) was in support. The *Abendpost* argued that citizens would not vote for the democrats because the ballot was not secret.⁴⁵ Additionally, the democratic minority would have to submit to a conservative majority in the House of Lords. The *Abendpost* continued:

We would unnecessarily sacrifice our principle, [...] our consistency. We would just suffer defeats and perpetually have the humiliating feeling that we have to bow to a disdainful minority while we are conscious that we have the majority of people behind us.—Now we bow to the violence, the cannons and the bayonets of the old military state, which has fielded his complete power; but this power can only remain as long as it finds keen instruments of its will. As soon as education penetrated these classes, as soon as a gap arises in the system, as soon as a pin is displaced in this machine, the whole edifice will collapse.⁴⁶

The "keen instruments of its will" were the soldiers of the Prussian military that fought down the revolution of 1848. A lot of them were illiterate and monarchists, whereas the educated middle class was mostly liberal-minded. The *Abendpost* won the debate and the democrats did not participate in the elections.⁴⁷ In March 1850, Eduard Meyen was also questioned by the police for several articles. One text titled "Poison and assassination" recalled how the ruling dynasties used both against their enemies.⁴⁸ The *Abendpost* often had problems with the authorities and its copies were repeatedly confiscated. Karl Braun (1893, 132) claimed that almost every third issue was seized. In 1850, Prussian newspapers had to deliver a specimen copy to the police as soon as distribution began. If the police considered the issue to be a danger to public order, it could be confiscated. It had to be given back if the state attorney did not approve of the confiscation (Kohnen 1998, 100-2). The *Abendpost* had repeatedly problems with the police because it was accused of not delivering fast

⁴⁴ *Der Leuchtturm*, 5 (1850), no. 25, 486, emphasis in original. Olaf Briese turned the author's attention to this quote.

⁴⁵ *Deutsche Reform*, March 2nd 1850, no. 780, morning issue, 1.

⁴⁶ *Deutsche Reform*, March 1st 1850, no. 778, evening issue, 2. The *Kreuzzeitung* reprinted parts of the above quote too; see *Kreuzzeitung*, March 3rd 1850, no. 51, 1.

⁴⁷ *Urwählerzeitung*, March 12th 1850, no. 60, 2.

⁴⁸ *Nationalzeitung*, March 29th 1850, no. 146, morning issue, 5.

enough a specimen copy.⁴⁹

One of the three remaining issues of the *Abendpost* is from April 3rd.⁵⁰ In this issue, the *Abendpost* published a lead article with a critique of democracy. A reply to the *Nationalzeitung* explained that anarchy was preferable over democracy. The *Abendpost* also reprinted the draft for a new law of association from March 11th 1850.⁵¹ According to the bill, all associations that debated “public matters” had to notify the police one day in advance when and where a meeting took place. The statute and the register of members had to be submitted to the police when a new association was founded, and all changes in membership had to be reported within three days. The police was allowed to send officers to the meetings, who had to wear police uniforms or badges. If members contravened against the law, for example if they were armed, police officers could suspend a meeting. Punishments were high, if for instance the head of a meeting refused the police officer admittance, he could go to jail for six months or pay 100 thalers. The *Abendpost* was, together with the *Nationalzeitung* and the *Urwählerzeitung*, against the law. The *Deutsche Reform* cited the paper on April 6th as follows: “Your efforts [...] are infinitely odd of not letting assemble the people quietly and speak with each other in this sociable world. Your law of association is quackish, it is an outdated Hocus Pocus, an adjuratory formula, which the devil, progress, gives a heck about.”⁵²

Regarding the other two remaining issues, the *Abendpost* published a lead article about the English Torys on May 11th and criticized the Prussian election system on May 16th. Then, on May 22nd, an incident happened that drastically changed the fate of the *Abendpost*. Max Sefeloge, a former soldier, attempted to shot Frederick William IV while the Prussian king was entering a train in a Berlin railroad station. He was traveling to the Sanssouci Palace in Potsdam when the attack happened at 12 am. The king was only slightly injured because he shielded his body with his forearm.⁵³ After the attack, the *Kreuzzeitung* (Cross newspaper) and the *Deutsche Reform* gave partial responsibility to the democratic press. Sefeloge had been motivated by democratic

⁴⁹ *Nationalzeitung*, May 30th 1850, no. 242, morning issue, 2.

⁵⁰ The issues are from April 3rd 1850 (No. 76), May 11th (No. 107) and May 16th (No. 111). The first can be found at the Internationales Zeitungsmuseum (International newspaper museum) in Aachen, Germany. No. 107 is located at the Institut für Zeitungsforschung (Institute for newspaper research) in Dortmund, Germany. Issue no. 111 can be found in the national library of France in Paris. Some sources indicate that the University library of Jena owns several issues, but the library could not locate them upon request.

⁵¹ *Abendpost*, April 3rd 1850, no. 78, 3-4.

⁵² *Deutsche Reform*, April 6th 1850, no. 836, evening issue, 1.

⁵³ *Deutsche Reform*, May 22nd 1850, no. 908, evening issue, 1 and *Nationalzeitung*, May 24th 1850, no. 232, morning issue, 2.

propaganda⁵⁴ and had shouted “long live freedom” during the assassination attempt.⁵⁵ The democratic papers declared that Sefeloge was mentally ill. Later, it turned out that Sefeloge was indeed insane and that he had not shouted for freedom (Damerow 1853, 42). The attack heralded the nightfall of the *Abendpost*. The paper was confiscated on May 23rd and the police searched the house of Meyen.⁵⁶ He was arrested and set free without explanation at the same day.⁵⁷ The *Abendpost* immediately started a campaign against the conservative press, the government and the *Nationalzeitung*, which had assumed partial responsibility for the assassination attempt. This caused a polemic article of the *Abendpost*: “Can the most widespread organ of the democratic movement, instead of manly opposing the ghost (!), take the responsibility for proclaiming, like a schoolboy when the twig is wafting above the whole class: 'It was not me!'“⁵⁸ The paper related Sefeloge to the conservatives because of his military background: “It becomes more and more apparent that the initiator of the murder attempt on the Prussian king suffers from mental illness, and that he was *formerly* connected to the *royal party*.”⁵⁹ The conservatives were the only party that profited from the attack:

Since the servant press possesses the effrontery to use *Sefeloge* as a *second Ohm*, he who comes from the ranks of the true representatives of the people, from the ranks of extreme Prussian patriotism, from the upbringing of the military orphanage in Potsdam, from pietistic confusion of the senses, a previous member of the *conservative party* and a beggar for royal indulgence [...]. If the death of the king would have been a consequence of the insane crime, the prince of Prussia, who did not swear on the constitution, would have taken over government and would have hardly resisted the pressure by the reaction for its entire elimination. If you have the nerve to put blame on the democratic movement, it should harmonize with its interests. There is only harmony with the opposite interests. *Understood?*⁶⁰

The *Kreuzzeitung* responded by making a linguistic joke. If the term “servant press” meant that the *Abendpost* was “served” by her, the *Abendpost* was correct and she will continue doing so.⁶¹ The assassination attempt made headlines for over a week. On May 31st, the *Abendpost* declared to fight

⁵⁴ *Deutsche Reform*, May 24th 1850, no. 912, evening issue, 1. See as well *Kreuzzeitung*, May 26th 1850, no. 118, 1.

⁵⁵ *Nationalzeitung*, May 26th 1850, No. 236, morning issue, 1.

⁵⁶ *Kreuzzeitung*, May 24th 1850, no. 116, 2 and *Deutsche allgemeine Zeitung*, May 24th 1850; no. 266, morning issue, 2.

⁵⁷ *Constitutionelle Zeitung*, May 23rd 1850, no. 82, evening issue, 3. The Berlin newspapers agree on Meyen's arrest but solely the *Wiener Zeitung* reports Faucher's arrest; see *Wiener Zeitung*, May 25th 1850, no. 123, Abendblatt, 3.

⁵⁸ *Kreuzzeitung*, May 31st 1850, no. 122, 1.

⁵⁹ *Kreuzzeitung*, May 29th 1850, no. 120, 2, emphasis in original.

⁶⁰ *Kreuzzeitung*, May 26th 1850, no. 118, 1, emphasis in original.

⁶¹ *Kreuzzeitung*, May 28th 1850, no. 119, 3. In German, the terms are “Bedienstetenpresse” and “bedient”. The word “bedient” or in English “served” means in this context to make bad comments on somebody's expense.

against doctrines and not persons: “The democratic party does not wage war against persons, but against doctrines, and it can never be a gain for it if a person, who is the supporter of a doctrine, is eliminated.”⁶² With time, the attention of the democratic papers moved away from the attack to the new press edict. Just two weeks after the attack, on June 5th, the Prussian state passed the edict which allowed the state post to refuse delivery of newspapers (Kohnen 1995, 105). However, the government had planned immediately after the attack to regulate the press. The *Constitutionelle Zeitung* (Constitutional newspaper) already reported four days after the assassination attempt that a new press edict would be introduced and two democratic papers would be suspended.⁶³ The edict introduced a caution system according to which a Berlin newspaper had to pay 5000 (or 2500) thalers if it wanted to be released six (or three) times per week. The rationale was that the caution should serve as a security for trial costs. Editorials had to obtain a license which could be withdrawn and the state post could reject the transportation of newspapers.⁶⁴ The *Abendpost* saw the press edict as an attempt to turn back the results of the revolution of 1848, which had brought about press freedom:

The government now understands, who its true enemies are. They are two technical institutions, which had been considered the main carriers of public welfare and public education, the art of printing and the post. One cannot govern with the art of printing and the post without further ado; they have to be gagged and subjugated so that they do not cause damage. Yes it is true, the innovative brains Gutenberg and Taxis have turned themselves into accessories of treason; church and state will stand up as their prosecutors in front of the last judgment, and they will go to eternal damnation. An accessory is Gutenberg when he created the means to communicate the discontentment of thousands. An accessory is Taxis when he created the institution, by which the malcontents in Breslau receive notice from the malcontents in Berlin. It is part of the state's nature that government should not suffer if people are discontent, and since it does not know how to achieve that, it believes it should not suffer if one person learns about it from somebody else. The people will not be more content, but on the contrary more discontent. But government does not have to see it, so that it [government] believes nobody at all sees it. The ostrich sticks its head into the bush thinking that the hunter, which it does not see, will also not see it, and will pass by.⁶⁵

The *Abendpost* finished the article by saying: “Newspapers will disappear, their readers stay; what they stay will they become, what it costs? Not only the head, but also the neck of the ostrich is sticking deeply in the bush.” Another strategy of the *Abendpost* against the press edict was to promote passive resistance:

⁶² *Kreuzzeitung*, May 31st 1850, no. 122, 1.

⁶³ *Constitutionelle Zeitung*, May 26th 1850, no. 87, evening issue, 1.

⁶⁴ For the entire press edict, see *Deutsche Reform*, June 8th 1850, no. 937, morning issue, 1-2.

⁶⁵ *Deutsche Reform*, June 10th 1850, no. 940, evening issue, 1.

Passive resistance is not accomplished if one does not vote and sends out unsuccessful protests into the world; passive resistance is always resistance and has its activity as well but does not consist in barricades, gunpowder, and lead. It consists in the fact that everybody fights in every moment for every inch of land against forward-pushing despotism. We have made only very poor attempts to do it. We live in the hope that the new press edict will be a turning point for public consciousness. This keen attack on the last bulwark of freedom will make it clear to everybody that the bad practice of waiting has to be given up and must be replaced by action.⁶⁶

Everybody had to do his best to prevent the oppression of the press, for instance by spending money for newspapers, by distributing issues if one did not have money, or by founding a private post to circumvent the state post. The paper wrote: "In a time like ours, one has to keep one's chin up and trust in each other. Solidarity with the interest of liberty substitutes for the advantage of coercion with its complicated machinery." At that time, disillusionment seemed to spread because the *Abendpost* released many articles in which it demanded greater support from its readers. But the paper seemed to have had at least some success in its fight against the reactionary government. According to the *Deutsche allgemeine Zeitung* (German general newspaper), the *Abendpost* found entrepreneurs that transported its copies to small cities.⁶⁷ At the end of June, Meyen quitted his position as editor and Faucher remained alone in charge.⁶⁸ This was probably because Meyen was sentenced to four months of jail due to an article in the *Demokratische Zeitung*.⁶⁹ Shortly after, He was sentenced to four weeks of jail or a fine of 35 thalers because the specimen copy was delivered seven times too late to the police station.⁷⁰ He subsequently migrated to London. In June, Prince-Smith was still confident in a letter to Steinbart that the *Abendpost* would receive permission to be transported by the state post (Wolff 1880, 316). However, around June 20th, it became apparent that the *Abendpost* would not receive permission.⁷¹ Even more, the newspaper had to collect 5000 (or 2500) thalers if it wanted to publish six (or three) issues per week.⁷² 5000 thalers was too much money and the *Abendpost* had to announce on July 16th:

Since friends of our newspaper did so far not raise enough money for the caution of 5000 thalers for daily

⁶⁶ *Deutsche Reform*, June 18th 1850, no. 954, evening issue, 1.

⁶⁷ *Deutsche allgemeine Zeitung*, July 3rd 1850, no. 341, 1.

⁶⁸ *Ibid.*

⁶⁹ *Wiener Zeitung*, June 20th 1850, no. 146, 5. Meyen did not appear in front of court for the trial.

⁷⁰ *Nationalzeitung*, July 6th 1850, no. 306, morning issue, 3.

⁷¹ *Die Presse*, June 20th 1850, no. 147, 2. See also Wolff (1880, 317) and Faucher (1870b, 164-5).

⁷² As Kohnen (1995, 108) notes, at that time, 5000 thalers was a huge amount of money for a single paper. The secret intention was that only solvent editors should be able to publish newspapers. In contrast to an average citizen, these persons had a greater interest in preserving the political state of affairs due to financial reasons. Regarding the *Abendpost*, a subscription for a quarter was prized at one thaler in Berlin. Thus it would have taken 15 months, under the assumption of an average readership of 1000, until the *Abendpost* earned the caution of 5000 thalers.

publication, we are forced to publish only three issues per week until the subscription is completed, which we expect soon. We cannot do else: the fixation of dates of the press edict came too surprisingly for newspapers which rely on support of the party due to their radical tendency. All party activity needs time, and the creators of the press edict were well aware of that. We are convinced that we did the right thing and that we conformed to the will of our friends in preferring to take a shot at it, instead of sacrificing the last organ of progress in the capital either by transforming its character or by irresponsible surrendering. We believe our readers rather want to receive an uncompromising *Abendpost* three times a week for a time, instead of an *Abendpost* that is published daily but which is, to speak with the words of the Gotha people, adapted to the circumstances.⁷³

The *Abendpost* claimed that it would not change its tone. Prince-Smith, however, wrote that the *Abendpost* softened its wording, for example, by erasing all references to violence (Wolff 1880, 316). The paper had problems to collect 2500 thalers. On July 20th, it published a newspaper ad in which it announced its suspension until it collected the caution of 2500 thalers. The donors had not delivered a part of the promised money.⁷⁴ This was its last sign of life. On July 25th, the *Kreuzzeitung* noted that the *Abendpost* was not released again.⁷⁵

1.3.2 Max Stirner and *The Ego and Its Own*

A book appeared in November 1844 in Leipzig that attracted a lot of public attention for a short time, before it faded into obscurity (Mackay 1898, 138-41). It was the magnum opus of the philosopher Max Stirner titled *The Ego and Its Own*. In his book, Stirner—a member of The Free—defended philosophical egoism. “Egoistic” meant that one did not give an absolute or ideal value to anything, but looked for its value in oneself (Stirner 1913, 221). By looking in oneself, Stirner referred to what Freud called the “super ego”, the internalization of cultural rules through education. An egoist did not blindly submit to these rules, but looked for his “true” egoistic ends:

Those [feelings] which are aroused are my own, egoistic, because they are not *as feelings* drilled into me, dictated to me, and pressed upon me; but those which are imparted to me I receive, with open arms—I cherish them in me as a heritage, cultivate them, and am *possessed* by them. Who is there that has never, more or less consciously, noticed that our whole education is calculated to produce *feelings* in us, *i.e.* impart them to us, instead of leaving their production to ourselves however they may turn out? If we hear the name of God, we are to feel veneration; if we hear that of the prince’s majesty, it is to be received with reverence, deference, submission; if we hear that of morality, we are to think that we hear something

⁷³ *Deutsche Reform*, July 16th 1850, no. 1002, evening issue, 1. The *Nationalzeitung* reprinted parts of the quote as well; see *Nationalzeitung*, July 16th 1850, No. 323, evening issue, 4.

⁷⁴ *Kreuzzeitung*, July 20th 1850, no. 165, 2.

⁷⁵ *Kreuzzeitung*, July 25th 1850, no. 169, 2.

inviolable; if we hear of the Evil One or evil ones, we are to shudder. (Stirner 1913, 83-4, emphasis in original)

This theory led Stirner to oppose following such institutions as state, religion or family out of a feeling of moral obligation instilled by early education. He wrote: “What is imparted is *alien* to us, is not our own, and therefore is ‘sacred,’ and it is hard work to lay aside the ‘sacred dread of it’” (Stirner 1913, 85; emphasis in original). An egoist did not blindly subject to these values instilled by parents or education, but followed his egoistic “true” ends. The result was a nihilistic outlook on life, the emphasis on the superiority of individual values as the guide post for action, and the rejection of tradition, religion or any other pre-given set of values or beliefs. In the introduction, Stirner explained programmatically:

The divine is God’s concern; the human, man’s. My concern is neither the divine nor the human, not the true, good, just, free, etc., but solely what is *mine*, and it is not a general one, but is—unique, as I am *unique*. Nothing is more to me than myself! (Stirner 1913, 6; emphasis in original)

For Stirner, no objective values existed that could be equally applied to all people: “Nothing at all is justified by *being*. What is thought of *is* as well as what is not thought of; the stone in the street *is*, and my notion of it *is* too” (Stirner 1913, 455; emphasis in original). Additionally, there was no absolute truth towards which an individual could adjust its behavior: “As long as you believe in the truth, you do not believe in yourself, and you are a—*servant*, a—*religious man*. You alone are the truth, or rather, you are more than the truth, which is nothing at all before you“ (Stirner 1913, 472; emphasis in original). If there were an absolute truth, the individual would just be “a servingman” (Stirner 1913, 465). The impetus for personal action had to be egoism, that is, personal benefit or utility: “We have only one relation to each other, that of *usableness*, of utility, of use” (Stirner 1913, 394; emphasis in original). Everyone should live according to his “true” egoistic values, insofar as he possessed the power to follow them: “I [...] propose, instead of further unselfishly serving those great egoists, rather to be the egoist myself” (Stirner 1913, 5). Stirner's view might be illustrated with his position on the institution of the family. He did not reject the institution as such or advised egoists against founding a family, but recommended to be faithful to one's family only as long as it served one's own interests:

In innumerable cases both [the good of my family and my good] go peacefully together; the advantage of the family is at the same time mine, and *vice versa*. Then it is hard to decide whether I am thinking *selfishly* or *for the common benefit*, and perhaps I complacently flatter myself with my unselfishness. But there comes the day when a necessity of choice makes me tremble [...] now it will be revealed whether piety ever stood above egoism for me. (Stirner 1913 289; emphasis in original)

In case of religion, Stirner went beyond decided critics of Christianity like Bruno Bauer or Ludwig Feuerbach. The latter presented his criticism of religion in *The Essence of Christianity* (1841). Feuerbach's central point was that human beings project essential parts of their personality onto God, so that God is a reflection of a human species-essence or nature (Gooch 2016). Stirner opposed this view because Feuerbach just transferred God from the afterlife into the present life and into each human being (Stirner 1913, 41-2). Stirner did not believe in the existence of a species-essence: "I am neither God nor Man, neither the supreme essence nor my essence, and therefore it is all one in the main whether I think of the essence as in me or outside me" (Stirner 1913, 41). Hence he accused Feuerbach and other Young Hegelians of still being influenced by Christian thought: "Our atheists are pious people" (Stirner 1913, 241). They replaced God with the species-essence, adhered to Christian values and discarded egoism, for example when Feuerbach praised love as "the supreme practical maxim" (Stirner 1913, 74). For Stirner, love was when an individual placed other ends above his own egoistic ends, like those of the nation or common good (Stirner 1913, 380-1). In contrast, an egoist loved due to his intrinsic valuation and affection for another person and not because of a human essence, which was supposedly present in each individual: "I love men too—not merely individuals, but every one. But I love them with the consciousness of egoism; I love them because love makes *me* happy, I love because loving is natural to me, because it pleases me" (Stirner 1913, 386; emphasis in original). Stirner called Feuerbach's view "morality" (Sittlichkeit) and spoke of a "*change of masters*" (Stirner 1913, 74; emphasis in original) that had taken place, the substitution of morality for religion.

Regarding philosophy of law, Stirner viewed the sole restriction to the rights of the individual in his power to obtain what he desires. Stirner stated: "He who has might has—right; if you have not the former, neither have you the latter" (Stirner 1913, 251-2). Property was acquired by using one's power so it followed: "With this the war of all against all is declared. I alone decide what I will have" (Stirner 1913, 341). There was no legal source other than the individual's capability to exert his power: "Owner and creator of my right, I recognize no other source of right than—me, neither God nor the State nor nature nor even man himself with his 'eternal rights of man,' neither divine nor human right" (Stirner 1913, 268-9). The just owner, then, was the one who disposed of the power to acquire or defend property against invasions from others. Since the state was the only force that was allowed to use power, the individual did not truly own his property but was "enfeoffed" (Stirner 1913, 333). As long as a state existed, individual property did not exist (Stirner 1913, 338). Stirner did not want to eliminate, however, the institution of property and opposed the communists of his time: "Property, therefore, should not and cannot be abolished; it must rather be

torn from ghostly hands and become *my* property” (Stirner 1913, 342-3; emphasis in original). Many interpreters viewed Stirner as an anarchist or an individualist anarchist. Stirner indeed proposed to replace the state by a union of property owners (Stirner 1913, 233-4, 409-10):

But war might rather be declared against establishment itself, the *State*, not a particular State, not any such thing as the mere condition of the State at the time; it is not another State (*e.g.* a ‘people’s State’) that one aims at, but its [the state’s] *union*, the coalition, this ever-fluid coalition of everything standing. (Stirner 1896, 260; emphasis in original)⁷⁶

The union was an association of egoists who coordinated their behavior to reach a mutual goal. Its members were not united by blood, like in a family or in a nation, and neither by a belief, like in a church, but by the egoism of each member. Each member joined the union “from *selfishness*” (Stirner 1913, 417; emphasis in original) and membership was voluntary.⁷⁷ Stirner depicted the union as follows:

And, if I can use him [the fellow men], I doubtless come to an understanding and make myself at one with him, in order, by the agreement, to strengthen *my power*, and by combined force to accomplish more than individual force could effect. In this combination I see nothing whatever but a multiplication of my force, and I retain it only so long as it is my multiplied force. But thus it is a—union. Neither a natural ligature nor a spiritual one holds the union together, and it is not a natural, not a spiritual league. It is not brought about by one *blood*, not by one *faith* (spirit). In a natural league—like a family, a tribe, a nation, yes, mankind—the individuals have only the value of *specimens* of the same species or genus; in a spiritual league—like a commune, a church—the individual signifies only a *member* of the same spirit; what you are in both cases as a unique person must be—suppressed. Only in the union can you assert yourself as unique, because the union does not possess you, but you possess it or make it of use to you. Property is recognized in the union, and only in the union, because one no longer holds what is his as a fief from any being. (Stirner 1913, 415; emphasis in original)

As seen, Stirner believed that property was respected “only in the union” while it was a feudal tenure everywhere else. He used to contrast the union with the state. The latter interfered with the individual's ownness (Stirner 1913, 408)—his individuality—by indoctrinating its citizens so that they accepted its rule, for example by censoring the press (Stirner 1913, 315-6). For the state

⁷⁶ Similarly, Stirner wrote: “[I]f the State ranks as the warder of everything ‘human,’ we can have nothing human without taking part in it. But what does this make out against the egoist? Nothing at all, because the egoist is to himself the warder of the human, and has nothing to say to the State except ‘Get out of my sunshine’” (Stirner 1913, 307).

⁷⁷ In a very implicit manner, Stirner stated that voluntary membership was a characteristic of the union: “As I am not willing to be a slave of my maxims, but lay them bare to my continual criticism without *any warrant*, and admit no bail at all for their persistence, so still less do I obligate myself to the union *for my future* and pledge my soul to it, as is said to be done with the devil, and is really the case with the State and all spiritual authority [...]” (Stirner 1913, 410; second emphasis added). Elsewhere, Stirner compared society to a prison, which one could not voluntarily enter or leave, and contrasted society with the union (Stirner 1913, 287). Stirner used the terms society and state synonymously. He also explained that a feature of the union was “incessant self-uniting” (Stirner 1913, 407).

machinery to work, a “subject's limited understanding” (Stirner 1913, 408) was necessary on the side of a great part of the population. Stirner called the interaction between egoists and unions “intercourse”. The philosopher hardly touched upon economic questions in his writings, although he translated Jean-Baptiste Say's *Cours* and Adam Smith's *Wealth of Nations* into German, and perhaps Pierre-Joseph Proudhon's *System of Economic Contradictions* (Senft 2006, 2). It would go beyond the scope of this work to answer whether Stirner was an anarchist or even an individualist anarchist. It will only be shown how his philosophy found its way into the *Abendpost*.

1.3.3 The *Abendpost*'s Main Ideas

After the revolution of 1848, Stirner disappeared from the public eye and the *Abendpost* did not mention him. His *The Ego and Its Own* had come out just a month after the 24-year-old Faucher published the last part of his two articles in Bauer's *Allgemeine Literatur-Zeitung*. Stirner and Faucher knew each other from *The Free* and their wives had been friends (Mackay 1898, 128). Moreover, Max Wirth, a friend of Faucher, revealed much later that Faucher had been “a disciple of Max Stirner”.⁷⁸ It is, therefore, no surprise that three of the six main ideas resemble Stirner's thought, namely, egoism, atheism and free association. The other ideas are economic liberalism, individualist anarchism and a critique of democracy.

a. Egoism

The *Abendpost* defended an egoistic and nihilistic view in condemning traditional norms and institutions. The *Kreuzzeitung* explained:

It is known that the conductors of the *Abendpost* rage against all convention, against all that is traditional; they explain with a remarkable openness that everything propagated from prehistory to the present has to be destroyed root and branch, before the new life of the individualist republic can flourish from the ruins provided by the *Abendpost*.⁷⁹

Similarly, on March 28th, the *Abendpost* advocated “a total break with the ‘traditional’” in rejecting state, religion and custom, in an article which the *Deutsche Reform* cited as follows:

Not justice or injustice, but the ability or inability to live is the measure which it [the consequent democratic movement] applies to them [these powers]. But because it has to deny all these powers—state, religion, conventional custom—the ability to live, but because it cannot approve of authority and the

⁷⁸ *Neue Freie Presse*, July 26th 1894, no. 10748, morning issue, 2.

⁷⁹ *Kreuzzeitung*, April 10th 1850, no. 81, 1.

belief in authority, the basic features of those powers, *it is the total break with the 'traditional,'* it is the opposite of authority, namely, the absolute liberty and autonomy of the individual.⁸⁰

The individual, which the *Abendpost* had in mind when it opposed any authority or tradition, seemed to be an egoist that only followed his own ends. This is indicated by another quote from the *Deutsche Reform* from April 13th, when the conservative paper cited the *Abendpost* with the words: “The *Abendpost* itself explains what it means by order, namely: ‘Free association with the simple principle as a basis: everybody lives according to his own arbitrariness [Willkür] on his own responsibility.’”⁸¹ The second part is a direct quote from the *Abendpost*. The term “Willkür” means a behavior that ignores common norms or laws and is only oriented toward self interest. Similarly, as early as in 1845, Faucher wrote in his book *The Unification of Savings Bank and Mortgage Bank and the Addition of a Union for Housing Construction*:

The interest which just associates for its own sake, for this purpose with one, for that purpose with another, is the only organic impetus. For us, the competition of interests is the only true life principle.
(Faucher 1845, 4)

When citing the above passage, the *Deutsche allgemeine Zeitung* commented that “[h]e has placed the principle of Stirnerite egoism in the forefront of his practical proposals.”⁸² Indeed, the *Abendpost* seemed to lean towards a Stinerite type of egoist.

b. Atheism

Another Stirner-like idea was the rejection of the belief into the existence of God. The *Abendpost* wrote on February 25th that the revolution in France was not successful because the revolutionaries had been theoretical, but not practical atheists: “In France [...] the revolution already ferments for more than 60 years and it will maybe ferment longer, because the revolutionary men brought themselves *to theoretical atheism at most*, but repudiated practical atheism.”⁸³ On March 28th, the *Abendpost* explained in greater depth what it meant by practical atheism:

Religion, that is otherworldliness, that has vanished into morality and hence into the state—‘embodied morality—makes way for the practical atheism of this-worldliness. The individual does not struggle for otherworldly salvation—he tries to achieve this-worldly bliss. The spiritualization, the refinement, by which one attained heaven, gives place to the formation of all natural powers by which one subdues the

⁸⁰ *Deutsche Reform*, March 28th 1850, no. 824, evening issue, 2, emphasis in original.

⁸¹ *Deutsche Reform*, April 13th 1850, no. 848, evening issue, 1.

⁸² *Deutsche allgemeine Zeitung*, December 7th 1845, no. 341, 3.

⁸³ *Deutsche Reform*, February 25th 1850, no.770, evening issue, 1, emphasis in original.

earth. *The war of all against all*, which arises from that, is the first law of all becoming, free movement and as such nothing else than ‘eternal peace.’ These are the demands of the German democratic movement, which calls itself ‘German,’ not because it strives for a national Germany, but because it is the child of the German philosophy.⁸⁴

Like Stirner, the *Abendpost* made the argument that morality was substituted for religion, using the identical term for morality as Stirner did, “Sittlichkeit.” As seen, Stirner put this point forward against Feuerbach’s criticism of religion that he presented in *The Essence of Christianity*. The *Abendpost* repeated Stirner’s argument by saying that “[r]eligion [...] has vanished into morality” and by advocating, as an alternative, an individual that developed “all natural powers” to pursue his own interests. Thus, theoretical atheism might refer to the standpoint of Feuerbach and other Young Hegelians, while practical atheism may correspond with Stirner’s view. The *Abendpost* uses Stirnerite (and Hobbesian) vocabulary again when it wrote on “the war of all against all” (der Krieg aller gegen Alle). Stirner wrote in *The Ego and Its Own* that the egoist used his power to obtain property when he deemed it suitable, concluding: “With this the war of all against all [der Krieg aller gegen Alle] is declared. I alone decide what I will have” (Stirner 1913, 341). The *Abendpost* also advocated atheism on February 28th by declaring: “We fear that a jury of devout moral democrats could convict us if we declare: ‘Atheism,’ not ‘Pantheism,’ ‘anarchy,’ and ‘masterlessness,’ not ‘rule of all.’”⁸⁵ In the issue of May 11th, there is a lengthy text with the title “The people to Pius IX.” in which the pope is criticized.⁸⁶

c. Free Association

The *Abendpost* advanced the concepts “Vereinigung” (coalition) and “freie Association” (free association) that resembled Stirner's union. In anarchy, individuals should organize themselves by associating in coalitions voluntarily. It contrasted these concepts with the state which it denounced as a coercive institution. The *Abendpost* wrote on April 3rd:

The postulate of the Nationalzeitung is the common right to vote, the representation on the widest ground, whereas we want self-representation. [...] We do not want the coercive state and the coercive society at all, even if it is based on the widest ground of representation, because the individual does not win his case. We do not recognize any other societal ribbon than free association. How could rule of the majority satisfy us? Whether I am oppressed on behalf of one, or several, or on behalf of the most, does not matter if I do not want to be oppressed at all. We are not against the principle of majority as such, but against its

⁸⁴ *Deutsche Reform*, March 28th 1850, no. 824, evening issue, 2, emphasis in original.

⁸⁵ *Deutsche Reform*, February 28th 1850, no. 776, evening issue, 1, emphasis in original.

⁸⁶ *Abendpost*, May 11th 1850, no. 107, 1-2.

application inside the coercive society. I can submit to the decision of a free coalition, because it [the majority] grants me the freedom to leave, but never to the majority of a coercive union, because here it is just another form of despotism. Thus, it is self-evident that we, who want to eliminate the coercive state, and the *Nationalzeitung*, that wants to give it solely a wider ground, must take a complete different standpoint in all important social issues.⁸⁷

The *Abendpost* made the point that a coalition is not coercive because membership is voluntary. The state is by contrast a “coercive society” because one cannot leave it. As seen, Stirner contrasted the state with the union as well and implicitly named voluntary membership as a characteristic of the union. There is no disagreement when the *Abendpost* spoke of “coalition” (*Vereinigung*) instead of “union” (*Verein*) because Stirner used both terms synonymously.⁸⁸ However, the paper went beyond Stirner in identifying voluntary membership as a characteristic far more explicitly. In general, free association was the standard phrase of the *Abendpost* that it used very frequently. For instance, on May 27th, it wrote after the attack on the king that a czar does not count more than any other person “*as soon as the belief in the necessity of the state is destroyed. For us, it is only important to clear up terms until that belief left the minds and is replaced by the principle of free association.*”⁸⁹ Thus, the *Abendpost* seemed to echo Stirner’s concept of the union.

d. Laissez-faire

The fourth main idea is the advocacy of laissez-faire. The *Abendpost* endorsed freedom of trade and assigned to the state the production of security at most. It was also anti-militarist and defended cosmopolitanism. Regarding anti-militarism, the *Abendpost* was against war and the Prussian army. The *Deutsche Reform* angrily observed: “The *Abendpost* [...] pretends, namely since it came under the protectorate of the free trade men at any price, to be the official organ for ‘international peace’, to be the true ‘champion of order’.”⁹⁰ The *Abendpost* had written that, since the conservative government consisted of warmongers, the bourgeoisie would never cooperate with the government. Its hostile attitude towards the Prussian military came again to light on March 29th when the *Abendpost* attributed “political nonage” to the army, because the soldiers had not supported the revolution of 1848. On that day, the *Deutsche Reform* paraphrased the *Abendpost*’s view in a lead

⁸⁷ *Abendpost*, April 3rd 1850, no. 76, 2.

⁸⁸ Stirner does so in the following passage: “But the dissolution of *society* is *intercourse* or *union* [*Verein*]. [...] If a union has crystallized into a society, it has ceased to be a coalition [*Vereinigung*]; for coalition is an incessant self-uniting; it has become a unitedness, come to a standstill, degenerated into a fixity; it is—*dead* as a union, it is the corpse of the union or the coalition, *i.e.* it is —society, community” (Stirner 1913, 407-8; emphasis in original).

⁸⁹ *Deutsche Reform*, May 27th 1850, no. 916, evening issue, 1, emphasis in original.

⁹⁰ *Deutsche Reform*, April 13th 1850, no. 848, evening issue, 1.

article about the “Polemic of the *Abendpost*”.⁹¹ The soldiers had been “spineless tools of the reaction” and the German people screwed up the revolution by themselves. The *Deutsche Reform* commented: “The *Abendpost* has a low opinion of the officer corps, and it cannot be blamed for that, because this officer corps ensures the continuity of the army, which is a thorn in the *Abendpost*'s flesh [...]“. An animosity towards the military existed because a great part of the soldiers supported the reactionary government, whereas the middle class leaned towards liberalism. Regarding its cosmopolite view, the *Abendpost* believed the German essence to be cosmopolitanism instead of nationalism. The German democratic movement should not be an end in itself for itself, otherwise it would become a national movement and dig its own grave.⁹² Similarly, on March 28th, the *Deutsche Reform* observed that the *Abendpost* was usually against any national sentiment, may it be Prussian or German.⁹³ On May 2, the *Abendpost* dismissed patriotism in a polemic article towards the *Nationalzeitung*: “Every appeal to specific Prussianness, to the gloire of the Seven Years' War is, by the way, an unfortunate thing.”⁹⁴ Lastly, in an article about telegraphs, the *Abendpost* hoped that “the feeling of omnipresence [by telegraphic technology], the immediacy of its contact with all points of the world of thought will tear it [the human being] out of the bonds of local or national segregation and will tear him into a whirl of public spirit which is just governed by the common laws of culture.”⁹⁵

The decided position in favor of trade freedom is illustrated by the lead article “The Torys and Sir Robert Peel” from March 11th.⁹⁶ Therein, the Berlin newspaper denounced any intent to reintroduce tariffs in England as impracticable. Tariffs would cause a famine, since England had to import 13 million quarter crops during a good harvest year. It praised Peel for implementing trade freedom and emancipating the Catholics. It called him “the last English ‘statesman’ ever” and wrote that “he represents [...] the 'dying state' with a wonderful firmness and clearness.”⁹⁷ Lastly, in regard to economic policy, the *Abendpost* defended a strict minimal state at most. On July 13th, it recommended private provision of the rising telegraphic technology, otherwise government might

⁹¹ *Deutsche Reform*, March 29th 1850, no. 825, morning issue, 1.

⁹² *Deutsche Reform*, March 27th 1850, no. 822, evening issue, 1.

⁹³ *Deutsche Reform*, March 28th 1850, no. 824, evening issue, 2.

⁹⁴ *Deutsche Reform*, May 2nd 1850, no. 878, evening issue, 1.

⁹⁵ *Deutsche Reform*, June 22nd 1850, no. 962, evening issue, 2. The article was written by Prince-Smith (Wolff 1880, 314). The writer Ludwig Pietsch similarly wrote about Prince-Smith and Faucher: “Every liberal revolutionary or patriotic pathos was equally alien to both” (Pietsch 1893, 79).

⁹⁶ *Abendpost*, May 11th 1850, no. 107, 1.

⁹⁷ However, one month later after Peel had died, the *Abendpost* wrote: “Thank God, again one *statesman* less” (Rogge 1850, 220; emphasis in original).

surveil its citizens.⁹⁸ Four days later, it programmatically explained in an article about tax reform:

Cancel the spending! [...] You find a lot of spending for protection and regulation of trade and commerce—cancel it from the budget because trade and commerce protect and regulate themselves best. You find furthermore a lot of spending for things which just happen on behalf of a class of society or on behalf of individuals; cancel the spending and let the work be paid by those people on whose behalf it is done. You find finally a lot of spending which is useless right from the beginning, and which just originates from the imaginary need of a part of the population. Cancel it from the general budget and let it bear those people who want it. After this thorough revision of the budget, there remains no other task for the state than police and justice. Police and courts exist to protect against crime. But the mother of crime is poverty. If no slaughter and milling tax drives a man to nourishment that just belongs to the cattle, if no beer and vine tax denies him the strengthening pleasures of wealthy people, if no tariff raises the price of clothes for him and his family, if no property and rental tax raise the price of his apartment, if no commercial tax eats up a part of the income of the craftsman that he wants to put away for the days of his seniority and illness; if no trade regulation act prevents man from employing his workforce where it is most beneficial to him, if no master craftsman examination and thousand other guild or police obstacles for self-employment consume his small capital before it can be the basis of his business, if absolute free movement persuades workers to go to places where they receive the best wage, if no expulsion turns the worker away from lucrative earnings and uninterrupted occupation and towards hunger and desperation, if no withdrawal of license reduces the father of a family to beggary, if no stamp and no judicial agony hinder capital to flow into the hands of the producer that employs it most advantageously for himself and society; if no conscription calls the individual away from work and business during the years of his youthful vigor and casts him upon the alienated business world after three years of unproductive work; if no standing army of society takes away the strongest work hands letting them live, while being employed for unnecessary work, at the expense of society, if no budget directs the tenth part of national income to unproductive consumption and hence the tenth part of the people to poverty; if free education causes selfishness of the nation and arrogance of concession, which make crime appear in the highest glance of virtue in stupid eyes, to vanish from the minds of men; if free commerce of nations distributes wealth equally on the whole earth, and no smuggle educates people to crime due to the inviting advantage—we can indeed say what police and courts will then have to do, and what they will cost? The voluntary tax presents itself to us to cover this small rest of the budget which the wealthy nation can easily pay.⁹⁹

The *Abendpost* demanded a radical tax cut and the elimination of the military. The state had to be only responsible for the police and the courts. A “voluntary tax” could provide the funds for state activity. The later term sounds like an oxymoron since taxes are by definition involuntary, so it is unclear whether the *Abendpost* takes a minarchist or anarchist position in the article. Prince-Smith might have been its author because he never endorsed anarchism or Stirner's philosophy. Moreover, the text advances Prince-Smith's classic argument that pauperism is mainly the result of the tax

⁹⁸ *Kreuzzeitung*, July 13th 1850, no. 159, 2.

⁹⁹ *Deutsche Reform*, June 17th 1850, no. 952, evening issue, 1-2, emphasis in original.

burden caused by the military (Wolff 1880, 234-5). The passage also illustrates that the *Abendpost* presented a consequentialist argument for the free market, emphasizing the positive outcomes of laissez-faire. Although Prince-Smith was influenced by Jeremy Bentham's utilitarianism at a young age (Wolff 1880, 215), the *Abendpost* did not commit to any ethical standpoint explicitly. Stirner's egoism goes in a utilitarian direction as well, for Stirner said: "We have only one relation to each other, that of usability, of utility, of use" (Stirner 1913, 394; emphasis in original). Given its doctrinaire liberalism, it comes without surprise that the *Abendpost* spoke against any socialist endeavors. In an article about "the bank project of socialism", the *Abendpost* reasoned that the smartest socialists had to give up their incoherent and oppressive designs of organization, by regressing to the bank to dominate all social operations with:

We consider it a great step forward that socialism is confined to the point where it can be brought to the realization of the cliff on which its undigested projects must fail; and we expect that its eager courage for the improvement of the economic state of affairs, being healed from devoid project-making, will look for a cure where it can solely be found: in the *complete liberation of all productive endeavours from state coercion*.¹⁰⁰

Surprisingly, there are also socialist traces in the *Abendpost*. The radical paper was apparently divided into an interventionist and economic liberal faction. The Austrian *Die Presse* observed on March 3rd: "But free trade and socialist-democratic elements are still so much at loggerheads at the desk of that newspaper that its lead articles, when they went southwards at the beginning, usually aim at north at the end."¹⁰¹ Similarly, the *Kreuzzeitung* claimed Faucher joined the *Abendpost* because the donors considered Meyen as too socialist.¹⁰² However, it seems that economic liberal, Stirnerite or anarchist articles were always separated from articles with socialist thought. On February 25th, the *Abendpost* published an atheist article which seems to be influenced by Stirner's work¹⁰³ and a second article with the title "What we have to do" where the paper wrote:

We must reform society to be able to implement our political principles; or rather, our political principles aim at installing society in its rights and reducing the state to what it should be, the mandatary of society. *Political equality is a theory without social equality; all rights are, whatever their name might be, chimeras without the right to eat one's fill*, the hungry man will easily give them away for a piece of bread at the very first opportunity.¹⁰⁴

¹⁰⁰ *Deutsche Reform*, July 8th 1850, no. 988, evening issue, 2, emphasis in original.

¹⁰¹ *Die Presse*, March 3rd 1850, no. 34, 2.

¹⁰² *Kreuzzeitung*, April 6th 1850, no. 78, 2.

¹⁰³ See footnote 83 for a quote from this article.

¹⁰⁴ *Deutsche Reform*, February 25th 1850, no.770, evening issue, 1, emphasis in original.

Obviously, the above passage was not written by Prince-Smith or Faucher since the *Abendpost* advocated political and social equality. On March 29th, a second time socialist tones were separated from liberal, anarchist and Stirnerite ideas. On that day, the *Deutsche Reform* discussed an article where the *Abendpost* praised the French soldiers for voting for the socialists. At the same time, the *Abendpost* defended anarchism in a second article.¹⁰⁵ The Berlin conservative papers repeatedly classified the *Abendpost* as socialist. The *Constitutionelle Zeitung* praised the *Abendpost* for its sincerity in putting up the red flag¹⁰⁶ and the *Kreuzzeitung* ridiculed “the lunatic communist revolutionary tendencies of that newspaper”.¹⁰⁷ The last socialist traces surfaced on May 11th when the *Abendpost* argued for a new republican socialism and rejected the old French socialists Saint-Simon and Fourier.¹⁰⁸ Thus, the *Abendpost* probably underwent a transformation. It changed its name in early April and the doctrinaire Prince-Smith joined the staff at the beginning of March (Wolff 1880, 315). The unknown A. M. reports that, when Meyen left and Faucher became the sole editor, the paper became more laissez-faire: “Previously one could call its tendency a *radical free trade* tendency, now it became a *pure free trade* tendency” (AM 1850, 417; emphasis in original). Hence, over time, the *Abendpost* became increasingly liberal when the free-trade faction gained the upper hand. In sum, the *Abendpost* defended a very doctrinaire form of economic liberalism, in which the state was responsible for the production of security at most.

e. Individualist Anarchism

The *Abendpost*, however, went beyond the minimal state favored by Prince-Smith and rejected the institution of the state as such. Its journalist Otto Wolff explained that almost every collaborator—except for Prince-Smith—enthusiastically followed “the doctrine” of the paper, meaning likely its anarchism (Wolff 1880, 314). The *Abendpost* advocated anarchism for the first time on February 23rd:

Democracy that does not acknowledge the, translated into Republican language, legal ground of representation must look for a cure in itself. It must consume itself. It must consequently chase the Republican system and must organize, as a counterweight, the provinces, municipalities and associations. It will more and more, according to the principle ‘self do, self have,’ attempt to reduce to zero the governmental and police system. *For we are not here for the state, not here to be the slaves of any legal ground which overcame us.* State and society, they are our means to arrive at the purpose of being free

¹⁰⁵ *Deutsche Reform*, March 29th 1850, no. 825, morning issue, 1.

¹⁰⁶ *Constitutionelle Zeitung*, March 8th 1850, no. 112, evening issue, 1.

¹⁰⁷ *Kreuzzeitung*, March 19th 1850, no. 64, 1.

¹⁰⁸ *Abendpost*, May 11th 1850, no. 107, 1-2.

humans. And we should be slaves of our tools? ... Let us emancipate ourselves from the old Aristotelian error that a human being is born into the state, and must always haul the lead ball of state order by supreme order, so we will arrive at the true understanding of society, at the necessity of *free human association*. (AM 1850, 415; emphasis in original)¹⁰⁹

The *Deutsche Reform* commented that “the rule of the street, panarchy, is the goal of these leaders of the party of the people.”¹¹⁰ This motivated the *Abendpost* to respond with the article “Anarchy or Panarchy?” in which it repudiated panarchy: “The panarchy of Athens fell because of its slaves, its colonies, its Socrates. The Old World went down because it strived for panarchy and not—for liberty” (quoted in AM 1850, 416). Anarchy had to be implemented so that the individual could not be the slave of a majority, nor of another person. The majority was a “many-headed government” (quoted in AM 1850, 416) that violated, even with the best intentions, individual rights. Americans had done well in separating certain basic rights from the realm of government. First steps toward a stateless society should be a reform of the common right to vote, restriction of majority power, and emancipation of town and individuals (AM 1850, 416). It remains unclear what the *Abendpost* exactly meant with these proposals. Does emancipation of towns and individuals mean transfer of power to local institutions, as expressed by the principle of subsidiarity, or secession? Howsoever, on February 28th, the *Deutsche Reform* was eager to pronounce: “Today the democratic *Abendpost* openly confesses to anarchy.”¹¹¹ After its “outing,” the *Abendpost* often advocated anarchism. On March 27th, it explained:

*The German democratic movement has to be individualistic. It has to guard against erecting a government, a state, or any power at all, which could be transferred to a constituted authority. It must realize that the sovereign task of people is to prevent ruling.*¹¹²

On March 28th, the *Abendpost* similarly wrote: “The German democratic movement must dispose of any reform of the state; its fight is not directed against this or that form of the state, it dissolves the state itself, even if it would be the national state.” The indefensibility of the present situation and the general pauperism had, continued the *Abendpost*, a single source—the state.¹¹³ However, did the *Abendpost* also endorse private property rights and thus individualist anarchism?

¹⁰⁹ A great part of the quote can be found in the *Deutsche Reform*, February 23rd 1850, no. 768, evening issue, 1.

¹¹⁰ *Deutsche Reform*, February 22nd 1850, no. 766, evening issue, 1.

¹¹¹ *Deutsche Reform*, February 28th 1850, no. 776, evening issue, 1.

¹¹² *Deutsche Reform*, March 27th 1850, no. 822, evening issue, 1, emphasis in original.

¹¹³ *Deutsche Reform*, March 28th 1850, no. 824, evening issue, 2. The *Abendpost* defended anarchism in many issues, writing for example: “It [society] must suspend political crime and render it impossible by taking its basis. If there is no mastery, it can come into nobody’s mind to strive for mastery. When all state wants are set free for the decision of society, it is impossible for an individual to assert a predominance over them.” See *Deutsche Reform*, May 7th 1850, no. 886, evening issue, 1.

Unfortunately, its remaining issues and the Berlin papers of 1850 do not contain texts that thoroughly elaborate its anarchist views. Additionally, the German free traders did not talk in public about the *Abendpost* when they later became respected journalists or members of parliament. Faucher obscured this episode of his life. He wrote that the *Abendpost* “spoke the proud and fierce language of those times, [...] to turn the people away from revolution and to concentrate their attention on work and enterprise” (Faucher 1870b, 164). Luckily, there are some companions of Faucher who published their memoirs. One of them is Heinrich Beta, who revealed in a newspaper article in 1863:

We withstand the temptation to explain this critical economic radicalism [of the *Abendpost*] at this point. Suffice is to say that it did not demand anything more than complete freedom of supply and demand, for production and utilization of all needs and consumption goods, for example in relation to the state itself and its means of coercion for self-preservation, so that only he pays for the ‘state’ who needs it, according to performance and counter-performance, and only he contributes to the military budget who owes something for performed soldier services in accordance with the market price. One ought to be able to buy state, soldiers etc., for instance from companies which already provide us with gas, water and coal, etc. This appears, so suddenly put into the coercive state, more odd than dangerous, but it is neither one thing nor the other, as we see the principle working in certain practical ways in England in a very calm, beneficial and great manner. The *Abendpost* will remain, as a special organ of economic radicalism and thus a before hardly anticipated let alone attempted scientific creation, an immortal obscurity, even though solely as a curiosity of the press, although I for my part still hope that it [economic radicalism] will save humanity from all ‘coercive states’ one day. (Beta 1863, 268)

Beta clearly describes an individualist anarchist standpoint—he calls “economic radicalism”. Security should be provided by competing firms that offer “soldier services.” The free trader Ludwig Bamberger similarly wrote on “the idealists of anarchy from the year 1848” that proposed to transform “the supreme government [...] into an insurance institution, in which the individual could assure himself at will against robbery, murder, or fraud” (Bamberger 1873, 19). Otto Wolff was the third free trader, who seemed to express the same idea in a letter to his brother from June 1851 (Braun 1893, 135-9). Wolff wrote that he was a member of a Berlin group:

that does not care about practical politics at all in so far as it considers the state as the cause of all misery, as the great obstacle to cultural progress. I cannot denote this, our party, with a shorter name than ‘radical free traders.’ We represent the interests of free society against the coercive state [...]. (Braun 1893, 136-7)

Wolff assured his brother that he and the rest of the group were not “idealistic utopians” (Braun 1893, 137). He explained: “we study the real needs of human beings and the development of history and we came to the conclusion that all cultural progress is directed against any coercion in our

times” (Braun 1893, 137). Then, he described the judiciary as unnecessary: “You may probably consider us nevertheless as foolish, [...] since a long study of the history of civilization and economics is necessary to free oneself of all prejudices of the necessity of the judiciary, etc.” (Braun 1893, 137). Wolff remained unclear whether he opposed the existence of a judiciary in principle or state-provided courts and jurisdiction. Given Beta's and Bamberger's testimony, he probably meant to say the latter. Another proof of Faucher's anarchism is the autobiography by Johann Caspar Bluntschli, a Swiss lawyer. He had sent his friend, Otto Schulthess, to observe the activities of the Frankfurt Parliament in the summer of 1848. Schulthess then had an accidental encounter with Faucher and wrote in a letter to Bluntschli:

He and his friends speculate for the absolute dissolution of all established. He repeatedly said: ‘I do not want monarchy, not a republic, not aristocracy, not democracy; I want *acracy*, no state, no church, no laws, no tyrannizing of minorities by majorities, no taxes. All should happen *voluntarily*, all by *free association*, how Cobden explained it to us in Stettin’ (Bluntschli 1884, 96; emphasis in original).

Thus, Faucher already used the *Abendpost's* standard phrase “free association” in 1848. Some contemporaries related the appearance of anarchist thought in Germany to Max Stirner. The most important is Max Wirth, who knew Faucher since 1848, and published a newspaper article on the history of anarchism in 1894.¹¹⁴ It came out 16 years after Faucher's death and Wirth, after writing about “the German scholar Max Stirner, [who] [...] abominated the state as such”, explained:

At the same time, [“in the 1840s and 1850s“] a disciple of Max Stirner, the economist Dr. Julius Faucher, who was in 1848 as a journalist for a Stettin newspaper at the Frankfurt parliament and got many followers by his ingenious defense of free trade against the protectionist Eisenstock, had the audacity to hoist the colours of anarchy in the 1850 Berlin newspaper 'Die Abendpost', of which Otto Michaelis was a collaborator as well.

Wirth identifies Faucher as the journalist who endorsed anarchism at the *Abendpost* and calls him “a disciple of Max Stirner”. Wirth was a long-time companion of Faucher and wrote an obituary when the journalist died in 1878.¹¹⁵ The *Westdeutsche Zeitung* (West German newspaper) repeatedly identified Stirner as the provider of ideas of the *Abendpost*, which defended “a tragicomical melange of Max Stirner's natural state philosophy, Prince-Smith's free trade and Proudhon's and Girardin's socialism”.¹¹⁶ On July 5th, the communist newspaper described the *Abendpost's*

¹¹⁴ *Neue Freie Presse*, July 26th 1894, no. 10748, morning issue, 2.

¹¹⁵ *Neue Freie Presse*, June 25th 1878, no. 4966, morning issue, 7.

¹¹⁶ *Westdeutsche Zeitung*, May 8th 1850, no. 109, 1. The free traders did not seem to base their anarchism on Pierre-Joseph Proudhon. The *Nationalzeitung* noted that the *Abendpost* would object against being associated with the French anarchist but detected Bastiat's influence; see *Nationalzeitung*, April 20th 1850, no. 180, morning issue, 1.

philosophy as a synthesis of Bastiat's economics and “Stirnerite phrases”, speculating that Faucher was the author of the respective articles:

It is the most hidden egoism lying in wait behind these pieces of legerdemain; doubly exaggerated, because it pretends to unsettle the world with a new and outrageous wisdom, while it does not throw Proudhon, nor Girardin, no, Mr. *Bastiat*—who 'gives a new turn' 'to the entire economic science' (one would think that Mr. Faucher wrote the manifesto from which we take this passage)—between the teeth of the astonished Berlin people, malappropriated and wounded into Stirnerite phrases.¹¹⁷

Heinrich Bürgers was one of the journalists of the *Westdeutsche Zeitung*, who published articles against the *Abendpost*. On May 5th 1850, he wrote to Karl Marx in a letter—three days before the above article—that his work desk was full of issues of the *Abendpost* and that he planned “to bear down on [...] this mix of free trade and true socialism” (Marx and Engels 1981, 535). Faucher probably had the polemic articles of the communist newspaper in mind when he recollected in 1870: “The young socialist party proved by the nature of its attacks, as it understood very well, that it had to deal with opponents whose gaze was just as safe and just as far to the future as its own” (Faucher 1870b, 158). In October 1850, Friedrich Engels mentioned Max Stirner as well, in an unfinished manuscript on German anarchism: “Insofar as the friends of anarchy do not depend on the Frenchmen Proudhon and Girardin, insofar as their views are of Germanic origin, they all share one common source: *Stirner*” (Marx and Engels 1960a, 418; emphasis in original). Engels seemed to see—as other Marxists (Raico 1999, 64)—a connection between Stirner, anarchism and economic liberalism, writing already in 1845: “Free competition does not want any restriction, any state supervision; the entire state is a burden to it, it would be most realized in a complete stateless condition, where everybody can exploit anyone, like for instance in Stirner’s ‘union’” (Marx and Engels 1962, 488). Accordingly, Stirner's biographer and individual anarchist John Henry Mackay praised the *Abendpost* as “one of the best-edited, most radical and most interesting newspapers which ever existed” (Mackay 1898, 80). However, what was the reason why the *Abendpost* came to defend Stirnerism and anarchism? In his history of the European free trade movement, the journalist August Lammers gives the following explanation:

The hopelessness of their [the free traders'] practical efforts was not displayed more drastically by anything for the moment [after the revolution of 1848] than the complete insouciance with which they, in their short-living organ the Berlin *Abendpost*, completely eliminated the state on theoretical grounds,

¹¹⁷ *Westdeutsche Zeitung*, July 5th 1850, no. 156, 1, emphasis in original. Four days later, the paper wrote that it would be too cruel “to disturb the 'Abendpost' in its daily windmill battles against state and 'statehood', against democracy and communism. We knew that it was a life question for Mr. Faucher and [not readable] to preach the class interests of the free-trade bourgeoisie in the interesting and savage form of 'anarchy', as free contractability, as 'free trade in the higher sense' [...]” See *Westdeutsche Zeitung*, June 9th 1850, no. 136, 1.

which did not give a handle to them in practice. (Lammers 1869, 31)

Lammer's thesis is not persuasive, because Faucher and his friends never mentioned frustration as source of their anarchism. They claimed that their political philosophy was based, as Wolff assured to his brother, on “a long study of history of civilization and economics“ (Braun 1893, 137). Accordingly, Faucher endorsed anarchism two years before the onset of the *Abendpost* (Bluntschli 1884, 96).¹¹⁸ Hermann Maron even came close to promoting the abolition of the state, as will be shown, before the revolution of 1848. Faucher seemed to endorse anarchism as late as 1857, for Fontane noted in his diary on October 11th 1857 that he and Faucher had talked about “the imminent days of anarchy” (Fontane 1857, 277). Hence, given Faucher's Stirnerite statements from 1845 (Faucher 1845, 4), it is likelier that Faucher developed his political philosophy in the group of The Free and due to his encounter with Prince-Smith.

f. Critique of Democracy

The *Abendpost* criticized three aspects of democracy: the common right to vote, the habit of dividing the electorate into constituencies and the parliamentarianism. On April 3rd, when the *Abendpost* dropped its surname “Democratic newspaper”, it expressed its fundamental doubts in the lead article “The Abendpost and Historic Democracy”. Democracy had poorly performed in France, where it had sufficient time and the necessary means to reach its goals—one legislative chamber, common voting rights and the temporary head of government. The French press continued to be unfree and social redistribution was increased.¹¹⁹ State activity was a burden to society because it needed an executive—an army or public officials—to rule over the people, slowing down economic progress and consuming many resources. The solution was anarchy and not democracy:

It is not over with the present democratic formalism, with encircling of constituencies and paraphrasing of paragraphs of the constitution. Liberty in the state, as one understood the task of the state so far, does not work with this democratic mechanism. If liberation from the state is not possible, there is no way forward. We want the free [das Freie] without defining what should take its place, because the result of creative freedom cannot be predetermined;—our whole demand intends that one should give birth to new manifestations of life differently than according to the scheme of the established, without letting them evolve less according to determined laws, even if they are not dictated by us. If state activity is reduced to a minimum, the state does not have to generate order, or direct the masses, but only has to control

¹¹⁸ Friedrich Engels confirmed: “They [the Hamburg businessmen] allowed him to preach freedom of trade under the wild-looking form of anarchy during the revolutionary stir“ (Marx and Engels 1960b, 314).

¹¹⁹ At the time of the revolution, the rejection of the French republic was a typical view among German liberals. It was seen as a model of totalitarianism and breach of law. They instead favored a constitutional hereditary monarchy (Langewiesche 1988, 57-8).

individuals who want to disrupt the order, so that a power is sufficient, which does not impede neither public welfare nor people's freedom.—How the state institutions would have to look, which would be necessary for the supervision of such a harmless power, would teach us experience. Maybe the press would be sufficient, without people having to bother about a chosen representation. [...] The end may still appear to be in a dreamworld, but it must serve as a guiding star.¹²⁰

Hence, the *Abendpost* saw democracy not as a guarantor of liberty, but put rather stress on a reduction of the size of the state. This article exemplifies that the free traders valued free markets far higher than the particular form of government. Otto Wolff expressed this point in a letter to his brother in June 1851: “Not republic or Cossackdom is the question, but liberty or coercion. [...] that is why political freedom is next to nothing for us, and freedom of trade and business is of infinitely more value to us than democratic voting rights“ (Braun 1893, 137).¹²¹ In June 1850, when commenting on the dissolution of the Saxon parliament by the aristocracy, the *Abendpost* similarly discarded common voting rights and parliamentarianism:

The role that all popular representations play, the impotence to which they are condemned, the inglorious way in which almost all of them go down—it is the critique of parliamentarianism in general. It is proof for the sentence: Self do, self have; it is proof that the value of the ruler far less depends on the mode of election than on the clarity and strength of the principal; it is the beginning of a process which restricts more and more the necessity of the parliamentarian.¹²²

The *Abendpost* suggested to reduce the state and eliminate the power of parliament, because not the mode of election but the “clarity and strength of the principal” determined the quality of the rulers. As seen, the paper favored a process of political decentralization to local levels. But what political system was best to manage this transfer, a monarchy or a republic? A quote in the *Deutsche Reform* suggests that the *Abendpost* preferred the republic and the common right to vote: “In contrast to absolute monarchy [...] we strive for sovereign national assemblies, parliamentarians elected by the whole nation, beyond the reach of monarchy for our elections.”¹²³ Since they could become “the wasters of liberty”, these national assemblies had to be surveilled rigorously by the press. At the end of the article, the *Abendpost* defended anarchism once again. However, the *Abendpost* left no doubt that it just viewed democracy as an interim solution. Angrily, it wrote on

¹²⁰ *Abendpost*, April 3rd 1850, no. 76, 1-2. The *Deutsche Reform* extensively quoted the article; see *Deutsche Reform*, April 3rd 1850, no. 830, evening issue, 1. It quoted correctly but omitted sometimes sentences without using brackets.

¹²¹ Similarly, in a call for a debate on common voting rights, the *Abendpost* wrote that “liberty is not bound to a certain form of government. Monarchy, feudalism, modern constitutionalism, republicanism may well be manifestations of liberty or servitude.” The *Constitutionelle Zeitung* remarked that the *Abendpost* was “unsatisfied“ with the common right to vote; see *Constitutionelle Zeitung*, March 7th 1850, no. 110, evening issue, 1.

¹²² *Deutsche Reform*, June 11th 1850, no. 942, evening issue, 1.

¹²³ *Deutsche Reform*, February 23rd 1850, no. 768, evening issue, 1.

the French election reforms on June 5th:

He who still believes in the coercive state cannot, consequently, deny his approval to an assembly which resulted from direct elections of all people. The minority does not even have the possibility to complain about tyranny; its sole comfort lies in the sophism by which Rousseau tries to obscure the weak spot of his *contract social*: 'The collective is an entity above the individual and its will, communicated by majority vote, is the will of each individual, may he have voted for or against it!' A strange logic which does not agree with the defeated, but still the only solution as long as sovereignty of the collective is not replaced by the sovereignty of the individual over itself and its belongings.¹²⁴

On May 16th, when it released the lead article "Election and Representation",¹²⁵ the *Abendpost* deepened its criticism on common voting rights. It attacked the habit to split the electorate into constituencies. The paper presented the example of a fictitious country in which 70 percent of the population lived in rural regions and 30 percent in cities. Of the city residents, 10 percent voted for the party of the blacks and 90 percent voted for the party of the whites. In the rural regions, 60 percent voted black and 40 percent voted white. Then, the whites started a revolution and overthrew the government. They held elections to form a representation that would decide on the future form of government. In doing so, they divided the nation into 100 constituencies with each having 10,000 voters. As before, 70 constituencies were in rural areas and 30 constituencies in cities. If everybody voted for his preferred party, whites received 550,000 votes and blacks obtained 450,000 votes. However, since the blacks had a majority in 70 percent of the constituencies, they sent 70 representatives to the representation despite receiving less votes than the whites. Restoring the old form of government, the blacks let the revolution fail. According to the *Abendpost*, this scenario happened during the revolution of 1848 in Prussia and Germany. It concluded that every candidate, no matter where he lived, had to enter the representation if he received enough votes across the country.¹²⁶ In sum, the *Abendpost* valued economic liberty higher than political liberty, preferring a democracy and the common right vote over an absolute monarchy as an interim solution towards anarchy.

¹²⁴ *Deutsche Reform*, June 5th 1850, no. 932, evening issue, 1, emphasis in original.

¹²⁵ *Constitutionelle Zeitung*, March 7th 1850, no. 110, evening issue, 1.

¹²⁶ The *Abendpost* expressed the same thought one month before, on April 8th: "Why [...] is one not free to join eight to ten thousand like-minded people, may they live where they want, and to vote together for a representative, who is convenient to every single one of the represented? Why all the territorial-political rubbish, why grouping voters according to death soil and not according to their own lively will; why not the simple principle that solely conforms to the real meaning of all election and representation: member of parliament is he who *knows how to get* the votes of ten thousand primary voters, may they live where they want." See *Deutsche Reform*, April 8th 1850, no. 838, evening issue, 1, emphasis in original.

1.3.4 The *Abendpost* as a Forerunner of David Friedman's Utilitarian Anarcho-Capitalism

Basing itself on Stirner's nihilistic and egoistic philosophy, the *Abendpost* must be seen as a forerunner of David Friedman's utilitarian variant of anarcho-capitalism, instead of Murray Rothbard's rights-based approach. Both are the most outstanding modern representatives of anarcho-capitalism, the political philosophy according to which every good and service should be produced by private enterprise, including security services currently provided by the state. Each, however, gave a distinct philosophical foundation to his political theory. Friedman adhered to utilitarianism, while Rothbard was an Aristotelian-Thomist natural law theorist. However, only utilitarianism can be reconciled with the *Abendpost* and Max Stirner. For Rothbard, natural law was not a theological concept based on faith or revelation. Its validity did not depend on the question of the existence of God (Rothbard 1998, 4). Natural laws were those “[p]rinciples of human conduct that are discoverable by ‘reason’ from the basic inclinations of human nature, and that are absolute, immutable and of universal validity for all times and places” (Rothbard 1998, 3). Accordingly, there existed a “right reason” that allowed man to deduce objective moral principles, which formed a natural law of morality (Rothbard 1998, 7). When following these principles, human conduct was to be considered virtuous or morally good, and evil if it violated them (Rothbard 1998, 11-2). In an anarcho-capitalist society, the natural law served as a guidepost for reshaping any existing positive or common law, since both might develop in a way that was undesirable to libertarians (Rothbard 1998, 13-4). What was, then, the concrete content of the natural law of morality that regulated social life in anarchy? Rothbard put two ethical principles or axioms forward, self-ownership and the homesteading principle. The first states that an individual is the exclusive owner of his own body, the second allows for the appropriation of formerly unowned land if an individual mixes his labor with it. From these two axioms, Rothbard deduced a legal code pertaining to all areas of social life, like theft, blackmailing or abortion. It becomes clear that Rothbard's rights-based approach is not compatible with Stirner, who granted property rights only to those individuals who possessed the power to acquire and defend them. He rejected the possibility of objective and universal moral values that were equally valid for everyone, stating: “I recognize no other source of right than—me, neither God nor the State nor nature nor even man himself with his ‘eternal rights of man,’ neither divine nor human right” (Stirner 1913, 268-9). Thus, it is no surprise that Rothbard dismisses Stirner in his article *Myth and Truth about Libertarianism*:

Myth #1: *Libertarians believe that each individual is an isolated, hermetically sealed atom, acting in a vacuum without influencing each other.* [...] In a lifetime of reading libertarian and classical-liberal

literature, I have not come across a single theorist or writer who holds anything like this position. The only possible exception is the fanatical Max Stirner, a mid-19th-century German individualist who, however, has had minimal influence upon libertarianism in his time and since. Moreover, Stirner's explicit 'might makes right' philosophy and his repudiation of all moral principles including individual rights as 'spooks in the head,' scarcely qualifies him as a libertarian in any sense. (Rothbard 1980, 9; emphasis in original)

The utilitarian David Friedman defends anarcho-capitalism mainly on the basis of the "practicality" of laissez-faire (Friedman 2014, 159). In his theory, security is provided by private protection agencies (police) and arbitration firms (courts). Contrary to Rothbard, there is no body of the natural law that serves as a guidepost to reshape any existing law. Law is produced on the market, like any other good. One person might choose, for example, a legal code that allows for capital punishment if it believes to be safer from murder than. However, Friedman believes that arbitration firms would adopt similar legal codes to simplify matters for their clients (Friedman 2014, 112-3). In his theory, it is uncertain whether the resulting social order would be libertarian. A strong tendency toward libertarian laws would exist according to Friedman, because liberal-minded individuals are usually willing to pay more for liberty than coercers for coercing others. He gives the example of a heroin addict and opponents of the drogue. Since public opinion rejected heroin, the drogue would be allowed in New York and a few other cities but forbidden in most places of the United States, whereas Marijuana would be legalized almost nation-wide (Friedman 2014, 123-4).

Contrary to Rothbard, Friedman did not write on Stirner.¹²⁷ André Lichtschlag (2003) argues, however, that Stirnerite egoism and Friedman's utilitarian anarcho-capitalism can be reconciled. Friedman showed, by presenting the superior economic outcomes of an unhampered market, that a Stirnerite egoist had an advantage from engaging in free trade (Lichtschlag 2003, 12). Moreover, Friedman and Stirner rejected the notion of absolute individual rights. The private security and arbitration firms of Friedman's theory were Stirnerite unions, the interaction of unions and egoists—Stirner's concept of intercourse—was represented by the market, and the egoist was a homo oeconomicus that maximized his personal utility (Lichtschlag 2003, 13). In Friedman's anarchist world, the Stirnerite egoist was free to pursue his self-interest because he was able to choose the law he obeyed and the security firm that protected him. Whether Stirner was an individualist anarchist, lies beyond the scope of this work. However, the *Abendpost* followed Lichtschlag's interpretation of Stirner.

¹²⁷ Friedman answered the author by e-mail on January 1st 2018 that he has neither read *The Ego and Its Own* nor published anything on Stirner.

1.3.5 The Aftermath of the *Abendpost*

As Beta said, the *Abendpost* was and remains “an immortal obscurity” (Beta 1863, 268). It synthesized laissez-faire, anarchist and Stirnerite ideas and created a new political philosophy—a consequentialist Stirnerite version of individualist anarchism. It was also an early focal point of the German free trade movement that gained considerable political influence in the 1860s. It might also explain why Faucher and Michaelis sided with Bismarck in the Prussian constitutional conflict. Raico suggests that the free traders developed a disgust for political struggle due to their early anarchism (Raico 1999, 74). The story of the *Abendpost* is also a counter-example against the thesis of Dieter Langewiesche, who thinks: “Distance to the 'mass', cooperation with the monarchic state inwards and outwards—this had always been one of the leitmotifs of liberal thought” (Langewiesche 1988, 70). This can certainly not be said of the anti-state liberals of the *Abendpost*. However, the intellectual impact of the newspaper was minor. The first person mentioning the *Abendpost* was Heinrich Beta (1863) in the widely circulated *Gartenlaube* (Garden arbor). Lassalle (1863a, 136) probably knew about free trade anarchism because of Beta's article. Using a similar formulation as Lassalle, the free trader Heinrich Oppenheim wrote in his famous work *Der Katheder-Sozialismus* (Socialism of the Chair) in 1872:

The free trade party recently achieved such brilliant victories and came so close to the last fulfillment of its program that its younger followers were probably allowed to dizzy their heads. Out of this frenzy arose a doctrine, which wants to turn the state into a stock corporation and offer its great tasks to the minimum demanders. It denies the moral nature of the state and views it solely as a necessary evil. (Oppenheim 1872, 34-5)¹²⁸

Oppenheim likely read Lassalle's speech from 1863 since he echos the socialist leader almost verbatim. Before Oppenheim, Lammers (1869, 31) was another free trader who described the *Abendpost* as an anarchist paper. Due to his book, the *Abendpost* became an object of criticism in the debate with the socialists of the chair in the early 1870s.¹²⁹ As the free trader Wolfgang Eras remembered, some of the young professors used the anarchist paper to vilify the free traders:

In the eyes of the great public, the hostile portrayal of the evil Golo 'Manchester man', who may want to abolish the state altogether and award charge over public security to some minimum-demanding joint-

¹²⁸ Beta's article was released in the issue 17 of the weekly *Gartenlaube*, around May 1863. Lassalle published his speech on indirect taxes in Summer 1863 (Neumark 1963, 66).

¹²⁹ For example, Lujo Brentano, an economics professor in Breslau, wrote on March 27th 1873: “Lammers [...] tells that the Berlin free trade association, whose leading members he lists: *Prince-Smith, Julius Faucher, Otto Michaelis, Otto Wolff* and *Max Wirth*, abolished entirely the state on theoretical grounds in its short-lived organ, the Berlin *Abendpost*, in 1848!” See *Hamburgischer Correspondent*, March 27th 1873, no. 74, 9 or Brentano (1873, 12).

stock company, had an immense amount of captiousness.¹³⁰

Like Oppenheim, Eras paraphrased Lassalle almost verbatim by speaking of “some minimum-demanding joint-stock company”. However, he mistakenly declared that the free traders never endorsed absolute laissez-faire: “Their adherence to 'laissez-faire' has always been relative.” The free trader Ludwig Bamberger also mentioned free trade anti-statism in his pamphlet *Die Arbeiterfrage unter dem Gesichtspunkt des Vereinsrechts* (The Worker Question under the Viewpoint of the Law of Association, 1873). He noted that it was wrong to depict the free traders as opposed to any state interference:

Even the idealists of anarchy from the year 1848, who—hardly seriously—suggested that the supreme government should be converted into an insurance institution, in which the individual could assure himself at will against robbery, murder, or fraud, would not have been able to carry out their thoughts so consistently even on paper. (Bamberger 1873, 19)

Interestingly, neither Lammers, Lassalle nor Beta had talked about an insurance institution, so Bamberger might have had another source about the *Abendpost* at hand. At the congress of 1874, Otto Wolff seemed to address these mentions of the anarchist *Abendpost* when he justified the free traders' sin of youth by saying:

However, at the time when we German free traders, in youthful enthusiasm, regarded our doctrine as the only correct consequence of the democratic principles and saw therein the only true fusion of social and political theories, we believed that every evil would be eliminated by *absolute voluntariness* and, as far as it was not possible, one would only have to be patient; one would have to enlighten the people, then everything would be done by itself.¹³¹

History had shown, continued Wolff, that most of the workers were not as reasonable as the free traders had assumed, continued Wolff. Apart from this intermezzo in the 1870s, the *Abendpost* was hardly mentioned. The economic radicalism of Faucher and his friends fell into oblivion and the *Abendpost* remained the only individualist anarchist and Stirnerite voice in Germany for decades—except for Heinrich Beta and Wilhelm Lipke.

1.3.6 Excursus: The Quasi-Anarchist Hermann Maron

Already in 1847, Hermann Maron, a friend of Faucher, came close to promoting the abolition of the state in his *Mein Freihandel* (My Free Trade). Maron studied theology in Berlin from October

¹³⁰ *Die Gegenwart*, volume 4, October 25th 1873, no. 43, 257.

¹³¹ Stenographic reports of the Economic Congress, 1874, 36, emphasis in original.

1839 and was a member of the Free, where he came into contact with Stirner and Faucher (Hecker 2011, 12-3). He also visited the literary “Lenau-Verein” (Lenau union) with Faucher and Fontane (1898, 43-5). When he completed his studies in 1842, he left Berlin to manage the estate Grzybno in the Prussian province Posen. But he returned to Berlin five years later and was a founding member of the local free trade association in April 1847 (Wolff 1880, 268). As seen, at the beginning of this association, there was a conflict between a moderate group around the professor Dieterici, which wanted to advocate a return to the Prussian tariff system of 1818, and a radical minority around Prince-Smith that wished to propagate the abolition of all tariffs (Best 1980, 102-4). Maron’s *My Free Trade* was intended to be a manifesto against the course taken by the moderates. In the book, Maron defended a utopia of unrestricted free trade and condemned all tariffs, stating in nihilistic-Stirnerite terms:

It [free trade] is simply dissolution, the negation of all party. Its last content [Inhalt]—because it wants freedom, the limitless—is ‘nothing;’ it does not want anything, therefore it has nothing concrete in itself, it is the formless. [...] But if nothingness wants to realize itself, it must defeat—in order to become limitless—the barrier of something, tear it down, and then acquire concrete content, form, and become party. (Maron 1847, 4-5)

In a chapter on nationalism, Maron wrote about the origin of the state that out of self-interest individuals united to families, families to cities, and cities to states, and continued: “Is the state the last, broadest form of human society? Beware! If states, as their interests demanded, also joined together to form a wider circle, then only then would we have advanced to the last, most developed form of society” (Maron 1847, 17-8). The true impetus of human action was self-interest—“the only infallible, never obsolete measure of value of all things” (Maron 1847, 17) and “the actually moving principle of this world” (Maron 1847, 18). Self-interest aimed at producing enjoyment at the lowest cost possible, which was attained best under free trade. Every individual had a genuine interest in free exchange and government intervention was an intellectual mistake, an “illusion” (Maron 1847, 18). The journalist finished his book by saying: “The question what should become of the state, if even the financial tariffs were dropped, I have here at least no need to answer. The courage to draw the final consequences from a view is not related to the courage to pronounce it” (Maron 1847, 30). Becker concluded from this passage that Maron refrained from openly advocating anarchism “out of consideration for censorship” (Becker 1907, 109). Maron indeed seemed to approximate the egoist anarchism of Faucher. But in other passages, the free trader dissociated himself from “anarchy”:

If we wanted to erase this [national feeling] at once from the human emotional world, the ground would

disappear under the feet of those powers [the monarchs], the time of the law of the jungle would reappear by the free exercise of each individual force, [and] we would fall into relentless anarchy. So who would blame those powers if they carefully nurtured and cherished a foundation of their existence [national feeling], even if this [foundation] proved to be an illusion? Who would demand from us that we should shake the foundations of the building under whose broad, shielding roof we can live safely and comfortably? Because this would be foolish, be it far from us! (Maron 1847, 21)

Maron seemed to concede to anarchism on theoretical grounds but appeared to have reservations, for immediate statelessness would lead to “relentless anarchy”. Perhaps he considered a stateless society as the logical consequence of free trade, which could only be achieved in a far distant future.¹³² From August 1848 to the end of 1849, he was a journalist for the *Börsennachrichten*. He continued to defend liberalism, writing in his opening article on August 24th 1848: “Regarding the social question, we approve of [...] just one principle capable of leading our [societal] conditions towards a fruitful solution: that is the principle of *liberty*” (quoted in Becker 2011, 15, emphasis in original). When the *Abendpost* was published in 1850, Maron lived as a farmer in Silesia. In the 1860s, he gave a presentation at the Economic Congress of 1862. He released two articles in the *Quarterly Journal* and belonged to its editorial board from 1863 to 1875 at least. Maron’s death was a tragedy; due to financial problems, he shot himself and his wife in Berlin on December 27th 1882.

1.3.7 Excursus: The Individualist Anarchist Heinrich Beta

One year after collaborating with the *Abendpost*, Heinrich Beta published the individualist anarchist tract *Deutschlands Untergang und Aufstieg durch Amerika* (Germany's Downfall and Rise by America, 1851). It was perhaps the first individualist anarchist book written in German language if Stirner's work is taken out of consideration. Beta is an almost forgotten German journalist and author of prose and political writings. As his biographer Olaf Briese (2013, 119) states, since little research has been conducted, Beta remained a minor character in studies on Karl Marx, the poet Ferdinand Freiligrath, Theodor Fontane and the magazine *Gartenlaube*. The collected edition of Beta's writings does not exist and a major part of them is dispersed among a variety of newspapers. Moreover, Beta did not belong to any school of thought and was involved in several circles, frequently changing his worldview. He was a utopian socialist, an economic interventionist, an individualist anarchist and a conservative liberal.

¹³² Maron’s earlier pamphlet *Der religiöse Fortschritt unserer Zeit* (The Religious Progress of our Time, 1845) does not contain any anarchist or economic liberal thought.

a. Life and Thought until 1850

Heinrich Beta studied philosophy, philology and natural sciences in the Prussian city Halle. In July 1838, he became a journalist for the middle-class newspaper *Der Gesellschafter* (The companion). Beta's biographer Briese (2013, 128) emphasizes his high productivity at this early stage of his life. He was an editor or contributor of several periodical publications, writing various articles per week for each one of them. For example, since November 1842, he sent one political article to the socialist daily paper *Trier'sche Zeitung* every third or fifth day. He also authored reportages about daily life in Berlin, literary texts and books regarding economic and political questions. Little is known about his personal life and his personality. Briese (2013, 148-9) informs that Beta was a humorous and sociable person and a family man, who became the father of a son in 1845. Although his first wife died in 1848, he kept having close ties to her family in Stettin, despite being in conflict with them due to his political activism. Beta's intellectual labor of the 1840s can be divided into three stages: a utopian socialist stage, a state socialist stage, and a free trade or individualist anarchist stage (Briese 2013, 136-7). He defended the utopian socialist ideas of Charles Fourier and Robert Owen in the early 1840s, being one of the first intellectuals that brought utopian socialism to Prussia. Beta did so in the book *Das Jubeljahr 1840 und seine Ahnen* (The Jubilee Year 1840 and its Ancestors, 1840) where he favored the abolition of marriage and property. It was the first Young Hegelian work in Berlin that left "everything printed in Berlin far behind in terms of boldness" (Kaeber 1964, 146). Its copies were seized once the book was released. Beta endorsed utopian socialist ideas until 1844 at times, writing in the *Trier'sche Zeitung*:

Time will be filled with and created by what kings of the idea—the poets—what prophets of the time foreshadowed and foretold, what poets of socialism—Fourier, St. Simon, O'Connell and Bettina, Stein and Mundt—and thousands of others propagated and prepared in various detail.¹³³

According to Briese (2013, 130), Beta was never a decided socialist because he fluctuated too much in his worldview, always accepting and trying out new standpoints. The constant in Beta's thought "was a strict willingness to change, the wish to get rid of the repressive aristocracy in Prussia and Germany" (Briese 2013, 130). In the mid 1840s, Beta started to convert to state-socialist and later to economic liberal ideas. In *Geld und Geist* (Money and Spirit, 1845), Beta defended a melange of interventionist and economic liberal thought. The state had to provide social welfare, accumulate state property and redistribute surpluses of production. Beta feared the monopolization of the economy under a system of free competition. In later parts of the book, he argued for freedom of trade and free enterprise and squared both views with a phase model:

¹³³ *Trier'sche Zeitung*, June 27th 1844, no. 179, 3.

unhampered markets were necessary for the present, but the future belonged to state socialism. Money and Spirit seemed to be incoherent in its defense of laissez-faire and interventionism and displayed a new turn in Beta's thinking. The work was probably stimulated by his encounter with Faucher. Beta made acquaintance with the free trader in the group of The Free, whose meetings he occasionally visited (Mackay 1898, 80-1).

In 1847, Beta was a founding member of the Berlin free trade association (Wolff 1880, 268), about which he wrote: “Our goddess was full, real, practical liberty, our prophets were Adam Riese, Adam [Smith] and John Prince Smith, Bastiat” (Beta 1865, 19). Beta had made acquaintance with Prince-Smith in Berlin in 1844. In 1850, Beta worked for the individualist anarchist *Abendpost* (Beta 1865, 22) and collaborated with Faucher's *Börsennachrichten* since 1846. The *Abendpost* might have played an important role in Beta's turn to individualist anarchism, although he never defended Stirnerite egoism. In his autobiography, Beta described the paper as an “organ against the coercive, tax frontiers, mercantile, police and military state, generally in favor of trading-company-liberty of states” (Beta 1865, 19). Another reason for Beta's transformation might have been his marriage to a daughter of a well-situated Stettin businessman. In the 1840s, the Baltic Sea city Stettin was a main centre of free trade agitation. Thus, after 1845, Beta became more and more a defender of trade freedom and liberalism. Since 1847, in the *Der Leuchtturm* and *Der Volksvertreter* (The representative of the people) papers, he pointed out that unrestricted free trade was the solution to all social problems. He also wrote the satirical free trade-tract *Freihandels-Katechismus* (Free Trade Catechism, 1847). Beta was a staunch supporter of the revolution and his economic liberalism was less pronounced during the turmoil. But when the revolution failed, he returned to his old ideas and some anarchist traces began to show up in his *Leuchtturm* articles from 1849. In the paper, he wrote on a society with no state and coalitions of small producers:

The form of this new world is free association of alike works, interests and complementary peoples in order to mutually increase satisfaction of life, so that no talk will subsist of states, peoples, enemy interests, trade restrictions, tollkeepers, soldiers and all other ballast of the doctrine of divine rights and the bourgeoisie. German workers' fraternization, the over several nations established Gutenberg union, our clubs for districts, healthcare and savings and numerous other commercial, mercantile and economic associations are the materials, groundplans and elements, from which socialism will edify its new municipal and state creations.¹³⁴

A year later, in 1850, the anarchist thought reappeared in Beta's publications. He released the book *Die rothe Fahne wird über ganz Europa wehen!* (The Red Flag will wave throughout Europe!), which was a reply to several articles of the *Kreuzzeitung*—after the oath of the Prussian

¹³⁴ *Der Leuchtturm*, 5 (1850), no. 16, 312.

king on the new constitution on February 6th, 1850. The monarchist paper had apocalyptically predicted the victory of socialist masses and the descension of Europe into chaos. In the book, Beta viewed the uprising of Prussia and Germany as inevitable due to the high military burden (Beta 1850, 21). The people were not capable of supporting the planned standing army of 500,000 soldiers:

Half a million [of soldiers] does not work, another half [of citizens] only works for this half a million. Thus, the labor force of an *entire* million of the most able to work is declared *null and void*, apart from that, half a million soldiers *cost far more* as soldiers as when they would altogether lay down at home on the fireside bench and enjoy schnapps and tobacco—for three years. Thus, destroying the labor force of the healthiest and strongest workers, of which there are hardly more than three millions in Prussia, is a part of the conservation of absolutism, the system of divine right. (Beta 1850, 22; emphasis in original)

The 500,000 soldiers could not prevent the people from taking over power, and half of the soldiers would join them anyway (Beta 1850, 27). As a result of the revolution, Beta seemed to have in mind a small state or a stateless society, writing about the post-revolutionary society:

Almost automatically, state institutions then exist as a minor matter, as forms for the plenitude of a new, more noble manhood, and our grandchildren will pityingly look back to those times when the most immoral and shallow powers succeeded with tormenting and oppressing millions of people for the sake of the most ridiculous formulas. (Beta 1850, 31-2)

Regarding France, Beta explained that “the free state” would emerge after the upcoming revolution and the country would be divided into many small states:

The revolution has already arrived. The struggle of annihilation between the bourgeoisie and the people, the *socialists* and the people *mature for liberty*, until the free state—the rational coalition of free municipalities (small states and republics in France)—will likely evolve after a passing military dictatorship and associate, with other states, to a new and more fortunate organization of human destination. (Beta 1850, 11; emphasis in original)

Thus, Beta predicted a process of political decentralization for France, seemingly secession. He seemed to approximate individualist anarchism although his anti-state position was not very pronounced yet.

b. The Tract *Germany's Downfall and Rise by America*

Beta collaborated with the *Abendpost* for a short time. He was in Berlin when the first anarchist traces showed up in the paper on February 23rd, because he did not leave before March 15th

(Varnhagen von Ense 1865, 101). However, due to his book *The Red Flag* and a consequent trial for treason, he fled Berlin soon after and went to a fishermen's village by the Baltic Sea. In the town, he wrote his individualist anarchist tract *Germany's Downfall and Rise by America*. It never went on sale because the publisher's house was searched in Kassel and the books were confiscated (Beta 1865, 36). Beta described it as “a thick book that I wrote according to the philosophy of Faucher's 'Abend-Post'” (Beta 1865, 36). In the tract, Beta advocated life in small communities in a liberal and more anarchist North America, as an alternative to a life in an interventionist Europe. He placed the following bible quote from 1 Maccabees 8:14 at its beginning: “And there was so much goodness among them that nobody made himself King, and there was no King” (Beta 1851, 3). Beta elaborated on world history before Christ and concluded that a new Messiah has arrived—liberalism (Beta 1851, 17):

The new *Messiah does not know anything of ruling, of using violence*, he only knows humans that want and should live and need liberty for that, nothing else than liberty. [...] There will be no Germany, no Russia, there will be only humans. (Beta 1851, 13; emphasis in original)

In what followed, Beta reasoned that statelessness lied at the roots of Christianity:

Christendom [...] already makes it known by its place of birth that it wants to be the *denial* of national and local greatness, rule of conquest and earthly power, the coercive state, imposed law. It is the culture of pure manhood, it is cosmopolitanism, liberty, love, including love towards enemies. (Beta 1851, 14; emphasis in original)

He rejected the Catholic and the Protestant Church, which turned Christian principles into their opposite and whose priests lived in sin (Beta 1851, 14-5). Beta saw a “contradiction” in the present situation of Europe. On the one hand, people wanted to be governed so that rulers solved the pressing social problems; on the other hand, government created those ills by its intervention:

Europe suffers from this contradiction as long as it finally gets smart by the purgatory of a Russian provincial administration, listens to its Messiah and learns to be human, to believe and 'to make state', as it appeals to everybody—without the rage of wanting to have a church or a state. This is liberty, love, when nobody is forced anymore, when everybody can seek heaven in his own fashion. (Beta 1851, 16-7)

He continued that states were a relic from times when people lived off conquest and robbery. Culture, division of labor and exchange gave a greater advantage to individuals than they could possibly obtain from robbery:

People became *individuals* that find their will, their kingdom of heaven, their liberty and highest satisfaction of life in the act of acting as a free-wanting individual and exchanging the excess of this

action against the free excess of other individuals, so that every single one is situated best—arithmetically seen—under liberty of *all*. And seen through Christian lenses, is this laissez-faire of all not love, not morality, not even love towards *enemies*? Coercion is never advantage, never morality, never love. But state and church presume that coercion, morality, love and advantage are necessary conditions for earthly and heavenly bliss. They do not presume a *six millennia developed manhood*, but Huns, Vandals, cannibals. (Beta 1851, 19; emphasis in original)

Citing the *Abendpost*, Beta (1851, 21) pointed out that the increasing tax burden was—in spite of the prospering economy—a cause of communism, pauperism and revolutions. Citing the paper for a second time, Beta (1851, 22) argued that the individual is not interested in war and is solely driven into conflicts by states and their method of “Divide and Conquer”. He viewed Germany as doomed due to the military burden, the suppression of civil rights and the high public debt. The only hope was the liberal and more anarchic North America. Beta (1851, 25-9) cited a travel report by Philarète Chasles that praised brotherliness among immigrants and liberty in America. Everybody cooperated with each other, taxes were voluntary and no state or church restricted liberty. The French journalist explained: “*There is no government* since everybody is able and rational enough to govern himself and nobody wants *to take on the sad and vain task to govern others*” (Beta 1851, 27-8; emphasis in original). Beta commented on Chasles's travel report:

The American man is not so weak to flatter himself that he needs a government, which protects him. In everyone, the faith, the conviction, that the best society is the one whose parts agree in obeying to no one, constitutes the roots of all progress and activity. (Beta 1851, 30; emphasis in original)

For Beta, the American mentality had its origin in Germanism because Englishmen and Germans shared the same Germanic ancestry (Beta 1851, 30). This thesis explained why Beta spoke of a “rise” of Germany by North America, and it was a common theme in his writings.¹³⁵ Beta praised North America: “The United States of North America went further since the 70 years of their independence as we did in 700, in 1000 years” (Beta 1851, 33). Its president was not a public official or a king, but an elected employee of society who was paid according to his performance (Beta 1851, 33). Regarding Germany, Beta criticized the high costs for police and courts and the long duration of trials. A local and private court solved such conflicts more rapidly and more cheaply:

There is a ditch, a field path, about which a dispute develops 80 miles away from the capital city. In town, the issue would be solved on a Sunday afternoon under the lime tree within one hour for free. The issue goes, however, through the respective official channels. After two or three years, the last verdict comes from totally unknown people 80 miles away, with a bill of costs that exceeds ten times the price of the

¹³⁵ See Beta (1851, 30), Beta (1865, 111) and Beta (1871, 38-9).

entire field path, and costs must be paid within eight days to avoid compulsory execution. The money is not there, the bailiff takes away the last cow and after the people are ruined, justice prevails across the country and everything had to be paid accordingly to the state. (Beta 1851, 35)

However, apart from these brief reflections on private justice, Beta did not discuss how security might be provided in the absence of the state. He merely cited the travel report by Chasles, according to whom Americans formed militias or courts spontaneously if they needed to defend their village or hold a trial (Beta 1851, 27). At the end, Beta seemed to explain that a bit of “state” is necessary to prevent crime but he opposed ruling or governing at the same time:

The *state*—the existing order—is then free manhood insofar it chooses and pays those, who understand it most to protect and maintain the existing order, the eternal in all its change, the *conditions of liberty for all*, for what a bit primal police and a bit primal judiciary (the correction of erred liberty) will perhaps be necessary. The state is then free manhood insofar it cannot disturb, not rule, *not govern*. The church is free manhood insofar it chooses and pays workers, who look after the needs of heart and temper. (Beta 1851, 37; emphasis in original)

Thus, *Germany's Downfall* was an individualist anarchist tract given Beta's reference to the *Abendpost*, his endorsement of “economic radicalism” (Beta 1863, 268) and his anarchist remarks in earlier publications. The impact of the tract was likely zero because of its immediate suppression and the fact that Beta turned to conservatism in the 1860s, obscuring and disassociating himself from his earlier political views (Briese 2013, 149). When *Germany's Downfall* was suppressed in 1851, Beta was already in London where he stayed for ten years.

c. Beta's Turn to Conservatism

In 1861, William I ascended the Prussian throne and Beta was granted amnesty. After ten years in London, he could move back to Berlin. He became increasingly ill from 1855 and his productivity was not as high as in the 1840s. He had to walk on crutches in the 1860s and was almost blind in the 1870s, being forced to dictate his writings to his wife. According to his son Ottomar, Beta became “almost conservative” (Fränkel 1902) in England. Nonetheless, Beta still endorsed the “economic radicalism” of the *Abendpost* in 1863 (Beta 1863, 268), but cast away his anarchist ideas in *Das Neue Deutsche Reich auf dem Grunde Germanischer Natur und Geschichte* (The New German Empire on the Basis of Germanic Nature and History, 1871). It was not an original book, as Beta (1871, 2) explained in its introduction, for he popularized *Die Naturlehre des Staates als Grundlage aller Naturwissenschaft* (The Natural Doctrine of the State as the Basis of all Natural Sciences, 1870) by the Prussian intellectual Constantin Frantz (1817-1891). As in

Germany's Downfall, Beta praised North America as a liberal ideal run by an “*old-Germanic spirit*” (Beta 1871, 39; emphasis in original). He predicted that North America would be in the vanguard of all nations due to its liberal political system:

To walk along in one's power, in full liberty over one's property, to trust in oneself concerning wanting and acting, to demand nothing from government, to help one's neighbour and letting oneself be helped by him—this is the great secret of the Anglo-Saxon (that is, the old-Germanic) culture, whereby America will work its way up to the top of all nations. (Beta 1871, 38-9)

Although the passage sounds similar to Beta's tract from 1851, he went on distance to his earlier anarchist views, explaining:

The state is, in its origin and foundation, neither a product of free will nor of reason, neither of divine order, but of *nature* and its relentless necessity. [...] The state is, as it is implied in the word itself, something standing, solid in the midst of the eternal mobility of human actions and life conditions. Those only move freely on the firm basis of the state. Unsteady and incalculable in its decisions, liberty can therefore never be the *basis* of the state. [...] Liberty can only sprout its blossoms and fruits on the firm, natural and necessary basis of the state. (Beta 1871, 53; emphasis in original)

Hence, Beta discarded his earlier anarchist views by stating that “liberty can therefore never be the *basis* of the state”. Starting from utopian socialism, he made a transformation to state socialism, individualist anarchism and arrived at a conservative liberal view.

1.3.8 Excursus: The Individualist Anarchist Wilhelm Lipke

Like Maron and Beta, Wilhelm Lipke was a member of the Berlin free trade association. Hardly is anything known about him because there is no information in encyclopedias or in the literature about the free trade movement. Becker is one of the few authors, who cited Lipke's work and mentioned its anarchist standpoint (Becker 1907, 109-11).¹³⁶ Around 1819, Wilhelm August Lipke was born in Berlin. His father was the Jewish banker Leonhard Lipke from Berlin.¹³⁷ He attended the Friedrichwerdersches Gymnasium in Berlin and studied jurisprudence in Bonn from April to

¹³⁶ The only other author appears to be Loh (1928, 8), who seems to know about Lipke from Becker.

¹³⁷ Leonhard Lipke was born in Königsberg on August 16th 1780 and lived in Berlin since around 1796. His father was a rabbi in Königsberg and later worked at the “Nauenschen Stift” in Berlin, a private Jewish school. He married Johanna Kalmus on March 24th 1814 (Jacobson 1962, 104). According to Meyerbeer (2002, 977), he founded the bank Leonhard Lipke & Co., which went bankrupt around 1840, and continued to work—highly indebted—as a businessmen in Berlin. On February 5th 1852, he was hunted for defrauding a substantial sum of money and was captured by the police six days later; see *Königlich Preußischer Staats-Anzeiger*, February 7th 1852, no. 33, 172 and *Königlich Preußischer Staats-Anzeiger*, February 15th 1852, no. 40, 211.

October 1837, being 18 years old.¹³⁸ After university, Lipke was appointed as junior lawyer in the Prussian town Naumburg n March 10th 1842.¹³⁹ During the next four years, nothing was heard of him until a “banker Lipke” was voted, with Prince-Smith, into the board of directors of the Berlin free trade association.¹⁴⁰ When the revolution broke out, a “junior lawyer Lipke” masqueraded as a Prussian military officer and tried to animate some Prussian soldiers to participate in the turmoil.¹⁴¹ Lipke was arrested on around November 17th 1848 and left the prison two days later.¹⁴² It was not until 1851 that he appeared in public, when a “manufacturer” and board member Wilhelm Lipke signed the program of the Berlin free trade association (Wolff 1880, 331). That year, Lipke gave two speeches on anarchism and trade policy in the association. The first was on February 10th 1851, six months after the end of the *Abendpost*, and was titled *Tempus omnia revelat* (Time reveals all Things). The second speech dated to May 10th 1851 and was named as *Ueber das Verhältnis der heutigen Wissenschaft zu Handelsverträgen, insbesondere Zollvereinigungen* (On the Relation of Contemporary Science to Trade Treaties, especially Tariff Unions). Lipke's first talk, where he declared the state to be irreconcilable with free trade, was stimulated by earlier discussions of the group. The protectionist Johann C. Glaser, a lecturer at the Berlin Friedrich Wilhelm University, had argued that free trade led to socialism and to the abolition of government.¹⁴³ He was probably under the impression of the *Abendpost*, who had just perished half a year ago. The *Deutsche Reform* reported about the meeting on February 10th: “Mr. Glaser wants to have found recognition of unconditional egoism in the principle of freedom of trade.”¹⁴⁴ Other free traders like Carl Asher or Otto Hübner tried to dispel Glaser's concerns. The intention of Lipke's speech from February 10th was to point out that Glaser was indeed correct. As Lipke proclaimed at the beginning:

¹³⁸ Leaving certificate of the University of Bonn.

¹³⁹ *Amts-Blatt der königlichen Regierung zu Merseburg*, issue 13, April 16th 1842, 82.

¹⁴⁰ *Illustrierte Zeitung*, November 13th 1847, no. 228, 314. Otto Wolff (1880, 268) identifies “W. Lipke” as a founding member of the association.

¹⁴¹ *Deutsche allgemeine Zeitung*, December 6th 1848, no. 341, 4419. Without mentioning Lipke's name, the *Brünner Zeitung* (Newspaper from Brünn) wrote of “the son of a local [Berlin] banker”; see *Brünner Zeitung*, November 23rd 1848, no. 324, 2339.

¹⁴² See *Deutsche allgemeine Zeitung*, November 17th 1848, no. 322, 4190 and *Deutsche allgemeine Zeitung*, November 19th 1848, no. 324, 4216. Lipke went to the court in Naumburg afterwards; see *Deutsche allgemeine Zeitung*, December 6th 1848, no. 341, 4419.

¹⁴³ See *Nationalzeitung*, January 22nd 1851, no. 35, morning issue, 2 and *Deutsche Reform*, January 18th 1851, no. 1304, 87-88.

¹⁴⁴ *Deutsche Reform*, February 11th 1851, no. 1328, 4. Similarly, on February 3rd, Otto Hübner had to argue against “Dr. Glaser's charges that the principle [“the free trade principle”] abolishes governments and teaches communism [...]” See *Deutsche Reform*, February 5th 1851, no. 1322, 162. On April 5th, Carl Asher mentioned Glaser in his talk *Freihandel, Schutzzoll und Communismus* (Free Trade, Protective Tariff and Communism). He disassociated free trade from anarchism and took a minarchist position by citing Bastiat's *Economic Harmonies* and Humboldt's *The Sphere and Duties of Government* (Asher 1851, 11-3).

Free trade wants to save him [man] from that form of this determinism which is called *state*. Straightforward it leads to, as the opponents rightly claimed here and the free traders wrongly disputed or rather denied, the *abolition of the state*. (Lipke 1851, 5; emphasis in original)

Perhaps the speech created controversy since Asher and the other free traders did not let Lipke finish, as he wrote in the introduction of the printed speech: “The presidium and the assembly withdrew my word before I had come halfway” (Lipke 1851, 3).¹⁴⁵ In his talk, Lipke clarified that abolition of the state did not mean chaos or anarchy. The “production of security” (Lipke 1851, 6), which was currently undertaken by the state, could be assumed by private institutions. He did not only reject protective tariffs but financial tariffs as well, because both led to “unnatural” consumption that did not occur on a free market: “The financial tariff *forces* us to produce what we would not produce, nor even consume, in the state of liberty” (Lipke 1851, 7; emphasis in original). About law, Lipke wrote in an almost Hayekian way that everytime a state intervened into freely-evolved law or legal institutions, it caused misallocations and maladjustments:

Market relations, by virtue of their natural impulse, crystallize by themselves into *legal relations*, into *legal institutions*, into *legal persons*. If the state either disturbs this natural impulse or, contrary to its state obligation, bestows no security on the evolved legal institutions, and deprives them of legal protection, it breaks the flower or annihilates the germ and, mostly due to benevolent error, cuts its inhabitants out of the best fruits of their labor. (Lipke 1851, 7; emphasis in original)

Lipke mentioned the legal institution of the bill of exchange as an example. English businessmen were not prevented from making use of this commercial paper, and the economy prospered because resources did not remain idle. In Germany, businessmen faced a competitive disadvantage. The German interest rates increased because bills of exchange offered greater security to creditors and lowered the risk premium, which was part of the interest rate (Lipke 1851, 8). Hence, national wealth prospered greater if freely-evolved institutions—he mentioned stock companies and banks—needed no concession and were unregulated (Lipke 1851, 11). Lipke also rejected taxation altogether: “Free trade negates the state, I said in the beginning, and said truly, for whoever wants the end must want the means, and free trade negates the means of the state: the *tax*” (Lipke 1851, 12; emphasis in original). The wide-spread pauperism was a result of the interference of taxation into consumption and production, and was caused by the state. Lipke was more supportive of a tax on “free capital” (Lipke 1851, 12-3) to finance the government.¹⁴⁶ However, even then, the state

¹⁴⁵ The Berlin newspapers wrote, however, that the presidium withdrew the word because Lipke got off the subject.

¹⁴⁶ The French journalist Émile de Girardin (1802-1881) proposed a voluntary capital tax to finance the state in his book *Le socialisme et l'impôt* (Socialism and the Tax, 1849). Although he distinguishes between good and bad socialism and confesses adherence to the former (Girardin 1849, 7-9), his view rather approximates individualist anarchism. He suggests to transform the state into “a colossal mutual insurance company” (Girardin 1849, 131) and writes: “Every tax

was not as capable to provide security as the private market:

The activity of production of *security* will always fall into the production of various *securities*, the production costs of which will likewise be different. Similarly, the need for these various kinds of security will not only depend upon the *quantity* of capital to be insured, but also very much upon the *quality* of both the bodies, which it is incarnated in, and the animus, which dominates that corporeal world [body world]. (Lipke 1851, 13; emphasis in original)

Although there was hardly any difference between the tax on free capital and the “non-state”, this should not hinder one from abolishing the state altogether: “Down *cum grano salis* [with a grain of salt], but no *atom* from the state may remain in your brain. Therefore, it should be pointed out that, in the *non-state*, elimination of these minima is also conceivable” (Lipke 1851, 13; emphasis in original). Lipke described the process of security production as follows:

In it [the non-state], everybody will only take from the state services, which have fallen into free circulation, what he needs. He will only pay for what he has taken, no more and no less, at the price that productiveness, stimulated by free competition, is able to deliver in the given moment. (Lipke 1851, 13)

Like Beta and the *Abendpost*, Lipke seemed to defend Molinari’s theory of competing producers of security, which offer insurance services to their clients. He writes that “state services [...] have fallen into free circulation” and are subject to “competition”. Hence, complete free trade, “the final goal of the free trade doctrine” (Lipke 1851, 14), would only be realized in the non-state. However, in contrast to Molinari, Lipke was in favor of political decentralization to arrive at his stateless utopia.¹⁴⁷ He rejected a German central state and suggested to dissolve the government into “*local community associations*” (Lipke 1851, 15, emphasis in original). Lipke restated this kind of thought in his second speech, where he discarded supranational tariff unions and trade treaties. Those hampered the fast introduction of trade freedom because associations with many members were

must be abolished [...] [for] the peculiar characteristic of a tax is that it is obligatory, whereas it is in the nature of insurance to be voluntary” (Girardin 1849, 127-8). All citizens are free to join the insurance company or, if they prefer to be uninsured, not enjoy its benefits (Girardin 1849, 133-4). The company should be responsible for the protection of person and property, education, credit against deposit and insurance against natural disasters, among others (see Marx and Engels 1960a, 285). Girardin compares the insurance premium, which is proportional to all personal assets that an individual owns, to a capital tax (Girardin 1849, 135). His theory seems to come close to Herbert Spencer, who suggested to replace the state with a “mutual assurance” (Spencer 1851, 268) that one was free to join. In his history of anarchism, Nettlau (1925, 200-1) recognizes the individualist character of Girardin’s philosophy, although he does not mention *Le socialisme et l’impôt*. Nettlau merely refers to Girardin’s pamphlet *L’abolition de l’autorité par la simplification du gouvernement* (The Abolition of Authority and the Simplification of Government, 1851) and to the newspaper *Le Bien-être universel* (Universal wellbeing) from February 24th to November 30th 1851. Marx and Engels (1960a, 280-91) reviewed *Le socialisme et l’impôt* for the *Rheinische Zeitung* (Rhenish newspaper) in April 1850. They and the *Westdeutsche Zeitung* used to compare Girardin to the *Abendpost*. Maybe because of them, Lipke was familiar with Girardin and his opposition to the tax on free capital was a critique of Girardin’s single insurance company.

¹⁴⁷ Molinari wrote in *Les soirées de la rue Saint-Lazare* (1849) that “decentralization leads to complete communism” (Hart 1981, 94). For a translation of the eleventh chapter of the book, see Hart (1981).

“sluggish” (Lipke 1852, 22). States should lower their tariffs unilaterally without signing trade agreements or joining tariff unions. The king had to save Germany from the Zollverein (customs union) and from “the romantic step back to German unity” (Lipke 1852, 22). Lipke’s conclusion was clear: “*Away with every Zollverein! is therefore the undoubted slogan of free trade*” (Lipke 1852, 21, emphasis in original).¹⁴⁸ Despite the probable influence of the *Abendpost*, Lipke mainly argued in economic terms and rather resembled the economist Molinari instead of the philosopher Faucher. In his brief speech, Lipke used twice Molinari’s standard phrase “production of security” (Lipke 1851, 6, 13). He said that capital would have to be “insured” for protection in the absence of a state, a point that Molinari stressed as well. Since Lipke (1853) released two years later an article in the *Journal des Économistes*, where Molinari’s *De la Production de la Sécurité* (1849) had come out, he must have been able to read and write in French. Lipke’s article was titled *Notion de la monnaie* (The Concept of Money) and appeared in the September issue from 1853. Prince-Smith (1880, 151-69) wrote the response *Valeur et Monnaie* (Value and Money) that was released in the subsequent issue of December 1853. Shortly after, Lipke (1854) wrote a letter to the editor of the journal.

Lipke probably died in 1854 or 1855. This follows from an auction catalogue that contains a list of the estates of the philosopher Friedrich W. J. von Schelling, the chief consistorial councillor Klotz, the general August F. L. K. von Reiche, “Wilh. Lipke” and other decedents not mentioned by name (Müller 1855). These estates were auctioned in Berlin from September 10th to 22nd 1855. Interestingly, the collection includes over ten volumes of the *Journal des Économistes*, dated to the period from 1847 to 1854.¹⁴⁹ One of the deceased persons also owned a copy of *Les soirées de la rue Saint-Lazare* (The Evenings of the Rue Saint-Lazare, 1849) by Molinari, offered for sale at an auction on September 19th (Müller 1855, 83). In the eleventh chapter of this book, Molinari expanded his analysis of *De la Production* by presenting a fictional dialogue between a socialist, a conservative and an economist (an individualist anarchist). It cannot be said with certainty whether the copy of *Les soirées* belonged to Lipke. However, it seems quite reasonable given his familiarity with the journal, his use of Molinari’s phrase “production of security” and the Belgian’s lack of fame in Germany.¹⁵⁰ If true, Lipke may have been the only immediate follower of Molinari. As David Hart (2007, 390-1) notes, Benjamin Tucker in the 1880s and maybe P. E. De Puydt in 1860

¹⁴⁸ The word “every” is double emphasized in the original text by setting it in italics and in bold print.

¹⁴⁹ The catalogue does not list volume XXII that contains Molinari’s *De la Production de la Sécurité*, but volume XXXVI with Lipke’s article *Notion de la Monnaie* (Müller 1855, 83).

¹⁵⁰ Few German libraries possess a 1849-edition of *Les soirées* and the only copy in Berlin can be found in the state library. However, although the library received its copy after 1881, no annotations are inscribed in the book that give a clue about previous owners.

were followers of Molinari's liberal anti-statism. After the letter from 1854, nothing was heard of Lipke in free trade circles; he did not visit the congress of the free traders from 1858 or write for the *Quarterly Journal*. Among the German anti-state liberals, he was the individual anarchist who presented the most sophisticated critique of state production of security.

1.3.9 Conclusion: German Individualist Anarchism in the History of Thought

Beta, Lipke and the *Abendpost* stand in line with a long tradition of individual anarchist thought. Liberal anti-state ideas were already formulated by some English Levellers in the seventeenth century, for example in *An Arrow against All Tyrants* (1646) by Richard Overton. The "first individualist, liberal anarchist tract ever written" (Hart 2007, 377-8) was then, in the eighteenth century, *Vindication of Natural Society* (1756) by Edmund Burke (1729-1797). The Anglo-Irish politician gave the responsibility for pauperism, suffering and war to the state and rejected all forms of political organization. William Godwin (1756-1836), a follower of Burke, similarly advocated the abolition of the state, property and individual liberty. However, Godwin and Burke did not elaborate how law might be physically enforced in the absence of a state. Burke limited himself to a harsh critique of government, whereas Godwin proposed juries that would urge a criminal to forsake his wrongdoings and submit him, if needed, to criticism and ostracism of others. Godwin was very optimistic about human nature, thinking humans would become "reasonable and virtuous" (Godwin 1793, 577) under anarchy. Other early individualist anarchists include the American Josiah Warren (1798-1874), the Englishman Thomas Hodgskin (1787-1869), and the French Charles Comte (1782-1837) and Charles Dynoyer (1786-1862). Adam Smith and Jean-Baptiste Say made a further step towards an anarchist political economy. Smith explained in *The Wealth of Nations* that English courts charged such low prices because several courts competed for clients by offering the fastest service and the lowest price (Smith 1904, 212). Say cited Smith's insights and reasoned that a state monopoly on justice restricted the range of choice of consumers and established monopoly prices. Consumers should be allowed to choose the court that most suited them. The price of a court should be composed of three parts: a levy fixed by the province, a premium for the respective judge and a fee proportional to the values under litigation (Say 1843, 440; Hart 2007, 382).

Gustave de Molinari (1819-1912) combined the political anarchism of Burke and Godwin with the economic analysis of Smith and Say. His article *De la Production de la Sécurité* (1849) was a breakthrough because it explained for the first time how law might be physically enforced in a stateless society. Previous authors had either not addressed this problem or assumed that a police

force was unnecessary once the state was eliminated (Hart 2007, 386). Molinari proposed a system of various producers of security that competed for clients and insured them against property invasions, offering a law code that clients and criminals had to obey (Molinari 2009, 53-61). Herbert Spencer (1820-1903) reached a similar position one year after the *Abendpost* was released. In his book *Social Statics* (1851), he suggested to replace the state with a “mutual-safety confederation” (Spencer 1851, 206). Run on business principles, everybody could join and pay its “taxes”, or leave it. Spencer wrote on a “mutual assurance” (Spencer 1851, 268) and a “joint-stock protection-society confine[d] [...] to guaranteeing the rights of its members” (Spencer 1851, 276). In contrast to Molinari, he did not propose a system of competing producers, but a single protective agency. A disciple of Spencer, Auberon Herbert, went further and reasoned for a system of competing firms, almost as Molinari. There is no evidence that Herbert or Spencer knew of Molinari's work (Hart 2007, 389). Authors like Benjamin Tucker and Lysander Spooner continued this liberal anti-state tradition in North America.

The German individualist anarchists were in the early middle part of this tradition. The *Abendpost* particularly stands out due to its distinctive element, the synthesis of individualist anarchism with Stirnerite egoism. However, the paper did not address in depth the question how law might be physically enforced without a state. It simply wrote: “We want the free without defining what should take its place, because the result of creative freedom cannot be predetermined.” This may have three explanations: Either Faucher and his friends did not reflect on this point, like many other earlier individualist anarchists. Then, it would be true when an astute author writes about the philosophy of the *Abendpost* that “it arose by no means from an elaborated theory of state and society” (Hentschel 1975, 68). Or they pondered over physical enforcement but did not treat the question in the *Abendpost*, due to the limited space of a newspaper or because the topic was seen as irrelevant for the readers. Or the *Abendpost* discussed physical enforcement but the respective issues are lost. Either way, Hentschel's thesis is implausible given the background story with Stirner; the events around Lipke, Maron and Beta; and Wolff's statement that the free traders based themselves on “a long study of history of civilization and economics“ (Braun 1893, 137). Even more, Beta's and Bamberger's testimonies indicate that the free traders had a system of competing producers in mind, like Molinari.

In sum, it becomes more and more clear that liberal anti-state ideas flourished in Germany in the 1840s and early 1850s. Faucher seems to be the main influence on Maron, Beta and Lipke. While Beta and Maron were close to Faucher on a personal and intellectual level, Wilhelm Lipke stands out as an anomaly. Apart from being a member of the Berlin free trade association, he was neither

connected to Faucher nor a collaborator of the *Abendpost*. Thus, there are two strands of individualist anarchism at that time: A philosophical-egoist version based on Stirnerism (Faucher, *Abendpost*, possibly Maron) and a mainly economically-phrased variant (Lipke) that maybe drew from Molinari. Beta stands in-between because he was not a Stirnerite. The egoist variant would gain the upper hand in Germany from the 1890s on, with the Stirner-biographer John Henry Mackay (1864-1933) and his followers Johann Otten and Kurt Zube (1905-1991).¹⁵¹

¹⁵¹ Günter Bartsch notes in his history of 20th century German anarchism: “In Germany, [...] individualist anarchism adopted the specific form of Stirnerism” (Bartsch 1971, 14).

1.4 The Years of Silence until the First Congress of 1858

After the *Abendpost* perished, Faucher and Beta migrated to London. With 30 years and his daughter Lucie born in spring of the year, Faucher started a new life in a foreign country. He worked for various German papers. He reported for the ultramontane *Kreuzzeitung*, the main enemy of the *Abendpost*, about the World fair of 1851. His opponents often brought up this collaboration in later years. At his election speech on December 30th 1861, Faucher explained that he and his friends had decided to write for distinct papers after the end of the *Abendpost* to spread free trade ideas. As Faucher claimed, this collaboration came to fruition when the iron tariffs for shipbuilding were subsequently abolished.¹⁵² In 1850, Faucher met again the writer Theodor Fontane in Beta's house in London, where he regularly spent his time (Fontane 1898, 61). Both men became friends and used to go on hiking trips in the countryside and debating clubs, which were Faucher's "truest domain" (Fontane 1898, 67). According to Fontane, the journalist always won debates due to his high knowledge, humor and eloquence. Faucher was indeed an excellent rhetoric who, at the congress of 1860, "immediately impressed the listeners by a unique fiery eloquence and by the plentifulness of his practical knowledge and urbane experiences" (Böhmert 1878). According to Fontane, Faucher owned the reputation of being a "decidedly clever fellow" in the German colony. In 1856, when Faucher worked for Cobden's paper *Morning Star*, he organized a dinner party that was visited by the bishop of Oxford. In London, Fontane and Faucher also visited the wedding ceremony of the later king Frederick III and Victoria on January 25th 1858 (Fontane 1898, 79-81).¹⁵³ At that time, Faucher was the private secretary of Richard Cobden.

According to the reports of the "Geheimer Polizeiverein" (Secret Police Association)—a union of seven German states from 1851 to 1866 to persecute opposition members, including Austria and

¹⁵² *Nationalzeitung*, December 31st 1861, no. 608, evening issue, 3.

¹⁵³ In private letters, Fontane took a more critical stance of Faucher in contrast to his autobiography. In a letter to Heinrich von Friedberg dated September 3rd 1889, Fontane reflected about writing a text on the political impostor phenomenon, calling impostor those persons "that, without an official occupation for politics, nevertheless practice politics, but not for an idea, but only for the sake of their person and an outward advantage" (Pniower and Schlenther 1909, 214). Fontane then wrote that Faucher had been an impostor: "Streber (*Estrebér*) of tunneling memories, Dr. Widmann, Julius Faucher, the Bauer brothers—namely *Edgar* Bauer—the *Kreuzzeitung*-Wagener (for whom I personally had a *Tendre*, by the way), and in particular a number of Wagenerian creatures—were all impostors. They hit the donkey (their so-called idea) and meant the sack, the money sack" (Pniower and Schlenther 1909, 214; emphasis in original). However, in a letter to Friedrich Stephany from June 30th 1896, Fontane praised the group of the Free, explaining "that these Hippelian wine bar people were the most remarkable of these types of people, and that we certainly have nothing at present that can be put to their side in terms of their importance, their exemplary character and their effectiveness. And I do not like them, which of course does not diminish the importance of these people" (Pniower 1910, 392). He went on that it was impossible that a history would be written about the Free, since almost all persons had died who knew them. He himself was not capable of writing such a history, because he did not possess the scientific knowledge. Giving Faucher as example, Fontane stated that he had known Faucher very well, "but I have no idea of what he was socio-political" (Pniower and Schlenther 1909, 393).

Prussia—Faucher was a member of a group of republicans around the professor of history of art and democratic politician Gottfried Kinkel (Beck and Schmidt 1993, 451, 515-6). Other members included Arnold Ruge, Edgar Bauer and Ferdinand Freiligrath. Most of them wrote for the London paper *Hermann* edited by the publicist and democratic politician Ernst Juch. The police report about the groups and objectives of the German migrants in London noted that “[t]o the supporters of this party, the constitution of Switzerland and of the North American free states appears as the exemplary model for Germany's constitution” (Beck and Schmidt 1993, 516). Faucher also published one or several newspapers that advocated German unification (Beck and Schmidt 1993, 524). Faucher returned to Germany in 1860 and entered the Prussian House of Representatives, the second chamber of the Prussian parliament. He did not visit the first meetings of the congress in 1858 and 1859.

Besides Hübner, Prince-Smith was the only orthodox free trader in Berlin. He continued to spread liberal ideas with the Berlin free trade association. Due to the revolution, the association had become inactive in the previous three years but Prince-Smith wrote a new programme in 1851.¹⁵⁴ In the same year, Prince-Smith won the second prize at an essay contest of the Hamburg free trade association. He had submitted his satirical *Handelsminister auf sechs Stunden* (Minister of Trade for Six Hours, 1851). The story resembled Bastiat's *That Which is Seen, and That Which is Not Seen* (1850) because Prince-Smith used the metaphor of bookkeeping to illustrate the “unseen” effects of a protectionist trade policy. The text was about the accountant Adam Riese the Younger, who dreamt that he was the minister of trade. A faithful accountant, he kept an exact record of every expense he made, even of expenses for his children (Prince-Smith 1880, 45). He believed that “*the principles of accounting are the only certain yardstick for all living conditions*” (Prince-Smith 1880, 44; emphasis in original). In his dream, he checked the policies, for which interest groups lobbied in his office, with accounting techniques. The first group that entered Adam's office were the owners of spinning factories, who asked for a tariff to be able to compete against foreign industry. Adam calculated the consumers' loss at 2,5 million thalers because of the rising prices of spinning materials. They also demanded a subsidy of 20 million thalers but, according to Adam, just 10,000 jobs would develop in the spinning industry, while 60,000 men would lose their work elsewhere. Satisfied with his defence of free trade, Adam threw the group out of his office (Prince-Smith 1880, 51-3). The text was written in a humorous and satirical way and, according to Wolff, “the most complete and probably most influential of Prince-Smith's free-trade pamphlets” (Wolff 1880, 330). The industrialists had to address Adam as “Your Excellency” and the spinning manufacturers were described as having “full faces”, “padded limbs” and suits that “that stretched almost till bursting”

¹⁵⁴ See Wolff (1880, 328-30) for the programme.

(Prince-Smith 1880, 46).

The owners of iron mints entered next, which lobbied for an increase of the Belgian iron tariff. Adam explained to them: “The just price of a commodity is the lowest price for which I can obtain it at any place. [...] The market price is for me the legitimate price of the iron” (Prince-Smith 1880, 58). The German industry should buy foreign iron since, if it was cheaper, its production was more remunerative (Prince-Smith 1880, 61-2). Adam also opposed the demand of the producers of beet sugar to cut the beet tax in half. Foreign producers should not be taxed at a higher rate than domestic beet producers (Prince-Smith 1880, 73-4). At the end, Adam joined the meeting of the council of ministers, where the minister of finance wanted to raise taxes (Prince-Smith 1880, 76). The ministers of war, culture and foreign affairs opposed to cut their budget and demanded more taxpayer money (Prince-Smith 1880, 78-82). Adam advocated low tariffs and, to prove that the traditional trade policy of Prussia had been *laissez-faire*, read the liberal decree of Stein and Hardenberg from 1808 (Prince-Smith 1880, 85-6). The story finished with Adam schooling the cabinet: “As long as you do not elevate free competition, with drastic consequence and radical practice, to the single regulator of all economic activities, you are—I have to say it directly—communists!” (Prince-Smith 1880, 90-1).

In 1851, Prince-Smith handed a letter to the Prussian Prime Minister Otto Theodor von Manteuffel, whom he knew from Elbing (Wolff 1880, 318). Prince-Smith welcomed that Prussia did not conclude a trade treaty with the traditionally-protectionist Austria. In his answering speech, Manteuffel pledged to do his best to implement trade freedom as fully as possible in Prussia.¹⁵⁵ The Zollverein was in a crisis at that time. The Austrian minister of trade Karl Ludwig von Bruck pushed for a central European customs union that would include Prussia and Austria (Hahn 1984, 141). The Prussian government took a consequent free trade course for power political reasons (Hahn 1980, 150). However, Austria could not enforce a protectionist Greater Germany and on February 12th 1853, Prussia and the Habsburg Empire signed a trade treaty that eliminated some tariffs. As Lotz explains: “As soon as Prussia was able to win followers as a representative of a radical free trade direction, Austria-Hungary was defeated in the field of trade policy at the time” (Lotz 1892, 8). Both nations agreed to renegotiate a common tariff union from 1860 on. Hence, in April 1853, the Zollverein treaties were prolonged for twelve years without Austria joining the Zollverein (Hahn 1984, 149-50). After Prince-Smith helped to prevent a protectionist Greater Germany, the free trade movement became inactive between 1854 and 1858 and the free trade associations ceased to exist. Hamburg possessed the only association that operated until the first

¹⁵⁵ See Wolff (1880, 331-4) for the letter and Manteuffel's answer.

Economic Congress of 1858 (Faucher 1870b, 165). Prince-Smith's last work on economics dates to December 1853 and was *Valeur et Monnaie*, the response to Lipke's article on money (Wolff 1880, 336).

Nevertheless, free trade gained the upper hand in Germany in the 1850s. From the early 1850s until the economic crisis of 1873, Germany entered into a phase of high industrialization. Total iron production increased from 220,000 to 1,413,000 tons between 1849 and 1869, while total horsepower of the employed steam engines rose from 260,000 to 850,000 between 1850 and 1860. Economic growth was boosted by a railway network that expanded, between 1850 and 1870, from 5,859 to 18,876 kilometres. German exports increased from 183,689 to 330,840 thalers between 1850 and 1855. The protectionists lost ground because rising exports proved the German competitiveness against the English industry (Hahn 1984, 152). Many free traders became journalists for important North German newspapers. Otto Michaelis edited the economics section of the *Nationalzeitung*, Otto Wolff was Faucher's successor at the renamed Stettin *Ostseenachrichten* and Viktor Böhmert became the editor of the *Bremer Handelsblatt*. Wolff remarks that “already at the beginning of the second half of the fifties, it came to pass that the protectionist [papers] were very isolated among the agenda-setting North German papers” (Wolff 1880, 336-7).

II. The Foundation and the First Years of the Economic Congress (1858-62)

In 1857, the free traders began to found the Economic Congress that met in 1858 for the first time. The orthodox group was not instrumental in the foundation process. As Hentschel (1975, 38) notes, the congress would have come to life even if the orthodox free traders would not have visited the first meeting in Gotha. However, they and the pragmatics Wolff and Michaelis soon assumed a leading role. Braun headed the debates as president and Prince-Smith shaped the resolutions on trade policy together with Wolff and Michaelis. From 1860, Faucher visited the congress and started a tour throughout Germany to preach free trade to the public. The topic that dominated the debates from 1861 to 1863 was the Franco-Prussian trade treaty and a reform of the Zollverein constitution. The Berlin free traders and the Bremen idealistic group disagreed on the trade treaty. The Bremen group wanted to use the trade treaty as leverage to push for a reform of the Zollverein constitution, while the orthodox and pragmatics wanted to ratify the agreement without conditions.

2.1 Origins of the Congress

The 1850s were characterized by a “political fatigue” and an “unimagined industrial, commercial, trade and economic development” (Böhmert 1884, 193). These two conditions demanded for economic reforms and brought about the foundation of the Economic Congress. On May 23rd 1857, a young journalist published a consequential article in the weekly *Bremer Handelsblatt*.¹⁵⁶ Viktor Böhmert criticized high tariffs, strict trade regulation acts and an absence of economics as an academic discipline. He demanded to start an agitation for economic liberty to turn public opinion (Böhmert 1884, 202). Associations had to be established in big cities, propaganda pamphlets must be distributed and an economic congress had to be founded that met each year in a different German city. The conference had to advocate the common interests of the people, not a special interest. As Böhmert remembered in his autobiography, he wrote the call spontaneously:

The year 1857 [...] also became particularly significant for me due to the fact that, on May 23rd 1857, in a solitary hour in the *Bremer Handelsblatt*, I published a 'call for a congress of German economists'

¹⁵⁶ See Böhmert (1884, 201-3) for the first call. For the foundation of the congress, see Böhmert (1884), Böhmert (1900, 16-22), Emminghaus (1907, 73-7), Hentschel (1975, 27-35) and especially Stalman (1926, 5-25).

without consulting with the heads of the *Handelsblatt* or with friends of my doctrine. This call [...] was the beginning of a movement for economic reform and suddenly made me an agitator without me anticipating it when the call was published; it was not possible, however, to retreat on my part because not only many editors, merchants and tradesmen, but also high officials and politicians [...] expressed their agreement to the plan and recommended to take the preparations in hand for a congress of German economists from Bremen. (Böhmert 1900, 16)

The call marked the beginning of the Economic Congress and its young author was to become one of its most important members. Viktor Böhmert was born on August 23rd 1829 in the Saxon village Quesitz.¹⁵⁷ As might be seen from the call, his speeches and writings are imbued with a certain “sense of mission” (Hentschel 1975, 29). A journalist wrote about Böhmert's speech in front of the Hamburg congress in 1872:

Böhmert, small in figure, holding himself crooked, with indulgent features, despite his glasses struggling with his short-sightedness [...] made a surprising impression on the public, which does not know him yet, every time at the beginning of his speech, when his eye fiercely wanders around, [...] when one arm rises as if it conveyed a blessing, while the other is thrown sideways with energy [...] and then a flood of speech pours out of the mouth of the speaker with a powerful clear tone, which soon turns into hollow thunder, in which one word pushes and bumps the other [...] the voice in all modulations, from the highest note to the far-fading dull resentment of anger, the eye sparkling with moral indignation that there are people who think differently as the speaker; it gives a true enjoyment to the eye and the ear, [...] to see on the speaker's platform this morally pure, high character, this man of gracious subtlety and good-naturedness, who at once grasps every problem of the mind as a matter of the heart, and therefore gets enthusiastic so passionately about every matter he deals with.¹⁵⁸

Since his father was a priest, in his youth Böhmert toyed with the idea of becoming a religious leader. As he noted, he received his charitable impetus from his father (Böhmert 1900, 2). However, due to the revolution of 1848, the 19-year-old Böhmert decided to study jurisprudence and economics at the University of Leipzig “to participate better in the development of the German state in days to come” (Böhmert 1900, 5). The young man saw a “sensual materialism” (Böhmert 1900, 5) as the *Zeitgeist* of his time, which he opposed: “Formation of the character, immersion with questions of human education and promotion of religious convictions, diligence and moderateness appear to me the most important public tasks these days” (Böhmert 1900, 6). From the 1880s, he gave public speeches against alcohol, promiscuity (Böhmert 1888) and founded various charity organizations. He viewed alcohol as “one of the worst internal enemies not only of the German people, but of all peoples of the earth” (Böhmert 1900, 51). The economics professor also endorsed

¹⁵⁷ See Böhmert (1900) and Heyde (1955).

¹⁵⁸ *Hamburgischer Correspondent*, August 31st 1872, no. 206, 1.

the possibility for women to study at university (Böhmert 1872a) and favored self-help and “work instead of alms” as a solution to the Social Question. After completing his studies, Böhmert worked in law offices for more than three years in the early 1850s. He came into contact with Schulze-Delitzsch and continued his economics studies privately (Böhmert 1900, 7-8). From 1855, he became a journalist by publishing the economic weekly *Germania* (Germania) in Heidelberg. Wilhelm Roscher, his “main mazen and patron” (Böhmert 1900, 7), had proposed him for the position as editor. Böhmert had visited Roscher's lectures and private student discussion group in Leipzig. Roscher and Karl Heinrich Rau, the leading economists of the Older Historical School, published articles in *Germania* “which very soon followed a liberal economic doctrine and represented Adam Smith's school, whose supporter and outstanding German representative was professor Rau” (Böhmert 1900, 13). From 1856 to 1860, due to a second recommendation of Roscher, Böhmert became the editor of the *Bremer Handelsblatt* (Böhmert 1900, 14). He was one of the most laissez-faire at the congress and belonged to the idealistic group around Arved Emminghaus and August Lammers, his closest friends (Böhmert 1900, 29-30). In the 1860s, Böhmert was a syndic, an employed lawyer, for the Bremen chamber of commerce before he received a chair as economics professor in Zürich. In 1875, he moved back to Saxony and became professor in Dresden and head of the Saxon statistics bureau (Böhmert 1900, 43). At the end of his life, he defended the congress against being a free trade assembly, because everyone had been able to join its meetings and protectionists won in Stuttgart and Munich. He felt regret that the highly-influential congress did not exist anymore (Böhmert 1900, 19-20). Reading his autobiography, one receives the impression that German political unification was much more important to Böhmert than economic reforms. As will be seen, this impression also holds true for the orthodox free traders.

Going back to May 1857, the first call received a “great echo” (Böhmert 1884, 203; Stalman 1926, 14-5; Hentschel 1975, 30) in the press and shortly after, Böhmert published a second article where he reviewed some media responses and proposed to meet at the “Internationale Wohltätigkeitskongress” (International charity congress) in Frankfurt (Stalman 1926, 9). At this congress, which was founded by the Belgian Ducpétiaux in 1856 and took place in September 1857, the Belgian participants were in favor of church and state charity while the Germans argued for cooperatives and self-help. The predominant Belgians were reluctant to debate these disagreements and a liberal resolution of the Germans was only read at the end of the meeting. At the third day of the congress, the Germans met in the Hotel Landsberg and Schulze-Delitzsch gave a speech on cooperatives. Afterwards, the attendees agreed to publish a second call for the foundation of

economic associations and a congress (Böhmert 1884, 203-6; Stalman 1926, 8-11). The call dated to September 16th 1857 announced that a committee consisting of Max Wirth, Viktor Böhmert and Eduard Pickford would prepare the future congress from Bremen. It appealed to the public to establish associations that educated the masses on the true cause of pauperism, “the ignorance of the laws of economics” (Böhmert 1884, 205).¹⁵⁹ The call received an even greater response of the media (Stalman 1926, 15) because it was signed by well-known public figures like Hermann Schulze-Delitzsch and the economics professor Karl Heinrich Rau. After the second call, Schulze-Delitzsch began to support Böhmert's plans by publishing many articles in the newspaper *Grenzbote* (Frontier herald). These articles were published in the book *Die arbeitenden Classen und das Associationswesen in Deutschland als Programm zu einem deutschen Congreß* (The Working Classes and the Cooperation Movement as a Program for a German Congress, 1858). In its introduction, Schulze-Delitzsch stated that he closely worked together with Böhmert (Schulze-Delitzsch 1858, iii). In Schulze-Delitzsch's book and Böhmert's public statements, it became clear that liberalism and a politically united Germany were the leitmotifs of the organizers of the future congress. As Schulze-Delitzsch wrote:

It must of course be a national, a *German congress*, as we have already said, since the movement has taken on a peculiar and, as we believed to have shown, a truly national character in Germany. Far from all socialist admixture, fully in accordance with the industrial and human stage of development of the German craftsman and worker, we wish—above all—to purely preserve this character for it. (Schulze-Delitzsch 1858, 117; emphasis in original)

Schulze-Delitzsch also prevented that the congress was monitored by police informers, with a letter from June 1858 he wrote to the liberal Ernest II, Duke of Saxe-Coburg and Gotha (Thorwart 1913, 98). He released articles in the newspaper of the Berlin “Centralverein für das Wohl der arbeitenden Klassen” (Central Association for the Welfare of the Working Classes). This charity organization was led by Adolf Lette since 1849, the later head of the executive committee of the Economic Congress. Schulze-Delitzsch achieved with Lette that the Centralverein supported the foundation two weeks after the second call had been published, in November 1857. Lette was instrumental in the preparation of the first congress, for he published a supportive article in the Centralverein's paper and suggested to Böhmert to hold the first meeting in Gotha.¹⁶⁰ Thus, Böhmert may be called “the soul of the agitation” (Stalman 1926, 11) while Lette and above all Schulze-Delitzsch played a crucial role too.¹⁶¹ However, although the orthodox free traders around

¹⁵⁹ See Böhmert (1884, 205-6) for the second call.

¹⁶⁰ See Böhmert (1884, 207) for the respective letter dated to June 1858.

¹⁶¹ For Schulze-Delitzsch's role, see Aldenhoff (1984, 109-11). In a letter to Richter from October 1858, Schulze-

Prince-Smith had established the free trade movement in the 1840s, they initially played no role in the formation of the congress. This changed around July 1858, when the Bremen committee sent 100 invitations to academics, politicians and social leaders.¹⁶² It set the first meeting on September 6th to 8th 1858 and announced that everybody might join, if he paid the entrance of three thalers and declared his participation in a letter to Böhmert. Before, Böhmert, Wirth and Pickford had contacted important public figures to gain support for the congress, and Prince-Smith responded to Böhmert with the following letter on May 16th 1858:

Dear Sir! I will be in Gotha on September 6th. I must very much agree that you want to avoid all ostentation—because it should first turn out, if one has forces for clear purposes, whereby one can make state. If not an entirely different, recent spirit emerges, as the one that wafted in various congresses held so far, one damages the cause of economic science, by showing how little dynamic energy it has been able to arouse so far. Weak believers do not spread a belief. (Böhmert 1884 209-10)

As the letter shows, Prince-Smith was rather skeptic when he heard of Böhmert's plans, but decided to join as soon as a concrete date was set. In the invitation, Böhmert announced a discussion of the following five topics: a reform of trade regulation acts; cooperatives in Germany; lottery, casinos and gambling; transit duties; and usury laws. Political issues should not be debated to avoid “ostentation” among the attendees. Unfortunately, the local committee preferred to establish an association and only wanted to debate the statute of this future organization. Böhmert disagreed with this plan because he feared the congress would not come into existence, if important social issues were not discussed at the first meeting:

I am afraid that we [...] build around with ideas and wishes with something that never comes into reality, that we let the the favorable moment of unification pass by without real results, that we deprive ourselves of our own judgment and influence on public opinion in favor of a future assembly whose composition we do not even know and which may never come about. (Böhmert 1884, 211)¹⁶³

According to Böhmert (1884, 214), many friends of the congress shared his opinion at that time. Prince-Smith endorsed Böhmert's stance in a second letter on August 9th 1858. As Böhmert (1884, 225) observed, Prince-Smith showed farsightedness when he foretold the guiding principles of the future congress:

I will gladly support the view (with my friend Michaelis), which you represent against the Gotha local committee. We will oppose any 'association-organization-proposals'. The addiction to deal with *forms*

Delitzsch viewed himself as the main person responsible for the successful foundation of the congress (Aldenhoff 1984, 110).

¹⁶² See Böhmert (1884, 208-9) for the invitation.

¹⁶³ See Böhmert (1884, 211-4) for the letter.

distinguishes those, who do not understand the issue itself. The life-*form* can be found by itself, if only the life-*impulse* is sufficiently strengthened. In order to awake this impulse, we must arouse a general and lively interest for economics, and we best achieve this by shedding light on practical issues that affect the personal interests of as many as possible. [...] You seem to believe, however, that an effect on public opinion can only be expected if 'the men meeting there' unite themselves—and, rather unanimously, issue decrees. I do not expect such unanimity, and hardly wish it. Among the men, who deal with economic issues, prevail the most contradictory views. It would be most fruitful if the meetings became the lively battleground of the opposing parties—because fight only leads truth to victory,—it [fight] arouses live, participation, a partisanship of wider circles. May the spirits crash upon each other once! Not act *politically*—not shy away from an outer separation by avoiding certain questions, when there is no real unity. In Gotha, there will be 'a small number of men that agree on certain principles and form a basis for the intellectual impulse that we want to give.' This is the benefit I expect—and to help secure that benefit, I travel there. (Böhmert 1884, 214-5; emphasis in original)

Thus, Prince-Smith's main intention was to create public awareness of economic questions. This was done best by discussing “practical issues that affect the personal interests of as many as possible.” The disagreement between Böhmert and the local committee was solved when Schulze-Delitzsch traveled to Gotha and made a compromise. The second invitation that was released on August 21st just announced a debate on the principles, statute and leading organs of the congress.¹⁶⁴ According to Böhmert (1884, 216), some well-known economists thereafter canceled their appointment. This might have been detrimental to the cause of the free traders, because they never really got in touch with the academic establishment, although Böhmert was close to Rau and Roscher.¹⁶⁵ On the contrary, in the 1870s, many of the leading economist went to the meetings of the socialists of the chair. Ultimately, the congress was postponed and united from September 20th to 23rd 1858. The night before, around 70 participants met in the Gotha casino to debate the organization of the congress. As Böhmert (1884, 218-9) tells, a huge disagreement existed on whether an association or a wandering congress had to be founded, and whether the statute or economic questions had to be debated first. Finally the attendees accepted the statute proposal by the Gotha people as a basis for discussion and established a commission, which had to finalize the proposal before the first meeting. The commission rapidly finished its work at the next morning and the plenary meeting assembled at half past nine, and accepted the statute unanimously after half an

¹⁶⁴ See Böhmert (1884, 215-6) for the second invitation.

¹⁶⁵ Lette stated in a letter to Böhmert in June 1858 that Roscher had expressed his support for the congress. As the *Bremer Handelsblatt* noted in a review of Roscher's textbook *System der Volkswirtschaft* (System of Economics, 1857), the free traders were critical of Roscher's reluctance to express his opinion on economic policy in his academic work. Regarding Roscher's position on economic policy, the paper wrote that one could read out of the professor's work “that Roscher subscribes to the rule of freedom of trade as such, even though he admits more preconditions and therefore exceptions than the majority of free traders. At the same time, Roscher recognizes that it is just now, when the special interests assert themselves more than it is good, more necessary to put the accent on the rule than on the exceptions of liberty.” See *Bremer Handelsblatt*, June 16th 1860, no. 453, 217.

hour (Böhmert 1884, 218-9). The assembly was quite enthusiastic about its fast decision, after the rough discussion the night before:

Lette, who had reported on the draft statute, gave a lively expression of his delight to the practical outcome, and the whole assembly was elevated to a happy mood, which lasted throughout the congress, by the happy beginning of the undertaking [...]. (Böhmert 1884, 219)

Thus, the Economic Congress immediately started to debate economic policy. It advocated economic liberty and the abolition of guilds at its first meeting and endorsed Schulze-Delitzsch's cooperatives as a solution to the Social Question. The subsequent press coverage was very positive. The *Bremer Handelsblatt* wrote with an enthusiastic tone that “a happy star” had been residing over the first meeting¹⁶⁶ and the *Nationalzeitung* commented: “Rarely has a meeting met with such low expectations [...] and rarely have the successes formed such a happy contrast of expectations.”¹⁶⁷

2.1.1 The Statute of the Congress¹⁶⁸

The two-pages statute regulated the debates and the institutional design of the congress. The entrance to the congress was free for every individual if he paid an entrance fee of three thalers. Attendees were allowed to speak in front of the plenum, to vote and to introduce resolutions. The vote was not secret, voters had to raise their hand or stand up and the simple majority decided. Five secretaries, who wrote the stenographic reports, counted the votes if the result was unclear. Every year, the congress debated in another city that was set by the executive committee, if the congress did not decide on a meeting place. The meeting place was crucial for the decisions of the congress, for when the assembly met in the protectionist South Germany in 1861, it passed a resolution for protective tariffs. The executive committee consisted of nine members, six of which were elected by the congress and three were named by the executive committee. In 1863, the procedure changed and the congress elected nine persons for the executive committee, that coopted an arbitrary number of additional members. In 1858, the congress voted for Lette, Schulze-Delitzsch, Braun, the journalist Pickford, Hopf and the Hanover liberal politician Rudolf von Bennigsen. These six members coopted Georg Varrentrapp, Rewitzer and von Patov.¹⁶⁹ Faucher was a frequent member of the executive committee, which prepared the upcoming congress and set a preliminary agenda.¹⁷⁰

¹⁶⁶ *Bremer Handelsblatt*, October 2nd 1858, no. 364, 333.

¹⁶⁷ *Nationalzeitung*, September 30th 1858, no. 455, morning issue, 1.

¹⁶⁸ The statute is reprinted by Stalman (1926, 107-9) and *Der Arbeitgeber*, October 13th 1858, no. 107, supplement, 1.

¹⁶⁹ *Der Arbeitgeber*, October 20th 1858, no. 108, supplement, 10, 12.

¹⁷⁰ Faucher was a member of the executive committee from 1861 to 1865 and was also voted into the committee after

However, the congress was also able to vote topics on the agenda of the next year. The executive committee was headed by a president. This honorary position was granted to a respected free trader, but its occupant did not possess any significant powers. Until his death in 1868, Adolf Lette was the president of the executive committee. He was followed by Prince-Smith, who died in 1874. The last president was Karl Braun until 1885, the last year of the congress. Since Braun was the president of the Nassau parliament, he became the president of the Economic Congress from 1859 to 1885, whose task was to moderate the debates. Thus, the orthodox free traders occupied key positions at the congress.

The congress did not possess a formal economic program, although its members favored freedom of trade, economic liberty and German unification. It refrained from discussing political issues particularly in its early years. This changed in the early 1860s, when the free traders began to debate the prolongation of the Zollverein treaty. According to the statute, the congress had to diffuse correct economic principles by discussing daily politics, giving a word to every opinion, balancing arguments against each other and reaching a conclusion. The work of the congress was allocated to the commissions and the plenum. The commissions prepared resolutions on a topic, which were then presented to the entire plenum by a referent. Sometimes, several drafts were proposed if the commission did not reach an agreement. The plenum debated the resolutions and each attendee could introduce and defend his own resolution, or request to change the wording of a resolution. This procedure was informally changed in the mid 1860s when commissions were only formed in exceptional cases and referents, who presented their own resolutions, were named by the executive committee in springtime. In Gotha, the free traders founded three commissions on economic liberty, tariffs and cooperatives. Böhmert headed the commission on economic liberty, because he was the author of the book *Freiheit der Arbeit!* (Freedom to Labor!, 1858). Wolff was the chairman of the tariff commission, of which Prince-Smith was a member, and the commission on cooperatives was headed by Schulze-Delitzsch.¹⁷¹

1865. See Biefang (1994, 448-9) for a list of the members of the executive committee between 1858 and 1865.

¹⁷¹ *Der Arbeitgeber*, October 13th 1858, no. 107, supplement, 4.

2.2 The First Years of the Congress (1858-60)

The orthodox free traders were particularly active in the tariff commission, while the orthodox Braun and Hübner were part of the commission on economic liberty.¹⁷² In 1859, the press continued with its positive coverage of the congress. The *Nationalzeitung* reported that the meeting had improved because many well-known public figures attended the meetings. Only German academics and attendees from Southern Germany were missing.¹⁷³ The *Bremer Handelsblatt* wrote that the visitors had belonged to all social classes and believed that the congress stood its second test to create a focal point for German economists.¹⁷⁴ The congress was slowly gaining traction in these first years and when the free traders met in 1861, the number of attendees rose from around one hundred in 1858 to more than three hundred persons.¹⁷⁵

2.2.1 Economic Liberty

The free traders focused on three aspects of economic liberty: the still-existing guilds in most German states in the 1850s, the concession system which had begun to replace guilds, and free movement.¹⁷⁶ Böhmert exerted the greatest influence on the views of the congress on economic liberty. He prepared the 400-pages study *Freedom to Labor!* for the first meeting of 1858 and wrote the articles on guilds and concessions for Rentzsch's *Concise Dictionary* in 1866. He commented in the *Concise Dictionary* that, compared to France and England, Germany was economically backward and needed to free its economy from the guilds. These organizations were justified in the Middle Ages when they provided for tasks undertaken by the state in modern times. Carpenters of the same professions united in a city:

to protect their person, their families and their property, [...] to ruthlessly punish any counterfeiters and deceivers who could bring down the craft of a city, to look after the teaching of the craft, [...] [and] to care for the aged and the sick people from their midst [...]. (Rentzsch 1866, 496)

¹⁷² *Der Arbeitgeber*, October 20th 1858, no. 108, supplement, 12.

¹⁷³ *Nationalzeitung*, September 23rd 1859, no. 443, morning issue, 1.

¹⁷⁴ *Bremer Handelsblatt*, September 17th 1859, no. 414, 334. After the congress of 1860, the *Nationalzeitung* remarked as well that all professions had been present except for the academic teachers of economics; see *Nationalzeitung*, September 20th 1860, no. 441, morning issue, 1.

¹⁷⁵ *Nationalzeitung*, September 11th 1861, no. 433, evening issue, 1.

¹⁷⁶ See especially Grambow (1903, 18-40) and Hentschel (1975, 42-3). The free traders spoke of “Gewerbefreiheit”, translated literally as “free enterprise”. However, their reforms did not just aim at liberalizing entrepreneurship, but also the working conditions of employees.

They demanded the production of a masterpiece and a certain period of apprenticeship and wandering from their fellow carpenters, who wanted to run a business in a city. Guilds had been instrumental in the formation of a middle class and brought about economic progress in the Middle Ages. In the 17th and 18th century, they assumed a monopolistic character when carpenters began to demand state intervention to exclude non-guild competitors. They established long periods of apprenticeship or wandering, what made entering a guild increasingly difficult, and guild members persecuted outsiders; for example, by searching houses and confiscating products. In Böhmert's view, monopolization of the guilds was due to long wars like the Thirty Years' War, which broke the spirit of the craftsmen, and because of an absolutist nobility, that imposed heavy taxes on the middle class: "The entire guild system gradually became the most unbearable obstacle to commercial progress. Not only craftsmen, but also the remaining classes of the population had to suffer" (Rentzsch 1866, 498). In Germany, the guild system was most extensive and existed for the longest time. Prussia was the first state to introduce economic liberty from 1806 on, with Prussian craftsmen having to annually renew a concession to run an enterprise. In 1848, however, French socialist ideas swept over to Germany and craftsmen were for the reestablishment of guilds; Hanover, Prussia and Bavaria partially or entirely eliminated economic liberty in 1848, 1849, and 1853, respectively (Rentzsch 1866, 497-500, Grambow 1903, 19-20). For Böhmert, the great injustice was that guilds continued to exert power over the small man while big capitalists were not subject to the guild system. Guilds existed mainly for the less-skilled professions whereas capital-intensive and industrialized work, which paid higher wages, was usually free (Rentzsch 1866, 502-3). As Böhmert explained at the congress of 1859:

The property of the poor man only consists in the power of his hands, in the capacity of his head, and in the honest will to help himself and his own. In Germany, use and realization of this property is subject to the most fallacious restrictions. Only those, who can prove hundreds and thousands in hard cash, receive admission into German municipalities, receive magisterial permission to marry, obtain concessions for manufacturing and trade and may compete with other people—the rest may dwindle in the small municipality of their homeland or may look for their luck beyond the ocean [...].¹⁷⁷

Given the industrialization in the 1850s, Böhmert and the free traders thought of a business reform to be of paramount importance. In 1858, the commission led by Böhmert worked out a resolution against concessions, against an obligatory period of apprenticeship or wandering, against qualification certificates and in favor of the abolition of guilds. Böhmert said that the proposals of the congress could be "essentially only of a negating nature".¹⁷⁸ The state had to intervene only for

¹⁷⁷ Stenographic Reports of the Economic Congress, 1859, 4.

¹⁷⁸ *Der Arbeitgeber*, October 13th 1858, no. 107, supplement, 6.

reasons of security or health:

Government intervention into business is only seen as justified by the section [the commission] where *the interests of all citizens*, not just craftsmen, require certain provisions of a police [regulatory] nature. This is the case, for example, with the businesses that are associated with the construction of fireplaces, steam engines or waterworks, or that are endangering or threatening to disturb the neighborhood by influences harmful to health, by safety-threatening modes of operation, by unpleasant smells, by unusual noise.¹⁷⁹

A minority of the commission wanted to keep qualification certificates and sampling inspections since incompetent workers may have become a burden to social welfare, a task of municipalities at the time. Böhmert rejected the minority view, because public officials were incapable of controlling the abilities of a craftsman and a reform should not entail exceptions for some professions.¹⁸⁰ Prince-Smith opposed obligatory exams or qualifications too, saying that “he who relies on free craft and not on the test piece and exam, has to pass an exam during his entire life and in front of the whole audience, because it [the audience] passes the harshest judgment.”¹⁸¹ In the end, the congress did not pass the resolution of the commission but a proposal of Braun and Wolff. In contrast to Böhmert, Braun wanted to collect more historical, statistical and legal material about the business legislation of various German states. This would lead to a more in-depth discussion and the congress would have a greater public impact. Braun was also afraid that the agitation of the congress would end if the entire resolution would be passed. The free traders found Braun's arguments convincing, they postponed the debate and only recommended economic liberty in general terms.¹⁸² Hence, for the congress of 1859, Braun, Böhmert and Lammers prepared the report *Gewerbegesetzgebung deutscher Staaten* (Business Legislation of German States).¹⁸³ In this year, the free traders passed a resolution for an immediate introduction of economic liberty without a transition period. A disagreement on free movement arose during the debate. The attendees Schmidt and Horn reasoned that economic liberty could only be introduced if any German citizen was free to move to any place in Germany and work or run his own business. Otherwise, a man was not able to find work elsewhere if he lost his job in his hometown.¹⁸⁴ Thereafter, the Paris writer I. E. Horn defined economic liberty as a condition, where everyone was free to settle down anywhere

¹⁷⁹ *Der Arbeitgeber*, October 13th 1858, no. 107, supplement, 6, emphasis in original.

¹⁸⁰ *Der Arbeitgeber*, October 13th 1858, no. 107, supplement, 6-7.

¹⁸¹ *Der Arbeitgeber*, October 27th 1858, no. 109, supplement, 16.

¹⁸² *Der Arbeitgeber*, October 13th 1858, no. 107, supplement, 7.

¹⁸³ Stenographic Reports of the Economic Congress, 1859, 2.

¹⁸⁴ Stenographic Reports of the Economic Congress, 1859, 23.

to work and open a business.¹⁸⁵ The problem was that, in the 1850s, citizens of the German states were prevented by many restrictions to move from one municipality to another, even inside of the same state. Although the constitution of 1848 had declared free movement inside of Germany, the rule was never implemented. In fact, Prussia remained the only state whose nationals could migrate to any Prussian municipality. The rationale for closed borders was the welfare system. The right to receive social assistance was connected to the local citizenship right. Under free movement, poverty migration to the wealthy cities was feared, whose welfare system would then break down. Therefore, high fees often existed if a citizen entered or left a municipality, examinations of pecuniary circumstances, manorial approval to marriages or even prohibitions for non-residents to settle down. Böhmert was aware of the problem of municipal welfare because he introduced, at the beginning, a resolution that set the issue on the agenda of 1860. Nonetheless, he endorsed economic liberty even if unemployed persons were forbidden to migrate because critics might otherwise use free movement as an excuse to discard any reform:

I must oppose that a definition of economic liberty is given on the side of the congress. For the reason that economic liberty is closely related to free movement, do we want to keep the generally complained restriction of the commercial sector for even more time? I would consider that very alarming.¹⁸⁶

Böhmert did not specify the conditions under which economic liberty was desirable. He and the free traders probably did not delve into free movement in 1859 because a deeper discussion might have created more doubts among the attendees, hindering a positive vote. Moreover, the time for debate was scarce. This strategy was successful and the congress accepted the resolution of the commission. A year later, the congress had set free movement on its agenda and Lette, as the referent, expressed Horn's and Schmidt's point that economic liberty was of little significance without free movement:

However, freedom of trade also has little value if you cannot assure at the same time that somebody may conduct his business in Frankfurt or Nassau or Bavaria etc. [...] The worker, who does not have the right to look for worthwhile work elsewhere, if it can no longer be offered to him in his hometown, will become impoverished and a burden to the municipality, unless he possesses the means for emigration.¹⁸⁷

¹⁸⁵ Stenographic Reports of the Economic Congress, 1859, 25-26. Horn was the Hungarian Jew I. E. Horn, who defended free banking in his treatise *La Liberté des Banques* from 1866. Vera Smith describes his book as “the best exposition of the free-banking case [in France and Belgium]” (Smith 1936, 107). Horn had written for the *Bremer Handelsblatt* in the 1850s and was an editor of the *Journal des Économistes* and the *Journal des Débats*. The latter was edited by the French free trader Michel Chevalier, who also wrote for Faucher's *Quarterly Journal*. Horn visited the congress in 1859, in 1861, when he was identified as “I. E. Horn” in the member list, and in 1862; see Wurzbach (1863).

¹⁸⁶ Stenographic Reports of the Economic Congress, 1859, 26.

¹⁸⁷ Stenographic Reports of the Economic Congress, 1860, 11.

As Lette said, restrictions on free movement existed because states wanted to protect their citizens from foreign competitors and from poverty migration. A state could not be, however, a nation of law if it did not allow its citizens to live where they preferred. He viewed Prussia as the only German state where economic liberty and free movement coexisted to a greater or lesser degree.¹⁸⁸ The principle of reciprocity was a major point of disagreement during the debate. Schützendorff from Cologne and the Bremen lawyer Rösing believed that citizens just had to be free to migrate if neighboring states allowed for free movement as well. Small states would otherwise be overcrowded.¹⁸⁹ Another disagreement was whether free movement signified a reform of the citizenship law, so that a migrant received foreign nationality shortly after settling down. Adolf Soetbeer, a Hamburg economist, warned that such a reform would cause a massive inflow of the poor to the cities. Soetbeer wanted to define free movement as a condition where everyone was allowed to migrate to any other German state and open a business, but was not entitled to social welfare because he did not receive citizenship immediately.¹⁹⁰ Braun recommended to postpone the decision because the commission had discussed both definitions without reaching an agreement.¹⁹¹ Michaelis was against giving an exact definition of free movement. It was a political question whether citizenship had to be granted to a migrant immediately, not the business of the congress.¹⁹² Lette suggested an entrance fee for migrants that they settled down in a municipality, because the local public property was a “common good”. However, Lette as well was reluctant to discuss the issue of citizenship and free movement:

We do not want to deal with the question of whether *the* citizenship right can be acquired in the new place of residence in a longer or shorter time, with the right to social assistance in 1, 3 or 5 years. These are questions which may be left to a special discussion and consideration.¹⁹³

The congress followed Michaelis and Lette and passed the resolution of the commission, which recommended free movement, opposed the principle of reciprocity, and ignored the welfare problem.¹⁹⁴ Lastly, in 1860, the free traders discussed the third aspect of economic liberty: concessions. As Malz said, concessions had been of great help in eliminating the guild system because they freed the rising industry from the guilds' power. The Frankfurt jurist and the congress

¹⁸⁸ Stenographic Reports of the Economic Congress, 1860, 12.

¹⁸⁹ Stenographic Reports of the Economic Congress, 1860, 22.

¹⁹⁰ Stenographic Reports of the Economic Congress, 1860, 24.

¹⁹¹ Stenographic Reports of the Economic Congress, 1860, 25.

¹⁹² Ibid.

¹⁹³ Stenographic Reports of the Economic Congress, 1860, 26, emphasis in original.

¹⁹⁴ Stenographic Reports of the Economic Congress, 1860, 27.

rejected concessions, might they be connected to obligatory examinations, a fee for obtaining them, or an examination by a public authority on whether an additional firm was needed in a sector. Malz even viewed concessions for dangerous industries as unnecessary, such as ammunition factories. The state just had to set security conditions that had to be followed by dangerous industries and, if necessary, enforce them in civil and criminal courts.¹⁹⁵ According to the *Concise Dictionary*, concessions were a commonplace in the 1850s and 1860s while economic liberty was the exception (Rentzsch 1866, 160).¹⁹⁶ However, while small craftsmen were subject to many guild rules and had to compete against a rising industry, big capitalists just had to obtain a concession and were otherwise unregulated. The result was, as Böhmert noted, a perishing artisan class:

The pining away of the artisan class took on increasing proportions [in the 19th century], because from above one aggravated the struggle against capital to labor; and to the poor, one imposed harder conditions of making a living than to the rich. (Rentzsch 1866, 161)

Even more, concessions were often denied to entrepreneurs on arbitrary grounds. Therefore, the free traders agreed in 1860 that concessions had to be abolished altogether. As Böhmert said “The more you mislead the industry, by protection against free competition, to allow itself to be lulled in a certain false sense of security, the greater the evils will turn out in the business sector.”¹⁹⁷ Concessions forced consumers to pay monopoly prices and prevented them from obtaining a product of higher quality on the unhampered market. Böhmert concluded: “The authorities are not in a position to examine and monitor all affairs and to take all necessary precautions for economic life. Let us therefore ensure that the public itself undertakes this examination and supervision.”¹⁹⁸ The congress voted for the elimination of concessions and expressed its disapproval of obligatory examinations. However, the verdict exerted little influence in Germany since many states continued to grant concessions in the 1860s.¹⁹⁹ On the other side, free movement was introduced in the North German Confederation in 1867 and guilds were abolished in the first half of the 1860s. The

¹⁹⁵ Stenographic Reports of the Economic Congress, 1860, 60.

¹⁹⁶ See the article on “Concessionen” (concessions) by Böhmert (Rentzsch 1866, 159-68).

¹⁹⁷ Stenographic Reports of the Economic Congress, 1860, 61.

¹⁹⁸ Stenographic Reports of the Economic Congress, 1860, 62.

¹⁹⁹ In 1866, Böhmert explained in his article on concessions in Rentzsch's *Concise Dictionary*: “The majority of trade laws issued since 1860 based on the principle of freedom of trade [...] still contain a long series of so-called concessionary sectors. These include, inter alia, economic trade, junk dealing, lending, door-to-door selling, knackery, owning theaters, dance schools, gymnastics schools, swimming and bathing establishments, fire insurance and emigration agencies, commission houses, broker business, wage servants, tax clerking, wedding inviter and funeral bitters, furthermore chimney sweeping, the press, owning libraries and reading cabinets, construction sector, farriery, pharmacies, trade with flammable objects, with weapons, with salt and medicines, geodetic measurement, the attorneyship, art of healing, and finally, commercial and public companies of every kind” (Rentzsch 1866, 161). For the business legislation of various German states, see Rentzsch (1866, 161-3).

orthodox free traders intervened little into these debates on economic liberty.

2.2.2 Cooperatives²⁰⁰

Hermann Schulze-Delitzsch wanted to make use of the congress to propagate his cooperative idea. As Schneider writes, the middle class perished due to large-scale production and many craftsmen became factory workers.²⁰¹ The cooperative movement proposed that workers founded associations to buy capital goods and work themselves out of poverty. The free traders initially placed great hopes into the cooperative movement. One of its leaders, Victor Aimé Huber, spoke at the congress of 1858, 1859 and 1860 about cooperatives in England and France. According to the Berlin professor, between his visits in 1854 and 1860, the cooperative in the English city Rochdale had raised the living standard of its members for fifty percent. He viewed these associations as a new social factor that enabled workers to improve their socio-economic situation just by “self-help”.²⁰² In 1858, the congress recommended to found cooperatives—credit unions, production cooperatives and commodity cooperatives—that were not subsidized or regulated by the government. Credit unions gave credit to their members, who opened a business, and paid dividends to the lenders of capital. In production cooperatives, workers produced on joint account for sales or own consumption. This form of cooperative never became prevalent in Germany. In commodity cooperatives, workers of the same profession united to purchase large quantities of materials to benefit from low buying prices. The rationale was to improve one's competitiveness against large-scale manufacturers. As Schulze-Delitzsch said in 1858, thirty to forty commodity cooperatives, eighty credit unions and no production cooperatives operated in Germany. This was little but the numbers would grow over they years. The free traders did not only view cooperatives as a solution to the Social Question, but also pursued “moral ends” by educating workers to thriftiness and self-help.

In 1858, the congress followed Schulze-Delitzsch by recommending cooperatives that were unregulated by the state and based on self-help and joint guarantee.²⁰³ A year later, Schulze-

²⁰⁰ See Grambow (1903, 68-71) and Hentschel (1975, 43-5).

²⁰¹ See his article “Genossenschaften” (cooperatives) (Rentzsch 1866, 363-9).

²⁰² Stenographic Reports of the Economic Congress, 1860, 33-36. Self-help was not understood in a self-made-man sense by Schulze-Delitzsch and the free traders, as propagated by Samuel Smiles in his book *Self Help* (1859). It was rather meant as brotherhood among workers, who cooperated in cooperatives on mutual grounds to work themselves out of poverty (Aldenhoff 1984, 97).

²⁰³ *Der Arbeitgeber*, October 20th 1858, no. 108, supplement, 9-11. For the resolution, see *Der Arbeitgeber*, October 13th 1858, no. 107, supplement, 8. Schulze-Delitzsch was enthusiastically met by the free traders, for they rose from their seats to applaud after his “detailed, highly exciting and inspiring speech”; see *Nationalzeitung*, September 23rd 1858, no. 444, evening issue, 1.

Delitzsch enthusiastically explained that 45 German credit unions lent out two million thalers to their members. The politician viewed this development as a success since a great part of these cooperatives operated for less than two years. In the case of commodity cooperatives, craftsmen were able to save twenty to fifty percent of material costs since they enjoyed a lower price by jointly buying resources.²⁰⁴ The commission headed by Schulze-Delitzsch demanded a legislation for cooperatives, which operated in a legal nirvana suffering from legal insecurity in cases of litigation. For cooperatives that took credit from third parties, the commission recommended joint guarantee. The latter obliged the members of an association to step in and stand surety for its liabilities if one of them failed to pay his debt share. In theory, one worker had to service all debt if the rest failed. Schulze-Delitzsch defended the joint guarantee because it incentivized workers to a careful control of the management. Apart from being a legal obligation in Germany, it increased equity and made it easier to creditors to sue a cooperative. If members of a cooperative were only liable in proportion to their share holdings, creditors had to litigate against every single member. Moreover, since credit unions just gave credit to their members, creditors were debtors at the same time, what increased solvency of a cooperative. Schulze-Delitzsch warned from transforming cooperatives into charity organizations, because charity just had to be given to people, which were incapable to work.²⁰⁵

Hermann Schulze-Delitzsch was the main agitator for cooperatives in the 1850s and 1860s. Born on August 29th 1808 in the Saxon city Delitzsch, he studied law in Halle and Leipzig from 1827 to 1830.²⁰⁶ Until the revolution, he worked as a lawyer at a private law court in Delitzsch and was close to the economic problems of the average men. With a great majority, he was voted into the constitutional assembly in May 1848, where he favored a constitutional monarchy with a suspensive veto power of the crown and the common right to vote. In November 1848, when he protested against the dissolution of the Berlin national assembly by advocating tax boycotts, he was brought in front of court and achieved a verdict of not guilty thanks to his pleading. Afterwards, he could not continue to work as a judge and started to promote cooperatives. These voluntary associations of workers had to be entirely free of state intervention in Schulze-Delitzsch's view and were just based on self-help. He established a death benefit fund, a health insurance and a cooperation for shoemakers and carpenters in Delitzsch in 1849, and a credit union in 1850. During the next years, he promoted the cooperative idea by giving speeches and releasing the work *Associationsbuch für*

²⁰⁴ Stenographic Reports of the Economic Congress, 1859, 5-8.

²⁰⁵ Stenographic Reports of the Economic Congress, 1859, 34-36. For the resolution, see Stenographic Reports of the Economic Congress, 1859, 34.

²⁰⁶ See Aldenhoff-Hübinger (2007) and Aldenhoff (1984).

deutsche Handwerker und Arbeiter (Book of Association for German Craftsmen and Workers, 1853). In 1859, Schulze-Delitzsch founded an umbrella organization for the German cooperatives and was instrumental in founding the congress, the Nationalverein (National association) and the German Progress Party. From 1861, he was a member of parliament for the Progress Party and was on the side of Eugen Richter and Moritz Wiggers in the Prussian constitutional conflict. He was for the full freedom of coalition for the workers and was a staunch supporter of liberalism until the end of his life (Aldenhoff 1984, 236), although he did not support Bismarck's Socialist Laws in the 1870s (Aldenhoff 1984, 234).²⁰⁷ When some free traders became critical of the cooperative idea, he became skeptical of some congress attendees like Braun, Wolff and Bamberger (Thorwart 1913, 329). Schulze-Delitzsch was very popular in his lifetime and his umbrella organization counted more than half a million members in 1880. He died on April 29th 1883 in Potsdam.

At the congress of 1860, Schulze-Delitzsch presented a draft bill that German states should implement. According to this draft, the statute of a cooperative had to be accepted by the municipal administration and enforced by private law courts. The municipal administrations had to check whether the statute complied with the legal conditions that were set by law, but were forbidden to interfere into the business. Cooperatives had to publish their business reports regularly. The equity ratio had to be at least ten percent if a cooperative wanted to operate under the law.²⁰⁸ Lehmann, the director of the trade association in the East Prussian city Glogau, argued for lowering the equity ratio to five percent. Otherwise, new cooperatives would have difficulties to fall under the law.²⁰⁹ Schulze-Delitzsch was against a rate under ten percent because he wanted to incentivize them to high equity ratios. The congress followed him a third time by unanimously accepting his draft bill.²¹⁰ Cooperatives would tremendously grow throughout the following decades. By the end of the 19th century, there were 16,912 cooperatives with over 1.5 million members in Germany (Grambow 1903, 70-1). Thus, Grambow wrote on “the correct and so fruitful basic idea of Schulze-Delitzsch” (Grambow 1903, 71).

²⁰⁷ To the author's knowledge, Schulze-Delitzsch wrote little on economic policy apart from his critique of socialism and his apology of cooperatives. Nevertheless, his conception seems to come close to the minimal state endorsed by the orthodox free traders. Schulze-Delitzsch frequently talked about the “natural laws” of the economy, he endorsed Bastiat in the debate with Lassalle (Thorwart 1913, 329) and he wanted to write a work about “the elements of economic science” in the 1850s in order to prove his doctrinaire convictions to the free traders. However, he did not carry out his plan (Thorwart 1913, 96).

²⁰⁸ Stenographic Reports of the Economic Congress, 1860, 28-30.

²⁰⁹ Stenographic Reports of the Economic Congress, 1860, 31.

²¹⁰ Stenographic Reports of the Economic Congress, 1860, 32-33.

2.2.3 Tariffs

Duties were the most-debated topic at the congress. Only in 1868, 1869, 1873 and 1874, the free traders did not discuss trade policy and tariffs. Nonetheless, in 1858, Wolff had to introduce a resolution for founding a third commission on tariffs, since the topic was seen of minor importance compared to economic liberty and cooperatives. This was due to the fact that the Zollverein treaty was renewed every twelve years, the last time in 1853, while little progress occurred in the meantime. Prince-Smith, Michaelis and Wolff exerted a strong influence on the congress's decisions on trade policy. The commission on tariffs headed by Wolff issued a resolution for a reform of the duties system of the Zollverein. The tariffs that were financially irrelevant or those protective tariffs that were generally considered as harmful by the public had to be abolished. Tariff revenues had to remain constant after the reform.²¹¹ This proposal did certainly not reflect the true trade-political preferences of this group, but Prince-Smith and his friends did not want to create controversy at the first meeting. Prince-Smith made it clear that he was in favor of “unconditional free trade”²¹² and that Wolff’s resolution was just a compromise. Because time ran out, the congress of 1858 postponed the topic to the next year. However, as the *Nationalzeitung* noted, protective tariffs had achieved “only little support”.²¹³ Michaelis, Wolff and Prince-Smith became part of a commission that worked out a study on trade policy for the next meeting.²¹⁴ In 1859, after a speech of Wolff and a short discussion, the congress decided to recommend the abolition of all river and transit duties.²¹⁵ The orthodox free traders still asked only for the elimination of tariffs that were irrelevant to the state budget. As Michaelis explained, if these tariffs were abolished, the economy would prosper and tariff revenues would increase, what would allow to eliminate some protective tariffs. Staples and important resources for industry and agriculture had to be freed from duties as well. Michaelis criticized the development of the Zollverein, whose tariff system had been based on the liberal Prussian system from 1818. Tariffs had steadily increased in the 1830s and 1840s:

All the Zollverein reforms only consist of major restrictions on trade and greater artificial influence on production. [...] The 1818 tariff stood in the forefront of trade political progress among the European peoples. By a standstill, or regress of 40 years, the Zollverein tariff came in the rear; England, France and Russia made more or less greater progress [...] only the Zollverein stopped, that is, declined.²¹⁶

²¹¹ *Der Arbeitgeber*, October 13th 1858, no. 107, supplement, 8.

²¹² *Der Arbeitgeber*, October 27th 1858, no. 109, supplement, 13.

²¹³ *Nationalzeitung*, September 30th 1858, no. 455, morning issue, 1.

²¹⁴ *Der Arbeitgeber*, October 27th 1858, no. 109, supplement, 13.

²¹⁵ Stenographic Reports of the Economic Congress, 1859, 39.

²¹⁶ Stenographic Reports of the Economic Congress, 1859, 11.

The congress followed Prince-Smith, Michaelis and Wolff and recommended to eliminate tariffs on the important resources for agriculture and industry, and duties on staples.²¹⁷ In 1860, Michaelis was the referent when the congress debated iron tariffs. He showed with statistics that the iron industry grew tremendously since 1844. In that year, the Zollverein had introduced a tariff on crude iron of 10 thalers and increased duties on processed iron (Hahn 1984, 118). Michaelis advocated to abolish taxes on mining and the iron tariff changes from 1844.²¹⁸ The representative of the iron industry Tögel admitted that iron tariffs could not exist forever. However, England enjoyed a competitive advantage because its iron could be exploited more economically due to its advanced infrastructure and the composition of its iron and coal seams. In Germany, the infrastructure was underdeveloped and the tax level was high.²¹⁹ Faucher agreed that taxation on mining was high in Germany. In England, iron producers had to buy mining rights from landowners and bargaining usually led to a satisfying price for both sides. Moreover, transportation costs would be lower in Germany if governments would not deny concessions to new railway lines with the justification that those competed against existing lines. Faucher said jokingly:

One should not refuse any concession for railroads on the basis of the so-called need-question, and then let the railway companies determine their rates by themselves. Competition will then do the rest of the necessary work. But if two monopolies, such as the state and the state-protected and favored railways, fix prices, then the smelter and mine owners may be glad that they do not have to pay higher rates. [...] it seems to me that the state and the railroads on one side bear the same relations to the iron producers on the other side, as the monkey to the cat. A monkey holds the poor cat, our iron producers, from behind, lets it pick the chestnuts out of the smelting furnace with its paw and then he himself eats them up.²²⁰

In a second intervention, Tögel proclaimed that he was in favor of trade freedom, but the transition had to be slow. England started to eliminate its tariffs in the 1820s when its industry was fully developed, after duties had been in place for 100 years. Max Wirth countered that iron tariffs had existed in England for a long time because the public had held mistaken economic views, not because of their effectiveness.²²¹ Michaelis opposed the notion of establishing time horizons for the elimination of iron tariffs. Protectionists employed the same tactic in Frankfurt twelve years ago: “If one declares itself in principle for the repeal of tariff protection, but sets up each time simultaneously an extended period, the whole explanation has no value then.”²²² The German

²¹⁷ Stenographic Reports of the Economic Congress, 1859, 42.

²¹⁸ Stenographic Reports of the Economic Congress, 1860, 51-52.

²¹⁹ Stenographic Reports of the Economic Congress, 1860, 52.

²²⁰ Stenographic Reports of the Economic Congress, 1860, 53.

²²¹ Stenographic Reports of the Economic Congress, 1860, 54-55.

²²² Stenographic Reports of the Economic Congress, 1860, 57.

infrastructure was underdeveloped because tariffs misallocated capital to protected industries. Michaelis went as far as to admit that eliminating iron tariffs would cause unemployment; however, many workers were already unemployed due to the expensive iron that impeded on industrial development. Michaelis's admission and the fact that a representative of the iron industry declared himself a free trader illustrates the "leading position" (Winkel 1977, 40) of the free traders in regard to public opinion in the 1860s. Hence, the majority of the congress's attendees was on Faucher's and Michaelis's side and passed a resolution that recommended to abolish the tariff on crude iron. Duties on processed iron had to be lowered to pre-1844 levels and iron tariffs should only be financial tariffs, if the state needed to finance its budget.²²³

2.2.4 Dissemination of the Teachings of Economic Science

Another topic of the congress of 1859 was how to spread economic liberalism among the German people. The resolution asked for more teachers and professors of economics at universities or higher institutions of learning, more economic literature in libraries, economics as a school subject, more newspaper articles and more public speeches in private associations.²²⁴ Lette motivated the proposal by pointing at the Prussian liberal tradition and the Stein-Hardenberg reforms. Those were prepared by the University of Königsberg and Immanuel Kant that spread liberal ideas among the Prussian intelligentsia.²²⁵ Unfortunately, Prussian statesmen forgot these liberal teachings. Lette was, as the rest of the congress, against the prevailing curriculum that obligated law students to visit a high number of pre-determined lectures and left little time for economic studies. The students had to enjoy more liberty to choose courses and just had to pass one exam, which checked for the most relevant knowledge of the field. Law students should be obligated to visit economics classes. Otherwise, they would lose touch to economic reality and apply legal rules to daily economic life too strictly. As Lette said: "[...] nobody can be a capable judge, who does not have a certain insight into the economic conditions of the people's life at the same time."²²⁶ Eugen Richter, who was a young student at that time, told about his experiences about economics lectures at various universities. He reported a shortage of economics chairs and a resulting lack of economics lectures.²²⁷ In the debate, a disagreement arose between Hartwig Hertz

²²³ Stenographic Reports of the Economic Congress, 1860, 58.

²²⁴ Stenographic Reports of the Economic Congress, 1859, 13.

²²⁵ Stenographic Reports of the Economic Congress, 1859, 13-14.

²²⁶ Stenographic Reports of the Economic Congress, 1859, 15.

²²⁷ See Raico (1990) and chapter three of Raico (1999) for more information on Richter, who was a major representative of German liberalism and the main enemy of Bismarck in the German parliament. According to Raico, Richter

on the one side, and Wirth and Lette on the other. Hertz, a Hamburg journalist, wanted to debate the content that should be taught in economics classes at universities. University economics was “a state science though and through”²²⁸ and was distinct to the popular doctrine of the free trade movement:

[Regular] Science has the task, in connection with statistics, to make clear the economic side of large state issues to statesmen—such as taxes, questions about the military and so forth. I completely consider teaching such a science at university as justified; but what is called popular economics, the general dissemination which is supposed to provide us with healthy economic conditions, that is [...] something entirely different.²²⁹

Popular economics included the work of classical economists like Adam Smith, Jean-Baptiste Say or the French liberal Charles Dynoyer. The working class would improve its social situation only if it learned about the teachings of the popular doctrine. Even small children in elementary school had to receive economics classes:

The state cannot or must not improve the situation of the worker and the propertyless. He himself [the worker] must learn to economize so that he himself can say: I do not want to remain a proletarian, I want to work myself out of the dirt and no longer belong to the dishonor of Germany. And gentlemen, you do not want to bring this science to elementary school! This is a science that every person should learn.²³⁰

Judging from his interventions, Hertz must be included into the list of orthodox free traders. However, he just visited the congress of 1859 and 1867, when the meeting took place in his hometown Hamburg. Hertz was born into the Jewish banking family Hertz, whose roots can be traced back to the 16th century, and which came from the Northern German city Hildesheim close to Hanover. The family split into a Viennese and a Hamburg line in the 18th century. Hartwig Samson Hertz was born in Hamburg on July 16th 1809.²³¹ A businessman, politician and journalist, he wrote the short textbook *Die Lehre von Arbeit und Kapital: Ein Leitfaden zum Unterricht* (The Doctrine of Labor and Capital: A Teaching Manual, 1853), *Einleitung in die Geschichte der*

distanced himself from the night watchman state and did not defend such an anti-political liberalism like the orthodox group or Bastiat. He seemed to support municipal provision of gardens, schools and gyms by taxation (Raico 1999, 113-4). As Raico writes: “Unlike the [German] free-trade school and the French *industrialists*, he did not expect to be able to get beyond politics in the sense that one day the network of exchange absorbs almost everything that exists in society. Far into the distant future, politics would continue to shape the life of the nation” (Raico 1999, 113; emphasis in original). Richter spoke a second time at the congress of 1865, when he presented a resolution on unconcessioned and unregulated insurances that was accepted unanimously; see Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 228-237.

²²⁸ Stenographic Reports of the Economic Congress, 1859, 17.

²²⁹ Ibid.

²³⁰ Ibid.

²³¹ See Hertz (1969) and Heyden (1909, 47-9).

Volkswirtschaft (Introduction into the History of Economic Science, 1867) and other writings on economic history, banking and Hamburg politics. He also provided Johann Georg Büsch's *Geschichtliche Beurtheilung der großen Handelsverwirrung im Jahre 1799* (Historical Assessment of the Trade Crisis of the Year 1799, 1858) with annotations about the crisis of 1857. He was a member of the constitutional assembly of the Hamburg state and a journalist for the newspaper *Reform* from 1856 to 1870. In his book *Die Deutschen Zettelbanken* (The German Banks of Issue, 1856), he favored a system of private banks of issue and came close to promoting 100-percent reserve deposit banking. Hertz died in Hamburg on February 5th 1877.

In 1859, Wirth answered Hertz that small children between eight and twelve years were not ready to study capital or value theory. Lette said that the commission agreed with Hertz on ideological questions but considered it too time-consuming to define which the science that had to be taught at universities.²³² I. E. Horn opened another debate by criticizing the trust in government of some free traders. The Paris journalist reasoned that German politicians might think of economics as a communist science and refrain from implementing the congress's resolutions. However, Wirth could confidently explain that Horn's fear was unjustified because since 1848 and 1849 “the right principles of economics were given their total break, and in particular they have been widely disseminated by the press, whose efforts deserve great recognition.”²³³ Moritz Wiggers displayed a far more critical attitude towards government. A few years before, the German states had been very much opposed to economic reforms, the Mecklenburg politician explained, and the liberals could not be certain that the same would not repeat itself. Government was not a benevolent institution:

[I do not believe] that governments lack the correct knowledge [of economics], for we must not tax them so low that we believe that they have not dealt with science. I believe, on the contrary, that they oppose the same consciously, because logical implementation of economics abolishes state patronization.²³⁴

A look at his biography sheds light on Wigger's critical attitude. Moritz Wiggers was born in Rostock on October 17th 1816 as a son of the professor of theology Gustav Friedrich Wiggers.²³⁵ He studied jurisprudence in Göttingen, Heidelberg and Rostock and became a lawyer in his native town in 1843. During the revolution of 1848, Wiggers was the leader of the democratic party, the first president of the national assembly of Mecklenburg, and president of the second chamber.

²³² Stenographic Reports of the Economic Congress, 1859, 13.

²³³ Stenographic Reports of the Economic Congress, 1859, 19.

²³⁴ Ibid.

²³⁵ See Klenz (1897) and *Hirth's Parlaments-Almanach III*, April 3rd 1867, issue 3, Berlin.

Wiggers went in opposition after Spring 1850 when the ruling aristocracy dissolved the second chamber of the parliament. He reconvened the assembly but the meeting was prevented by force and Wiggers was deported to the next police station. He and his brother Julius Wiggers were imprisoned from May 1st 1853 to October 24th 1857 on the charge of treason. In prison, he had to copy pietistic sermons. According to the paper *Rostocker Zeitung* (Newspaper of Rostock), a basic feature of Wigger's character was “the uncompromising faithfulness to his convictions” (quoted in Klenz 1897). As Klenz observes: “Out of conviction he stood and remained on the liberal side; he was convinced that a democratic constitution was also the best for his narrower fatherland” (Klenz 1897). After prison, he began to work as a publicist because he was unable to labor as a lawyer due to his conviction. Wiggers was a founding member of the Nationalverein and stood, as a member of the German progress party after 1867, on the side of Eugen Richter and Schulze-Delitzsch in the Prussian constitutional conflict. He entered the parliament of the North German Confederation in 1867 and sat in the Reichstag from 1871 to 1881. He was a regular visitor of the congress and frequently spoke about the social situation of his fatherland Mecklenburg. As he explained in 1859, Mecklenburg was a very feudal state where a small aristocracy owned most real estate, while farmers lived in very poor conditions. Many inhabitants emigrated to North America.²³⁶ The free traders used to view Mecklenburg as the economically and politically most backward of the German states. Wiggers died in Rostock on July 30th 1894. Under his portrait, he wrote the saying: “The will of the people is the highest law in the state” (Klenz 1897). The congress passed the resolution of the commission, Soetbeer's resolution for more economic questions in writing contests and recommended to establish a fifth faculty for economics at universities.

2.2.5 Usury Laws

The congress only debated usury in 1859.²³⁷ Although Karl Braun wrote a dissertation with the title *Die Zins-Wucher-Gesetze* (Usury Laws, 1856), he or his co-author Max Wirth did not intervene into the debate. However, the referent Goldschmidt referred to Braun and Wirth as “important authorities on this field”.²³⁸ Karl Braun was the third major orthodox free trader, besides Faucher and Prince-Smith. He was born on May 20th 1822 in Hadanar in the Duchy of Nassau.²³⁹ This was

²³⁶ Stenographic Reports of the Economic Congress, 1859, 28-30.

²³⁷ See Braun and Wirth (1856), Grambow (1903, 248-55), the article “Wucher” (usury) by Arved Emminghaus (Rentzsch 1866, 1054-7) and Stenographic Reports of the Economic Congress, 1859, 9, 42-45.

²³⁸ Stenographic Reports of the Economic Congress, 1859, 43.

²³⁹ For the years until 1857, see Dernburg (1910), Eckstein (1893), Geisthardt (1955), Grandpierre (1923, 4-43), Seelig (1980, 1-53) and Toelle (1914).

a small state close to Frankfurt that existed from 1806 to 1866. He studied philology and jurisprudence in Marburg and Göttingen from 1840 to 1843 and worked as a lawyer for the Nassau state afterwards. From March 1849, when he entered the second chamber of the Nassau parliament, he became a staunch of the Nassau government. Braun's doctoral thesis was submitted in Gießen in 1854 and was his “first open and unreserved commitment to the principle of free trade” (Grandpierre 1923, 38). In the work, Wirth and Braun defended methodological individualism (Braun and Wirth 1856, 81-2); the doctrine of harmony by echoing Bastiat, whom they approvingly cited (Braun and Wirth 1856, 80); and rejected all usury laws. The state could not increase or decrease the rate of interest by usury laws. It merely influenced the rate of interest indirectly by affecting economic conditions such as legal certainty or economic liberty. Less capital was lent out due to usury laws because capitalists were not sufficiently reimbursed for the risk taken by granting a loan. They could only circumvent these laws by demanding more collateral, by violating usury laws or by lending to foreign countries. However, all of these modes of action raised the interest rate and led to a decline of national wealth. If capitalists violated usury laws, they had to lend money from criminals, which charged very high interest (Braun and Wirth 1856, 86-8).

Goldschmidt followed Braun's and Wirth's analysis at the congress of 1859. The lecturer from Heidelberg advocated for an abolition of usury laws. In most parts of Germany except for Prussia, Austria and some Western states with French law, interest was ceiled at five percent for the public and six percent for businessmen.²⁴⁰ It was forbidden to take interest on interest and to ask for an interest payment that exceeded the sum of the initially granted loan. Violations of these laws were punished with money fines or prison. In daily commerce, as Goldschmidt said, usury laws were mostly ignored by businessmen and large retailers, while small businesses or craftsmen were not able to circumvent these laws. The Berlin city councilor Wönninger reasoned that a reform of the usury laws had to go hand in hand with a reform of real estate credit.²⁴¹ Landowners could not pay interest rates as high as businessmen, and capital was misdirected to trade instead of agriculture and real estate. The reason was that land was subject to a series of regulations; for example, in regard to estimations of value in case of mortgage-granting. Those made it more expensive and time-consuming for real estate to obtain a loan. The congress followed Goldschmidt and recommended the abolition of usury laws.²⁴²

While the orthodox free traders did not raise their word, Faucher and Michaelis were instrumental in the elimination of usury in Prussia when the House of Representatives debated the

²⁴⁰ Stenographic Reports of the Economic Congress, 1859, 9.

²⁴¹ Stenographic Reports of the Economic Congress, 1859, 44-45.

²⁴² Stenographic Reports of the Economic Congress, 1859, 45.

issue. On March 1st 1862, Michaelis advocated an immediate abolition of any usury regulation, since these laws were already not strictly enforced. Although interest rates fluctuated at the low level of 2.5 to 3.5 percent, there was a shortage of real estate credit due to usury laws, in particular of mortgages.²⁴³ Similar as Wönninger three years before at the congress, he pointed out that businessmen easier received credit because they were able to pay or lend at higher interest rates than six percent. This was an unjust advantage to farmers and carpenters because capital flowed to those sectors “where it finds the fewest obstacles, the least difficulties and the least uncertainty.”²⁴⁴ Faucher similarly opposed any usury law and believed the discussion stemmed from a false understanding of what money was. Approvingly citing Bastiat's article *What is Money?*, Faucher pointed out that debtors were in an inferior position of power to debtors:

[B]etween the creditor and the debtor, for example, in the case of mortgage credit, there is nothing more than a divided possession of the same capital, divided in such a way that the one draws a fixed income from his share, while the other draws from his own a greater income, but one that is under greater risk at the same time.²⁴⁵

Mortgages, for example, evolved from a split inheritance in many cases, where the old brother received real estate and the young sibling was paid out. It made no sense that a mortgage paid six percent interest to the young sibling while the old brother made a return of twelve percent on his land. Usury laws misdirected capital goods to stock markets instead of the housing sector and brought about non-sustainable stock dealings. High interest rates fostered the thriftiness of a nation and caused the capital stock to grow at a faster rate. Without usury laws, individuals were more keen to invest their savings because they needed less time to accumulate funds for a business formation.²⁴⁶ Hermann Schulze-Delitzsch rejected usury laws as well, explaining: “Any measure, any intervention of legislation into the natural law of the economy only causes that capital is led into false, artificial channels [lines of production] [...]”²⁴⁷ In a second intervention, he formulated the doctrine of harmony:

Under free competition, in a permissible peaceful contest, all special interests balance each other out for the welfare of the general public and the issue adjusts itself as it can possibly adjust itself anyways and as it has to adjust itself according to the conditions of the money market. To regulate capital means to drive

²⁴³ Stenographic Reports of the House of Representatives, March 1st 1862, 14th session, 228-230.

²⁴⁴ Stenographic Reports of the House of Representatives, March 1st 1862, 14th session, 229.

²⁴⁵ Stenographic Reports of the House of Representatives, March 1st 1862, 14th session, 231.

²⁴⁶ Stenographic Reports of the House of Representatives, March 1st 1862, 14th session, 232-3.

²⁴⁷ Stenographic Reports of the House of Representatives, March 1st 1862, 14th session, 235.

capital out [...].²⁴⁸

Thus, Faucher, Michaelis and Schulze-Delitzsch were important in eliminating usury laws in Prussia and they defended doctrinaire free market views in the debates in parliament.

²⁴⁸ Stenographic Reports of the House of Representatives, March 1st 1862, 14th session, 243.

2.3 The Debate with Ferdinand Lassalle

From 1862, the free traders established education clubs to spread liberal ideas among the people. Above all, Max Wirth, Leopold Sonnemann, Schulze-Delitzsch, and members of the executive committee were instrumental in setting up these associations. The free traders also promoted a German nation state and joined their efforts with the Nationalverein that provided, for example, travel funds to Faucher. Heinrich Beta described Faucher as an “apostle for free trade” (Beta 1863), because Faucher returned from England to give many public speeches. After the congress of 1860, he took a year of vacation at the *Morning Star* to travel with his family throughout Germany.²⁴⁹ He spoke in Frankfurt am Main at the instance of the local economic society and in various South German cities from February 1861.²⁵⁰ His Frankfurt talks must have enjoyed great success since the *Wiener Zeitung* (Viennese newspaper) reported on a “truly tremendous crush”²⁵¹ on March 27th. The *Bremer Handelsblatt* wrote that Faucher had given 60 to 70 speeches in South Germany in the second half of 1861, whose revenues had covered the travel costs of himself and his family.²⁵² In January 1862, Faucher finished his speaking activity in South Germany when he was voted into the Prussian House of Representatives thanks to the support of Schulze-Delitzsch, who had recommended him to the voters of his hometown Delitzsch.²⁵³ He went to North Germany from May 1862—for instance, Hamburg and Lübeck—before he traveled to Silesia in autumn 1862 and to Saxony in early 1863 (Beta 1863, 269-70). In these talks, Faucher attacked Lassalle and the socialist movement, with Wirth, Schulze-Delitzsch and Sonnemann.²⁵⁴ All contemporaries agreed that Faucher gave brilliant speeches: “[H]e *speaks* so much better and more effectively than he writes [...] he can boldly compare himself to a Vincke and a Metz in terms of the fluidity and the poignant power of the words.”²⁵⁵ Beta described Faucher's rhetorical style as follows:

On the other hand, there is nothing more comprehensible and more captivating than his living word. He

²⁴⁹ *Bremer Handelsblatt*, June 1st 1861, no. 503, 192.

²⁵⁰ *Wiener Zeitung*, February 13th 1861, no. 36, Abendblatt, 143.

²⁵¹ *Wiener Zeitung*, March 27th 1861, no. 71, Abendblatt, 283. See also the *Frankfurter Zeitung* in January 1862 (*Frankfurter Zeitung* 1906, 92) and Beta (1863, 269-70).

²⁵² *Bremer Handelsblatt*, August 17th 1861, no. 514, 282. The Economic Society of South West Germany reported at its general meeting on May 3rd and 4th 1862 that Faucher had given 120 speeches in thirty cities in South West Germany; see *Bremer Handelsblatt*, May 10th 1862, no. 552, 156.

²⁵³ *Bremer Handelsblatt*, January 25th 1862, no. 537, 30.

²⁵⁴ For example, on March 31st 1863, Faucher talked in Leipzig due to the 30th anniversary of the Zollverein, together with Wirth and Hermann Maron, criticizing the break of some workers with the Nationalverein and the free traders; see *Bayerische Zeitung*, April 4th 1863, morning issue, 328.

²⁵⁵ *Bremer Handelsblatt*, June 1st 1861, no. 503, 192, emphasis in original. The portrait of Faucher also attested him an “assertive self-confidence”.

begins quite unceremoniously and without a phrase, very lightly and playfully with some everyday thing that everybody knows and that is staring in everyone's face. With a sentence, a flash of lightning, he shows a generally valid, economic truth quite palpably, and everyone is surprised that he never saw it before. Now everyone sees it, now he grabs it and is quite happy about it and listens with the most eager attention as the speaker, as the bold compact nimble speaker, playing without any rhetoricalness, with a thin somewhat hoarse, not even well-sounding voice, proves all rhetorical pomp wrong and verifies with very common, little everyday situations laws and truths, which relentlessly assert themselves all over the earth and punish everyone that violates them, and give pleasure to those that let them prevail free. Nobody comes after him in this very peculiar specialty [...]. (Beta 1863, 268)

Faucher spoke in Southern Germany due to an invitation of the Economic Society for Southwest Germany. By establishing these associations, the free traders and the Nationalverein aimed to strengthen the relation between the workers and the middle class. As Schulze-Delitzsch explained in front of Berlin workers on March 15th 1863:

Your interest, the interest of the workers, is the interest of the entire society, and in Germany almost more than elsewhere, because the preservation and strengthening of a capable middle and working class, in which we have always seen a main factor of the civilization and culture of our people, almost appears as a national task. (Schulze-Delitzsch 1863, 99-100)

A year after Faucher and his friends began with their agitation, Ferdinand Lassalle went against the activities of the free traders and the Nationalverein from 1862 on. The cause of Lassalle's interference was a journey that Max Wirth made to the 1862 International Exhibition in London. On April 20th 1862, the executive committee of the Nationalverein decided to send Wirth and twelve German workers to the exposition. Wirth and Sonnemann privately raised additional funds to travel with altogether fifty workers to London. The group was impressed by the exhibition and the contact with the English workers' movement. It decided to set up an umbrella organization for the German workers' associations. However, when the painter Eichler wanted to found a workers' congress and asked the Nationalverein for financial support, Schulze-Delitzsch and Rudolf von Bennigsen declined because "it is in the own interest of the workers to raise the money necessary for their meetings by themselves" (Oncken 1912, 123). Eichler was upset and tried to separate the workers from the Nationalverein and the free trade movement at a Berlin workers' meeting on November 2nd 1862. However, Schulze-Delitzsch was able to prevent a splitup with a rousing speech. Nonetheless, the workers' congress was prepared from Leipzig and a group inside of the executive committee, that rejected the liberal economic policy of the free traders, asked Ferdinand Lassalle to write them a program. This was the advent of a separation among the workers into a socialist and a liberal faction.

2.3.1 Wirth and Schulze-Delitzsch versus Lassalle

On March 1st 1863, Ferdinand Lassalle (1863b) published an open letter in which he defended the iron law of wages, productive cooperatives financed by state credit, and the common right to vote.²⁵⁶ The workers from Leipzig, who initially wanted to establish a German congress for workers, adopted Lassalle's program on March 24th and decided to found an "Allgemeiner Deutscher Arbeiterverein" (General German Workers' Association). It was set up as a political party and followed the program outlined by Lassalle's open letter. After the Leipzig workers dissociated themselves from the free trade movement, the workers' association of Düsseldorf followed them on April 11th. Cologne and Solingen also sided with Lassalle, while Chemnitz, Nürnberg and Berlin supported the free traders (Hentschel 1975, 98-100). In the open letter, Lassalle denounced the cooperative system of Schulze-Delitzsch as incapable of solving the pressing social situation of workers. The cooperatives just aimed at supporting the workers that ran their own business and ignored industrial workers. Although the industrial workers constituted a small minority of the workforce, in the future the problem would become more acute due to the ongoing industrialization. In Lassalle's view, the main problem was the oppression of workers in their function as producers. He advanced the iron law of wages in this context by explaining "*that the average wage is always reduced to the necessary level of subsistence, which is customarily required in a people for the maintenance of life and reproduction*" (Lassalle 1863b, 15; emphasis in original). The result was: "So much is *deducted from the revenue of labor* (production) and *distributed among the workers*, as is necessary for their *maintenance of life* (wages). The *whole surplus of production*—the revenue of labor—amounts to *the share of the entrepreneur*" (Lassalle 1863b, 17; emphasis in original). The solution to "this iron and cruel law" (Lassalle 1863b, 17) was "*to make the working class its own entrepreneur*" (Lassalle 1863b, 22; emphasis in original). Lassalle proposed productive associations that were run by the workers and owned capital provided by the state, since he thought that the workers were not able to raise these funds by themselves. To achieve such associations, he advised the workers to demand the common right to vote in order to influence the legislation.

On April 20th, the free traders reacted by attending the conference of the workers' association in Rödelsheim. Max Wirth introduced a resolution that demanded the expulsion of the association of Leipzig. According to him, Lassalle only advocated the common right to vote in order to pursue state-help and to talk the workers out of self-help. This was "an attempt that would probably lead to the failure of the current aspirations of workers" (Eyck 1904, 19). The assembly rejected Wirth's resolution but set a debate between Lassalle and Schulze-Delitzsch for the next meeting in

²⁵⁶ See Hentschel (1975, 100-10) and Aldenhoff (1984, 170-189) for the debate between Wirth, Schulze-Delitzsch and Lassalle.

Frankfurt. Four weeks later, Schulze-Delitzsch did not come to the showdown in Frankfurt because of parliamentary obligations. Lassalle spoke in front of over thousand delegates of the German workers' associations for more than four and a half hours on May 17th. Although he asked his opponents to answer him, he talked so long that no time remained for Wirth or others to respond. On May 19th, Lassalle continued his speech and the free traders did not show up in protest. Although some workers left the hall with cheers for Schulze-Delitzsch, four hundred of them stayed and decided to found a General German Workers' Association in Leipzig on May 23rd (Hentschel 1975, 103-4). This was the peak of the conflict between Lassalle and the free traders. A few days later, the General German Workers' Association was founded in Leipzig and Lassalle was voted its first president. This association was a forerunner of the still-existing German social-democratic party. However, in Summer 1863, it was a “splinter group” (Aldenhoff 1984, 178) in the workers' movement with no more than 1,000 members. At the same day when Lassalle won in Frankfurt, the free traders announced a counter-event, a workers' day in Frankfurt on June 7th 1863. This assembly was visited by 110 delegates from 54 workers' associations and received little attention from the public. Similar as the congress, it recommended cooperatives, economic liberty and free movement. The free traders seemed to be little impressed by Lassalle's activities. The *Quarterly Journal* never discussed any of his writings in the review section, although he published the harsh pamphlet *Herr Bastiat-Schulze von Delitzsch, der ökonomische Julian oder Capital und Arbeit* (Mr. Bastiat-Schulze von Delitzsch, the economic Julian or Capital and Labor) against Schulze-Delitzsch in 1864.²⁵⁷ As Aldenhoff (1984, 178-9) tells, most workers were critical of Lassalle's demand for state-help, but welcomed his support for the common right to vote. Nevertheless, they rather accepted Schulze-Delitzsch, a man of the people with a heart for the worker, instead of Lassalle with his self-aggrandizing appearance. Therefore, Faucher, Wirth and other free traders believed “to be able to transfer the program of the Economics Congress almost unchanged to the workers' association days” (Hentschel 1975, 110). The debate did not continue after this furious start because Lassalle died on August 31st 1864 due to a lost pistol duel. The final say would have Prince-Smith, who postulated a golden law of wages against the iron law of Lassalle.

2.3.2 Prince-Smith's Reply *The So-Called Worker Question*

His answer was one of his best and most famous articles. It was published in the *Quarterly Journal* and titled *Die sogenannte Arbeiterfrage* (The So-Called Worker Question, 1864). It was the

²⁵⁷ The *Allgemeine deutsche Arbeiter-Zeitung* noted in astonishment that neither Faucher, nor Schulze-Delitzsch or Michaelis had responded to the harsh pamphlet of Lassalle; see *Allgemeine deutsche Arbeiter-Zeitung*, January 14th 1866, no. 159, 895.

ultimate answer to Lassalle of the free trade movement and displayed the views of the orthodox group. In later years, the work was the target of many attacks against the free traders. Critics claimed, for example, that “late defenders of the doctrine of harmony and the representatives of Manchesterism, above all *John Prince Smith* ('The so-called worker question', 1864) simply denied the existence of a social question” (Kruse 1959, 167).²⁵⁸ However, Prince-Smith never denied the miserable social situation of the workers, but just intended to correct a popular misunderstanding in his article. The Social Question was usually formulated in a misleading way: “The 'labor question' is understood as the question: 'How can the economic situation of the wage-workers suddenly be improved, independently of the general improvement of the national economy, which one does not want to wait for?’” (Prince-Smith 1877, 29). Such a question could not be answered affirmatively, since the economic cure for a lack of consumers' goods could only be “increased work” (Prince-Smith 1877, 27). But since the process of production and capital growth proceeded slowly, the working class preferred to listen to Utopians, who promised immediate and easy solutions to the social problems, instead of listening to economists. Even worse, economic knowledge was hardly prevalent among the public because economics was a young science (Prince-Smith 1877, 27-8). There was no easy way-out to the social problems at hand. As Prince-Smith wrote, the average wage was determined by the wage-earner funds divided by the number of workers. The wages could just be increased by lowering the number of workers or increasing the wage-earner funds. Against Lassalle's iron law—the wages were only as high as to secure a minimum level of subsistence—Prince-Smith advanced a golden law. Over time, the workers got accustomed to a higher standard of living and chose to work more or have fewer kids to maintain their living standard (Prince-Smith 1877, 31). Hence, according to the golden law, due to technological and economic progress, capital growth took place at a faster pace than population growth and the result were higher wages in the long run (Prince-Smith 1877, 32-3). Prince-Smith backed the golden law with experience:

If one compares the present and former prices of clothing and many other devices, one realizes that many things contributing to the comfort of life, which the immediate-minded formerly had to forego, have now become attainable to the working class. (Prince-Smith 1877, 34)

The working class could not be seen as one homogeneous and suffering group (Prince-Smith 1877, 34). The workers in capitalist firms could live off their wages because their labor was more

²⁵⁸ This misreading of Prince-Smith's short article is wide-spread and may be due to its title. Günter Trautmann writes that Prince-Smith viewed the “so-called worker question” as “an economic pseudo-problem” and attributes a “principal denial of socio-political problems” to Michaelis, Eras, and the orthodox free traders Faucher and Prince-Smith (quoted in Dittert 1998, 12). Mathes believes that Prince-Smith considered the pressing social situation of workers as “a natural phenomenon” (quoted in Dittert 1998, 12). Werner Sombart simply comments in his book *Socialism and the Social Movement*: “Such pitiable writings on the 'so-called' worker question, such as those of Prince Smith, are not known to me by respected writers in other countries” (Sombart 1908, 192).

productive due to the higher amount of employed capital (Prince-Smith 1877, 35). Workers in less capital-intensive sectors suffered to a greater degree since their work was less productive. They made less provisions for the future; for example, they got more often children although they were not able to provide for them (Prince-Smith 1877, 36). The third group were the workers without a regular employment. This was the most squalid group with the highest number of criminals (Prince-Smith 1877, 36-7). This squalidness spanned over generations and Prince-Smith explained with drastic words that education was crucial to change the mindset of these people so that they would arrive at a higher standard of living:

There is only one remedy for the rampant state of neglect: one must eradicate it, as one eradicates the house sponge, by channeling the air and the light of culture into the deepest and most hidden spaces of the social building, and if possible, by wrenching the children from their dull birthplaces. (Prince-Smith 1877, 37)

Thus, Prince-Smith's solution to the Social Question was self-help, saving and an absence of government interference. State redistribution of entrepreneurial profits was harmful and counter-productive because it depressed the size of the capital stock and future wages: "So the safe preservation of capital is the first and greater question for the welfare of the wage laborers" (Prince-Smith 1877, 40). Rich and poor cultures differed in their stock of capital because wealth stemmed "from the accumulated capital" (Prince-Smith 1877, 37). Hence, the question of government interference was a question of life and death. Without the existing capital stock, the population was not able to survive at its present size (Prince-Smith 1877, 38). No one was more able to hold capital than entrepreneurs, who were in constant danger of bankruptcy if they mismanaged their funds. Taxing capital surpluses to redistribute them to the poor was a great evil, because taxation aggravated the social situation of the poor:

If the cause of low wages is the too slow growth of capital, the too low increase in demand for labor, which is complained about; then, of course, one should not cut the capital profit, from which both capitalization and the incentive for it are created. If capitalization is too slow for the well-being of workers under the supposedly too high current profit of entrepreneurs, how would the situation be with diminished profits? A high entrepreneurial profit benefits workers very quickly; for the greater the surplus of a business, the sooner new capital can be generated from it; and the nearer the prospect for increased capital ownership, the greater is the instinct for present abstinence, for restitution, for capitalization, and capitalization is an increase in wages. (Prince-Smith 1877, 40-1)

The higher the profit of a firm, the more its capital funds increased and the faster it could raise the wages of its employees (Prince-Smith 1877, 40). The sole enemy of the worker was the worker

himself if he had too many children; but not the entrepreneur, who increased the worker's wage (Prince-Smith 1877, 41). So far, *The So-Called Worker Question* was Prince-Smith's sole writing on socialism and the orthodox free traders would deepen their criticism at the end of the 1860s when they debated the leader of the social democrats Schweitzer.

2.4 The Constitution of the Zollverein and the Franco-Prussian Trade Treaty

More than on the debate with Lassalle, the orthodox free traders focused on the trade treaty with France.²⁵⁹ In the early 1860s, the dualism about German hegemony between Austria and Prussia began to intensify. Prussia aimed at greater influence in the German Confederation and challenged Austria's supremacy. Against this background, France and England signed a trade treaty on January 23rd 1860 that reduced tariffs and established the most favorable principle among both nations. The trade agreement was fixed to ten years and was negotiated by Michel Chevalier for the French state and Richard Cobden for the English side. Faucher, the former secretary of Cobden, might have been involved in the process of concluding the contract. At least he prided himself by saying: "I can even allow myself the satisfaction of believing that I was not wholly without influence over the conclusion of such a contract."²⁶⁰ The agreement came as a surprise to the German public and the free traders could now reason for a treaty between the Zollverein and France. Thus, in the same year, it became publically known that Prussia and France had started to negotiate a trade treaty. The free traders debated this new run of events at the congress of 1860 and accepted a resolution, according to which a Prussian-French trade treaty was only "conducive and desirable to general welfare, if these deregulations of markets are incorporated into the general legislation of the Zollverein and evenly granted to all countries of the world."²⁶¹ This resolution of Otto Hübner marked the beginning of a debate that span over three years. For Prussia, a treaty with France possessed "an important power political component" (Hahn 1984, 166) from the very beginning because the Hohenzollern state wanted to make a tariff union impossible with the protectionist and economically less developed Austria. As the historian Hans-Werner Hahn writes in his history of the Zollverein: "[With the trade treaty with France] a successful Prussian trade policy was able to create further conditions to bind the former partners of the Zollverein even closer to the hegemonic power and to reorganize the political situation in Central Europe under Prussia's terms" (Hahn 1984, 167).²⁶² France asked in return for the most favorable principle, various tariff reductions and a

²⁵⁹ See Grambow (1903, 169-77); chapter two of Hentschel (1975); the article "Zollverein" by Rentzsch (1866, 1082-103); Stenographic Reports of the Economic Congress, 1860, 47-48; Stenographic Reports of the Economic Congress, 1861, 119-150; Stenographic reports of the Economic Congress, 1862, 17-60, 66-104 and Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 269-281.

²⁶⁰ Stenographic Reports of the Economic Congress, 1861, 145.

²⁶¹ Stenographic Reports of the Economic Congress, 1860, 47.

²⁶² The dualism between Austria and Prussia is pointedly expressed by Grambow, who writes that, since Austria was not able to follow Prussia's free trade course, a treaty with France signified "nothing less than the emancipation of the trade-political interests of the Zollverein from Austria [...], but also a preliminary decision on the question of which of the two

partial change from tariffs based on value instead of weight.

The treaty was favorably received by the public of the Northern and Central German states, even the economic middle class of the Southern states expected positive effects for trade and commerce. However, Austria opposed the agreement because it endangered its hegemonic position and its trade advantages from the system of differential tariffs with the Zollverein states. The treaty with France was a highly political issue and the free traders left for the first time the economic field. It also became significant for the Prussian constitutional conflict because it brought the free traders closer to the Prussian government. Rudolph von Delbrück, the first president of the chancery of the North German Confederation from 1867 on, wrote in his autobiography that he had formed an alliance with Michaelis to push for the trade treaty. In 1862, the close counselor of Bismarck had convinced Michaelis that it was possible to remain in opposition to the government on domestic policy but cooperate on trade policy (Delbrück 1905, 227; Schunke 1916, 5-6).²⁶³ Therefore, at the congress, the Berlin “free traders *quand même*” Faucher, Michaelis and Wolff supported a ratification of the trade agreement without pushing for a reform of the Zollverein constitution. This group won the debates in 1863. At the Weimar congress of 1862, Braun and the “political free traders” around Böhmert gained supremacy, who favored to make a reform of the Zollverein constitution a condition for the conclusion of the treaty.²⁶⁴ At the Stuttgart congress of 1861, a group of South Germans defeated the free traders, some of them protectionists.

powers would gain supremacy in a future political unification of Germany” (Grambow 1903, 170-1).

²⁶³ Delbrück (1905, 227-8) told in his autobiography: “I asked the editor of the commercial section of the ‘National-Zeitung’, Otto Michaelis, to come to me. I told him that, as I am convinced, the opposition, in which his paper was, contrary to the general policy of the government will not prevent him from advocating the commercial policy of the government according to his principles [convictions]. With this conviction, I am ready to place at his disposal all the documents and news relating to the negotiations with France, now and in the future, not to have them printed, but to enable him to dominate the material necessary for [his] journalistic work. Mr. Michaelis was too governmental in nature to enjoy the negating opposition in the long run; he gladly seized the opportunity to participate in the positive work of government and wholeheartedly engaged in the struggle for our trade policy. As a journalist, as a member of the House of Representatives and as a representative at the German Handelstag, he rendered services to the same [trade policy] that cannot highly enough be appreciated, until its full victory. His appointment as a counselor in the Federal Chancellery was one of the first personnel proposals that I made, as the President of the new public authority, to the then Federal Chancellor [Bismarck].”

²⁶⁴ The classification of political free traders and free traders *quand même* stemmed from the *Bremer Handelsblatt* and is adopted by Hentschel (1975, 63). The paper observed about the free traders *quand même* Faucher, Wolff, Prince-Smith and Michaelis: “Opposite them [the political free traders] stands a faction which wants to see the questions of trade policy, again in free-trade zeal, completely detached from the political and be treated for itself; it seizes the moment in order to grasp with its own hands any free trade concession, may it come from anywhere and presenting itself as very little; [...] it accuses the political free traders of utopianism; insofar as it too is politicized, it regards free trade as the best means of achieving political liberty, unity and power of Germany.” See *Bremer Handelsblatt*, October 3rd 1863, no. 625, 335.

2.4.1 Victory of the Protectionists in 1861

The Zollverein was a free trade zone among all German states except for Austria, Mecklenburg, the North Sea cities, Liechtenstein, Limburg and Holstein. Founded in 1833, it was characterized by various institutional shortcomings that became increasingly severe over the years.²⁶⁵ Due to the so-called liberum veto, the Zollverein had to decide unanimously at its annual and secretly-held conference in June. Foreign states rather refrained from concluding trade treaties with the tariff union, because of the high possibility of a veto of a member state. Consequently, few reforms of its tariff system and constitution were realized after 1833 due to the liberum veto and its tariff rates had rather risen (Rentzsch 1866, 1088). Moreover, the Zollverein was based on a treaty that had to be resigned every 12 years from each member state, the last time being 1853. While foreign states were eager to lower their tariffs, progress occurred in the Zollverein only when the treaties were prolonged. The tariffs were based on weight and generally followed the liberal Prussian tariff system from 1818, so that some duties accounted for 150 or 180 percent of the price of the product because prices per weight decreased due to technological change. Even worse, whenever the Zollverein treaty had to be prolonged, a huge public debate took place and there was always the danger that the Zollverein fell apart. As Rentzsch writes:

Millions of thalers are invested in the various branches of industry, and active in the productive sectors, only on the assurance that the Zollverein would be reassembled, for better or for worse, at least on the same territory after months or years of discord. The existence of a large number of workers, which can be reckoned by the hundreds of thousands, depends on the fact that their employers' economic relations with regard to exports and purchases of raw materials and manufactures are not arbitrarily interrupted; even our transport companies, from railways and shipping down to the wage driver, have set up their business as if a termination of the Zollverein treaties were totally unthinkable. (Rentzsch 1866, 1101)

Thus, a reform of the constitution of the Zollverein was of paramount importance to the free traders. At the congress of 1861, the referent Michaelis defended a resolution that recommended to set up a commission, which had to work out a concept on how to reform the constitution and the tariff system of the Zollverein.²⁶⁶ Especially the constitution stimulated an intensive debate because of an pamphlet of David Hansemann published shortly before. The president of the newly-founded Handelstag, a German congress of businessmen, advocated a Zollverein parliament under the Prussian crown. The parliament would have extensive powers and would not only be responsible

²⁶⁵ See the article "Zollverein" by Rentzsch (1866, 1100-2).

²⁶⁶ Stenographic Reports of the Economic Congress, 1861, 123.

for tariffs, but also for patents, economic liberty or free movement.²⁶⁷ The present South Germans feared that the free traders pursued similar plans of Prussian hegemony by establishing a commission. Von Kerstorf, the founder of the “Verein für deutsche Industrie” (Association for German Industry), expressed his concerns by saying that “[i]t is not in the sphere of doctrine, not in the sphere of national welfare in material things, that the German Empire can be won by influencing the legislation on tariffs.”²⁶⁸ Refraining from taking sides on the question of protectionism and free trade, he believed the congress should not debate the political question of a reform of the Zollverein constitution. The Württemberg member of parliament Karl von Varnbüler mentioned Hansemann's pamphlet and rejected a Zollverein parliament. The material benefits generated by the Zollverein were not enough to justify a transfer of power from sovereign states to the tariff union:

Well, gentlemen, we will gladly relinquish this [our] legislative independence if you can give us a German Empire, if you can offer us the advantages of a great, powerful state, if you can give us its glory, fame, and security; but for the sake of the material advantages of the Zollverein we do not give up this independence.²⁶⁹

Albert Schäffle believed that, if a commission would be established, the congress would risk of being accused to shape policy and would turn into a “political club”.²⁷⁰ The economics professor from Tübingen confessed to be “doctrinally a free trader”,²⁷¹ although he favored a gradual introduction of trade freedom. He was against establishing a commission because one could not “improvise, out of a single [material] interest, the overall political reform of an entire people [...]”.²⁷² Like the other South Germans, Schäffle was for going back to the agenda and drop the resolution. Against this group of Southerners, Böhmert made the strongest case for a reform of the Zollverein constitution. He disassociated himself from Hansemann's proposal by explaining to be unaware of the pamphlet. However, separating political from economic issues was impossible because “we are not sitting under a glass bell, politics permeates everything [...]”.²⁷³ The negotiations with France took place in secret and neither the public nor the parliaments were able to form an opinion. The people were excluded from any participation in the decision-making process and the parliaments were just able to agree in the end. This situation was unacceptable, as Böhmert

²⁶⁷ Stenographic Reports of the Economic Congress, 1861, 133.

²⁶⁸ Stenographic Reports of the Economic Congress, 1861, 128.

²⁶⁹ Stenographic Reports of the Economic Congress, 1861, 133.

²⁷⁰ Stenographic Reports of the Economic Congress, 1861, 141.

²⁷¹ Stenographic Reports of the Economic Congress, 1861, 140.

²⁷² Stenographic Reports of the Economic Congress, 1861, 141.

²⁷³ Stenographic Reports of the Economic Congress, 1861, 137.

said, and he concluded that “we are obliged to act in such a way that the German people take the necessary part in the legislation on tariffs and economic life in general.”²⁷⁴

The orthodox free traders took a centrist view between the two extreme positions of the Southerners and the Bremen group around Böhmert. Prince-Smith came close to the position of the South Germans and the protectionists. He thanked Kerstorf and Varnbüler for pointing out that the Economic Congress overstepped its boundaries and entered the political sphere: “Since the foundation of the congress, I am one of those who have been most anxious to watch over that the economic congress does not exceed its set limits, but pursues only economic interests.”²⁷⁵ The commission should only collect material on a reform of the tariff system, but not on a reform of the constitution of the Zollverein. Similarly, Faucher wanted to found a commission on a reform of the Zollverein constitution only if the attendees unanimously agreed to its establishment. Since such an agreement was not in reach, the congress should only establish a commission on a reform of the tariff system. Faucher aimed at a compromise between Böhmert and the Southerners, explaining to the latter: “With such a passionate insistence on preconceptions, it might even be easy for Prussia to leave the Zollverein. Let us prevent this by gathering together and preparing the material [on a reform of the tariff system] in communion and in a conciliatory sense [...]”²⁷⁶ However, neither the South Germans nor Böhmert wanted a compromise. The congress passed Kerstorf’s resolution to go back to the agenda with 115 to 104 votes.²⁷⁷ The free traders also lost the vote on yarn tariffs against the protectionists. Michaelis, Prince-Smith and Wolff had introduced a resolution that asked for the gradual reduction of yarn tariffs from 3 thalers to 15 Silbergroschen.²⁷⁸ The victory of the protectionists must be mainly attributed to the conference site. Stuttgart was the capital of the South German state Württemberg, a more protectionist country than the Northern and central German states. The *Nationalzeitung* already observed one day before the debate on trade policy: “The local element is represented in much larger proportions than before [...] and, therefore, the meeting is predominantly of a Württemberg character.”²⁷⁹ A week later, the paper pugnaciously wrote that the protectionists made a weak victory despite of their home advantage.²⁸⁰ The free traders had

²⁷⁴ Stenographic Reports of the Economic Congress, 1861, 138. However, Böhmert did not endorse a Zollverein parliament at the congress of 1861, contrary to what Hentschel (1975, 65) claims.

²⁷⁵ Stenographic Reports of the Economic Congress, 1861, 134-135.

²⁷⁶ Stenographic Reports of the Economic Congress, 1861, 146.

²⁷⁷ Stenographic Reports of the Economic Congress, 1861, 150.

²⁷⁸ Stenographic Reports of the Economic Congress, 1861, 123.

²⁷⁹ *Nationalzeitung*, September 11th 1861, no. 424, evening issue, 1.

²⁸⁰ *Nationalzeitung*, September 17th 1861, no. 433, morning issue, 1. Similarly, the *Bremer Handelsblatt* believed that the protectionists had become a minority and, even in South Germany, were hardly able to triumph over the free traders: “The South German protectionists and the particularists had mobilized their entire army in alarming circulars; they held

intentionally chosen Stuttgart to confront the protectionists, as Faucher explained.²⁸¹ Thus, the orthodox free traders did not decidedly take sides at the congress.

2.4.2 The Weimar Congress of 1862: Success for the Bremen Idealist Group

In Spring 1862, Prussia hoped to rapidly convince the other Zollverein states to ratify the treaty, but the middle and Southern states kept siding with Austria. In terms of trade policy, Baden and the export-oriented Saxony favored the treaty, Hessen and Hanover were reluctant to take sides, and Bavaria and Württemberg were in opposition. However, in terms of federal policy, all supported Austria and hoped that the looming Prussian constitutional conflict would end the struggle soon. Public opinion was mostly supportive to the treaty, even in Southern states like Baden or Hessen. In early 1862, Austria offered a South German tariff union if the middle states rejected the treaty, but the offer was not even attractive for the strongest opponents Bavaria, Württemberg, Hessen-Darmstadt and Nassau. On July 10th 1862, Austria presented a plan for a customs union with the Zollverein from 1866 to 1877, which reduced many tariffs. But Prussia stayed at its free trade course and did not agree to the plan (Hahn 1984, 170-3). In the same month, the Prussian House of Representatives passed the trade treaty. Michaelis was very influential in the decision-making process. He opened the parliamentary debate as the referent on July 23rd 1862²⁸² and frequently intervened during the next two days. Faucher did probably not speak due to a sickness, at least he was ill at the final vote on July 25th. Prince-Smith intervened one time and repeated his position from the congress of 1861.²⁸³ The treaty was not about a reform of the Zollverein constitution or about national unity, for he explained “that the present question is just the trade agreement with France, which we shall examine in its economic effects, and not the reorganization of the Zollverein constitution, nor political unification of Germany.”²⁸⁴ He admitted that the treaty was so far away from being a free trade treaty “that I probably would not get up here and recommend it, if I did not believe that the adoption of this measure would lead to further and more pertinent measures.”²⁸⁵ On July 25th, the Prussian House of Representatives passed the treaty with 264 to 12 votes.²⁸⁶

their preliminary meetings, arranged their party tactics and, nevertheless, just succeeded in going back to the agenda [...] by a majority of ten and eleven votes [...].”

²⁸¹ Stenographic Reports of the Economic Congress, 1861, 144.

²⁸² Stenographic Reports of the House of Representatives, July 23rd 1862, 25th session, 753.

²⁸³ Stenographic Reports of the House of Representatives, July 23rd 1862, 25th session, 763-5.

²⁸⁴ Stenographic Reports of the House of Representatives, July 23rd 1862, 25th session, 763.

²⁸⁵ Stenographic Reports of the House of Representatives, July 23rd 1862, 25th session, 764.

²⁸⁶ Stenographic Reports of the House of Representatives, July 25th 1862, 27th session, 833.

Prussia signed the treaty on August 2nd 1862 and one month later, when Bismarck came into power, the country took an even more decided free trade course. Bismarck's strategy was to use the Zollverein to tie the middle states closer to Prussia and fortify Prussian hegemony in Germany. Like the free traders, he supported the abolition of the liberum veto, because he knew that the result was a Prussian-dominated Zollverein (Hahn 1984, 174). On September 5th, the Prussian parliament debated how to continue the relationship with Austria after the trade treaty had been passed. Faucher opposed to modify the treaty for Württemberg and Bavaria in order to prevent a break of the Zollverein: "If we have recognized it [the trade treaty] as useful for our country, we must now declare that we still intended to carry it out, even if the Zollverein were to break."²⁸⁷ The Zollverein member states that currently followed the pro-Austrian South states, would be persuaded to side with Prussia if the parliament voted for a non-compromising course. Calling an exit a "hopeless step",²⁸⁸ Faucher embraced the possibility of Bavaria and Württemberg leaving the Zollverein. He even admitted that the work of the free traders had to make it possible "that Prussia remains on the ground of a German trade policy and at the head of the other German states."²⁸⁹ Apparently, he was ready to risk a break of the Zollverein and did not just pursue economic but also power political objectives, aiming at a Lesser German Solution under Prussian hegemony. This is also confirmed by a stump speech, which he gave to his Berlin voters on December 30th 1861. Faucher explained the task of the coming parliament would be "to use the expiration of the Zollverein treaties in 1866 to force a reform of the Zollverein constitution and the Zollverein tariffs." He continued:

In the reform of the Zollverein, one has excellent grounds to bring about the goal of greater German unity in a completely peaceful and legal way. The next requirement is that the Zollverein parliament, which the Zollverein constitution is lacking, must be set up; this is followed by the establishment of a Zollverein ministry that is responsible to the parliament.²⁹⁰

Three days later, the congress assembled in Weimar from September 8th to 11th 1862. This year, the protectionists accounted for a small minority. Kerstorf, who identified as a protectionist this time, said that Prussia should not stop the negotiations with Austria about a trade treaty and a tariff union. He was not against a tariff reform as such, but against the political implications of the treaty.²⁹¹ Kerstorf went so far as to agree with the free trade criticism of some aspects of the Zollverein's tariff system: "Examples of entry duties of 150 percent or more were cited previously;

²⁸⁷ Stenographic Reports of the House of Representatives, September 5th 1862, 44th session, 1536.

²⁸⁸ Stenographic Reports of the House of Representatives, September 5th 1862, 44th session, 1537.

²⁸⁹ Stenographic Reports of the House of Representatives, September 5th 1862, 44th session, 1538.

²⁹⁰ *Nationalzeitung*, December 31st 1861, no. 608, evening issue, 3.

²⁹¹ Stenographic Reports of the Economic Congress, 1862, 34-35.

but no rational man thinks of such a rate.”²⁹² Similarly, Karl von Czörnig-Czernhausen, the head of the Austrian bureau of statistics, reasoned the treaty of 1853 assured negotiations about joining the Zollverein to Austria. From a legal perspective, negotiations had to take place before the treaty made an Austrian membership in the Zollverein impossible. If Austria joined the Zollverein, a huge trade area would be established over a population of more than 70 million people. The Austrian people hoped for German unification and Austria aimed to pass a liberal tariff reform.²⁹³ The free traders, in contrast, agreed that the damage of an ongoing exclusion of the Zollverein from West European markets would be greater than a break with Austria. The Berlin group around Faucher, Michaelis and Wolff argued for the unconditional acceptance of the treaty. The referent Wolff admitted that the agreement did not consequently follow principles of free trade, but it broke with the protectionist course of the Zollverein and was a “compromise”.²⁹⁴ Being granted the same advantages of trade, Germany would establish parity to major European powers. A treaty would also force Austria to lower its tariffs if it continued to pursue membership of the Zollverein. Wolff did not believe into a break with Austria or the Southern states. The treaty was “the main thing”²⁹⁵ and “the constitutional question seems to be of comparatively minor importance [...]”.²⁹⁶ Faucher was convinced that the Southern states would be forced by the power of circumstances to agree to the trade treaty. The parliaments in Bavaria and Württemberg had not voted on the treaty, contrary to the Prussian and Saxon parliament, because the Southern governments wanted to be free to change their mind.²⁹⁷ Pointing to the decision of the Prussian parliament, Faucher proclaimed: “One should not make illusions in Bavaria and Württemberg; if resistance persists, it is over with the Zollverein.”²⁹⁸ More than anything, Faucher emphasized the economic damage that would result from the Zollverein waiting for another four years until entering the French market, while English firms operated under low tariffs.

Michaelis shifted the emphasis from the economic to the political arena. In reality, the discussion about a reform of the Zollverein was a debate about the sovereignty of the German people. If Austria joined the Zollverein, the Habsburg Empire would decide the fate of the German people, although the majority of its population was not of German ethnic origin: “If non-German interests

²⁹² Stenographic Reports of the Economic Congress, 1862, 33.

²⁹³ Stenographic Reports of the Economic Congress, 1862, 42.

²⁹⁴ Stenographic Reports of the Economic Congress, 1862, 20.

²⁹⁵ Stenographic Reports of the Economic Congress, 1862, 21.

²⁹⁶ Stenographic Reports of the Economic Congress, 1862, 20.

²⁹⁷ Stenographic Reports of the Economic Congress, 1862, 36.

²⁹⁸ Stenographic Reports of the Economic Congress, 1862, 39.

are to dominate the development of the German tariff legislation, that is not a national interest but an anti-national one!”²⁹⁹ Böhmert, in contrast to Faucher and Michaelis, endorsed a Zollverein parliament and believed that Prussia had to use the trade treaty as an opportunity to negotiate a reform of the Zollverein. Contrary to Wolff, Böhmert opined that a reform of the Zollverein constitution was “the main thing”.³⁰⁰ If no effort for a reform was made, “the endless chaos of useless negotiation and inaction”³⁰¹ would continue. Böhmert demanded a Zollverein parliament with majority power:

[T]he trade agreement, already formally adopted by the majority of the Zollverein, with its tariff rates must form the basis of the negotiations for the renewal of the Zollverein. Prussia and the other consenting states must insist on this progress; however, at the same time, they must propose a real organization of the Zollverein with a representative body.³⁰²

Schulze-Delitzsch similarly reasoned that the treaty had to be used as leverage for a reform of the constitution, otherwise a reform would be postponed for another 12 or 15 years.³⁰³ In general, a state had to join a tariff union only if it did not pursue any diverging political goals, for example, raging a war against a non-member state. The member states should have a similar level of economic development. Prussia and Austria could not be in the same tariff union because they pursued distinct political objectives. Schulze-Delitzsch only viewed a Lesser German Solution as practicable. The cause for the disagreement inside the Zollverein were the ruling dynasties—not the people—with their strategy of divide and rule.³⁰⁴ He said that “what we need in Germany is not a *dynastic* policy, but a *German-national* policy that embraces such a [German-national] trade policy.”³⁰⁵ Like Michaelis, Schulze-Delitzsch argued that Austria was not suited to be the major power of a German tariff union because it was a multi-ethnic state. Even more, the Austrian currency and its financial markets were in bad shape and a financial crisis was impending.³⁰⁶ The congress accepted the resolution of the commission that demanded the immediate ratification of the treaty.³⁰⁷

²⁹⁹ Stenographic Reports of the Economic Congress, 1862, 45.

³⁰⁰ Stenographic Reports of the Economic Congress, 1862, 52.

³⁰¹ Stenographic Reports of the Economic Congress, 1862, 51.

³⁰² Stenographic Reports of the Economic Congress, 1862, 52.

³⁰³ Stenographic Reports of the Economic Congress, 1862, 53-54.

³⁰⁴ Stenographic Reports of the Economic Congress, 1862, 55-56.

³⁰⁵ Stenographic Reports of the Economic Congress, 1862, 58, emphasis in original.

³⁰⁶ Stenographic Reports of the Economic Congress, 1862, 57-58.

³⁰⁷ Stenographic Reports of the Economic Congress, 1862, 60.

In a second debate, the free traders also discussed a reform of the Zollverein constitution. The orthodox Braun was the referent and argued for establishing a Zollverein parliament, siding with Böhmert and opposing Wolff. The veto power of each member state had to be abolished and replaced by a majority decision.³⁰⁸ Since each member state had to implement autonomously the decisions reached by the Zollverein, accomplishing political reforms took a long time. A national German parliament would need less time. Except for Prussia, the German states followed their own “particularistic”³⁰⁹ interest instead of the common interest of the German people. Braun favored a parliament with powers over the military and foreign policy, not only economic issues. However, if such a centralized parliament was not in reach within the next three years, an economic parliament would be an improvement as well.³¹⁰ Wolff expressed the position of the Berlin group. He wished the congress to remain undecided on the Zollverein reform until the conflict between Prussia and the Southern states was solved. Otherwise, the Southern protectionists would claim that Prussia wanted to “absorb”³¹¹ South Germany: “If we throw the currently immature question of the reform of the constitution of the Zollverein into the fight, then we make it harder for ourselves to win regarding the main thing, the victory in the tariff reform.”³¹² Besides, a Zollverein parliament would possess a low reputation and few citizens would go to its elections. The main goal—a national German parliament—did not evolve from a Zollverein parliament. Wolff argued for time periods, which would establish deadlines for reforms on certain tariffs, set by the new Zollverein treaty to avoid a stagnancy of the tariff union.³¹³ The congress was not convinced by Wolff’s argument and Braun and Böhmert won over the majority of visitors.³¹⁴ Prince-Smith and Faucher did not intervene into this second debate.

2.4.3 The Dresden Congress of 1863: Victory of the Berlin Orthodox Group

More and more, opposition to the Franco-Prussian trade treaty decreased after the congress of 1862. Austria's counter-plan of a South German tariff union was not a realistic alternative, and many

³⁰⁸ Stenographic Reports of the Economic Congress, 1862, 66-67.

³⁰⁹ Stenographic Reports of the Economic Congress, 1862, 69.

³¹⁰ Stenographic Reports of the Economic Congress, 1862, 73.

³¹¹ Stenographic Reports of the Economic Congress, 1862, 78.

³¹² Ibid.

³¹³ Stenographic Reports of the Economic Congress, 1862, 77-78.

³¹⁴ Stenographic Reports of the Economic Congress, 1862, 104. Hentschel (1975, 74-5) writes that the Bremen free traders had a Zollverein parliament with extensive powers in mind, for example, on railways, telegraphs, banks, or intellectual property. He cites the report of the congress as evidence. However, the Bremen group never gave so much power to the Zollverein parliament, at least not in the debates of the congress. Perhaps the *Bremer Handelsblatt*, which Hentschel studied closely, advocated such a powerful Zollverein parliament.

protectionists just accepted the treaty because they feared a break of the Zollverein. Nonetheless, the middle states were still in opposition to the trade agreement in Summer 1863 (Hahn 1984, 175-6). At the congress of Dresden from September 14th to 17th 1863, Michaelis defended a resolution that contained the standpoint of the Berlin group. The Franco-Prussian trade treaty and not a reform of the Zollverein constitution had to be a condition for the renewal of the Zollverein treaty.³¹⁵ Böhmert and other Bremen free traders did not intervene into the debate. Opposition against the Berlin group just came from two South German free traders, Leopold Sonnemann and Max Wirth. Sonnemann was for a compromise with Austria; otherwise, the Zollverein might cease to exist in its present form. Sonnemann argued for a differential tariff with Austria since Prussia had granted such a tariff to France when it had concluded a trade treaty with Belgium. Without a compromise, the Zollverein might break and Austria and the South German states may establish a protectionist tariff union. He closed by asking: “I have the conviction that the Ministry Bismarck is aiming at a Main line, do you want to support it in this policy?”³¹⁶ Max Wirth similarly believed that the Zollverein would not continue to exist in its present form if Prussia kept its decided free trade course: “Bavaria and Württemberg now want the break of the Zollverein and are just looking for a pretext to win their populations for the demolition of the union.”³¹⁷ As a year before, Wolff, Faucher and Michaelis were against any compromise. As Wolff stated, the Zollverein treaty was still binding for two more years and the Zollverein tariff system hardly changed to the better if Prussia granted a differential tariff to Austria: “It would be a stroke through the whole contract [...] and we would have nothing but a new edition of the differential system.”³¹⁸ Faucher was also vehemently against any compromise “in a lecture rich in witty and paradoxical twists”.³¹⁹ Thanks to the treaty, Austria was forced by article 31 (the most favorable principle) to lower its tariffs if it wanted to join the Zollverein. Proclaiming that any border tariff had to fall, Faucher said that it was in the interest of the Austrian free traders if Prussia did not opt for a differential tariff. However, he contradicted his earlier remarks when he claimed that Prussian was not following a political agenda:

Prussia did not think of political ulterior motives with respect of the entire treaty. [...] This is a complete fallacy. [...] It did only its duty by not wasting any time in acting, so that the Zollverein industry was not driven out of the French market by England, Belgium and Switzerland.³²⁰

³¹⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 272.

³¹⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 274.

³¹⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 276.

³¹⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 275.

³¹⁹ *Nationalzeitung*, September 19th 1863, no. 437, morning issue, 1.

³²⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 279.

Schulze-Delitzsch also opposed Southern fears of Prussian hegemony and went as far as to declare: “As long as Mister von Bismarck is in control, no German state will have to fear for its autonomy.”³²¹ The free traders followed Michaelis, Faucher and Wolff and accepted the resolution of the commission.³²² It is telling for the division among the Berlin and Bremen group that Michaelis's *Nationalzeitung* welcomed the resolution as “highly valuable” whereas Böhmert's *Bremer Handelsblatt* was unsatisfied and called the result a “Greek gift”.³²³ Three months after the congress, Prussia canceled the Zollverein treaty in December 1863 and Saxony was the first state to give in on May 11th 1864. Baden, Thüringen, Frankfurt and Braunschweig followed a few days later. Kurhessen agreed to Prussia's conditions in June and Hanover and Oldenburg in July. As Hahn writes: “In the summer of 1864, Prussia had created the conditions for a viable North German customs union” (Hahn 1984, 178). The Hohenzollern state was now in a position to issue an ultimatum for October 1864 to Bavaria, Württemberg, Hessen-Darmstadt and Nassau. Thus, the monarchs from Württemberg and Bavaria accepted the Franco-Prussian treaty and the renewal of the Zollverein treaty in August 1864 (Hahn 1984, 177-8). When the congress of 1864 met in September, there was no debate on the issue and Braun declared at the beginning “that the survival of the Zollverein is ensured [...]”.³²⁴ On October 12th 1864, the four Southern states officially agreed to the renewal of the Zollverein treaty under Prussia's conditions.

³²¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 280.

³²² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 281.

³²³ *Nationalzeitung*, September 19th 1863, no. 437, morning issue, 1 and *Bremer Handelsblatt*, October 3rd 1863, no. 625, 335. See also *Bremer Handelsblatt*, September 26th 1863, no. 624, 327-8.

³²⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 158.

III. Towards a Central State (1863-66)

After the trade treaty with France was accepted, the free traders turned their attention to economic issues at the congress. In 1863, they discussed banking and passed a resolution for fractional reserve free banking. Regarding taxation, the orthodox and pragmatic free traders argued for the benefit principle and Braun, Faucher and Prince-Smith advocated the night watchman state. On the other side, the Bremen free traders allowed for more government interference and wanted to apply the benefit principle less rigorously to taxation. No side could win over the congress. In the Prussian House of Representatives, Faucher and Michaelis took an oppositional course until the won Danish war in October 1864. Finally, when Prussia won the war against Austria, both were in the forefront in making a compromise with Bismarck. The congress also rejected debt detention, lotteries and patents.

3.1 Notes, Deposits, and Banks

In her important history of banking theory, Vera Smith (1936, 114) believes that the debate on free banking started late in Germany in the 1850s, compared to countries like France or England. However, Faucher and Prince-Smith already wrote on banking in the 1840s. Faucher released two pamphlets in 1845 and 1846 and Prince-Smith authored *Bemerkungen und Entwürfe behufs Errichtung von Aktien-Banken* (Comments and Proposals on the Establishment of Joint-Stock Banks, 1846). However, Smith does not mention the writings of Faucher, Prince-Smith and various minor figures of the movement and ignores the debates in the Prussian parliament and the review section of the *Quarterly Journal*. The same holds true for other historians of monetary thought, who mention the free trade movement in passing (Schumacher 1908, 13, 25-6; Rist 1940, 250). Research on free banking thought is important because it helps to understand a crucial period in German monetary history from 1846 to the foundation of the Reichsbank in 1876—especially in light of the legislative influence of the free traders from 1867 to 1875 (Hentschel 1975, 283; Roscher 1874, 1016). This is particularly true for Germany's monetary history because Michaelis, as a government counselor under Bismarck, worked out the bill for the establishment of the Reichsbank (Lotz 1888, 163-4). In the following, the debates of the congress in the first half of the 1860s are recapitulated, the works of Michaelis, Hübner, Faucher and Prince-Smith are presented and a look is taken at the

place of the German free traders in the history of monetary thought. All of them opposed a central bank in the 1860s and favored a limit to the unbacked note issue under central banking.

3.1.1 Banking Thought until 1846

Germany never possessed a free banking system.³²⁵ In 1765, Frederick the Great established the first German central bank of issue, the Royal Bank of Berlin. Until the 1830s, entrepreneurs just founded two private banks of issue. In the mid-1840s, credit became scarce and the interest rates went up because of the economic growth and railway construction. The public started to debate in North Germany how to reform the banking system. At that time, the free traders published their first works on banking. Prince-Smith released the brochure *Bemerkungen und Entwürfe behufs Errichtung von Aktien-Banken* (Comments and Proposals on the Establishment of Joint-Stock Banks, 1846) in which he gave advice on how to set up private deposit banks with limited liability. He was in favor of free banking and opposed 100-percent reserves. The deposit bank may invest three quarters of its reserves into long-term assets and the final quarter into easy-liquidable securities and specie (Prince-Smith 1846, 17). Such a reserve policy benefited the economy:

As long as a country has no more capital to loan than for which real security can be given, almost nobody lends money except for pledging of tangible goods, and everyone sees only safety first, and in his anxiety may demand to foreclose on an object, [or] twice as much as the loan is worth. No human has, under such circumstances, credit, but only things have pledgeability. (Prince-Smith 1846, 18)

Surprisingly, Prince-Smith seemed to oppose banking freedom for banks of issue, writing: “The legitimate business of a bank is not creating money [issuing notes], but trading with capital loans” (Prince-Smith 1846, 7). One year before, Faucher had authored *The Unification of Savings Bank and Mortgage Bank and the Affiliation of a Union for Housing Construction* (1845). As seen, he seemed to defend Stirner's philosophy and rejected socialism in this book. The work was a proposal to solve the housing shortage by setting up a new form of bank that united a savings and a mortgage bank. This financial institution had to pay interest for the deposits to its clients, stimulate saving and thereby increase the demand for mortgages, stimulate the construction of houses and lower the rents. In doing so, the bank had to affiliate with a union for housing construction. As Faucher explained:

[T]he money supply translates into a housing supply. The housing supply makes the apartments cheaper and one will be able to have a larger apartment for the same price. [...] This case occurs, however, far more effectively when the bank, instead of leaving it to the individual private person, operates through the

³²⁵ See chapter one of Lotz (1888) and Smith (1936, 57-70) for the history of the German banking system until 1876.

housing association itself. (Faucher 1845, 37)

In this context, Faucher elaborated on the principles that a savings-mortgage bank had to follow. He was against restrictions on whom savings banks were to choose as a client and on how much money a client was permitted to pay into his account. The bank should accept every sum of money that a client paid in (Faucher 1845, 8-9). Laws should not limit the withdrawal of money for depositors or the redemption of notes, for example, to cases of emergencies like the death of a family member (Faucher 1845, 9). Faucher supported, however, notice periods for the withdrawal since a client could not expect that a savings bank always held large sums of precious metals. It was in the depositors' interest that it only held small amounts of cash so that it could pay more interest. The notice period had to grow in duration according to the sum of money that a depositor wanted to withdraw because for large sums, the savings bank needed more time to cancel loans and obtain liquidity (Faucher 1845, 10). The deposited money had to be invested in safe papers like Prussian state bonds, housing mortgages up to two thirds of their value or bond certificates (Faucher 1845, 14). Notes of the savings bank had to be subject to notice periods as well, which went up to three months for the highest note of 100 thalers. The notes earned interest that was paid at a set date in precious metals (Faucher 1845, 20-1). Faucher disputed that his notes were similar to John Law's and would arrive at their true value of zero, driving precious metals out of the country and causing a trade crisis (Faucher 1845, 30). As he wrote, his notes were not state notes and were backed by precious metals:

Our banknotes are assurances of pensions in cash [precious metals], paid with cash and realized with cash, and therefore cannot drive cash out of the country, for it is the basic condition of their origin, and with them they themselves fall away. (Faucher 1845, 32)

Only the state was able to establish a currency like Law's paper money, which was created out of nothing (Faucher 1845, 33). Thus, in sum, Faucher did not allow for a deposit contract in his model of a savings-mortgage bank. Deposits and notes were subject to notice periods, so that banks could lend out a part of the specie reserves to the housing sector and pay interest to the clients. However, Faucher did not formulate the principle of maturity mismatching, like Hübner did. He seemed to believe that notice periods were sufficient to guarantee the solidity of his savings-mortgage bank. One year later, the 26-year-old Faucher published *Against Gustav Julius on the Banking Question* (1846), a reply to the journalist Gustav Julius. Faucher advocated free banking and was more critical of banks, which did not comply with a 100-percent reserve ratio regarding the note issue. He started by criticizing Julius's conventionalist theory of the origin of money. Money did not come into existence due to an agreement on part of its users: "Money stands above all agreements, above

all social contracts, above all legal protection; for money consists of a substance which in itself has, for the individual abstracted from all sociality, value or rather utility” (Faucher 1846, 5). Individuals began to use goods like furs, corn or salt as a medium of exchange but finally chose precious metals due to their superior qualities in facilitating exchange. Money derived its value from the use value of the good of which it consisted, and of its ability to facilitate exchange. A good that was not useful and did not possess use value could not become money (Faucher 1846, 10). As Faucher explained “[J]ust because it [money] already had an original value, because it was a commodity, it could become a medium of exchange and a measure of value” (Faucher 1846, 6). Hence, Faucher defended the Austrian evolutionary theory of the origin of money.

Originally, money had been named after measures of weight and later states intervened by guaranteeing the weight of coins with their sign (Faucher 1846, 9-10). However, they abused their power by decreasing the metal content, so that entrepreneurs decided to found their own giro banks. In the 17th century, the first note-issuing banks were founded due to increasing economic liberty and division of labor that raised the demand for money. Individuals began to take discount when they lent to strangers, widening the circle of potential debtors away from close friends or family (Faucher 1846, 14-5). Ultimately, the form of credit that satisfied the high demand for money was the bill of exchange. It derived its trust from two sources: from the law that regulated its use and from the deposit that guaranteed for its soundness (Faucher 1846, 16-7). However, Faucher believed that the future belonged to the deposit instead of the bill of exchange (Faucher 1846, 19). When he discussed the discount of a bill of exchange, he almost arrived at the Austrian time preference theory of interest: “The reduction of the monetary value, which evenly increases with the deferral period, requires a remuneration of the otherwise loss-making creditor, to the extent of the duration of the debt, that is, a time payment, interest” (Faucher 1846, 19). Faucher criticized the practice of note-issuing banks to violate the 100-percent reserve ratio. The old giro bank had been a “closed system” of managing accounts and storing deposits that operated with full reserves. But note-issuing banks later evolved that started to emit notes unbacked by specie, justifying this practice with a supposed “need for circulation” of money. Faucher condemned fractional reserves (Faucher 1846, 25-6) and criticized that depositor did not even earn interest:

The means to profit [of the bank] is the credit, the credit of each kind, the giro-credit, bill of exchange-credit, Lombard-credit, also the mortgage credit. Since one does not want to let it [credit] fulfill its purpose, the real satisfaction of the real need for circulation, it must even consider it now a great favor that it may wander into the note-issuing bank in order to turn into the form, which it is legally befitted to, into a medium of exchange. The real creditor, the banknote holder, does not even receive the interest that the borrower honestly pays, this interest is drawn by the *owner* of the bank. All this is only due to the

state prohibition of the issue of smaller, more suitable for circulation, commercial papers of credit, and may the note-issuing bank be a state or private bank, we see now clearly that it is nothing more than the exploitation of a new coin monopoly, the monopolized new credit coin. (Faucher 1846, 26-7; emphasis in original)

Thus, Faucher believed that owners of banks made an undue profit because they received privileges on the issue of notes by the state. His solution was that all privileges and regulations regarding banks of issue, like usury laws and the prohibition to emit small notes, had to be eliminated. Everybody had to be able to issue notes:

I ask for free note-issue banking and at the same time freedom for credit; repeal the laws against issuing small commercial papers of credit and, casually speaking, the usury laws. Then competition has to destroy the profit and therefore the ownership of note-issuing banks, then note-issuing banks and credit institutes must unite in each other. (Faucher 1846, 27)

Thus, the works from 1845 and 1846 seem to disagree, because Faucher allowed for a lower reserve ratio than 100 percent in 1845 if the savings-mortgage bank established notice periods, but was rather dismissive of fractional reserves for notes in 1846. However, his savings-mortgage bank did not issue notes that were redeemable at any moment, but rather securities. Moreover, he did not express general principles on banking in 1845 but proposed a certain type of bank to solve the Housing Question. In brief, Faucher was a fractional reserve free banker, as will also be seen later. The call for banking freedom of Faucher and Prince-Smith exerted little influence and a new centralized bank of issue was set up in 1846, the Prussian Bank.

3.1.2 Otto Hübner and *The Banks*

After 1846, it took eight years until the another orthodox free trader would advocate free banking. It was Otto Hübner, who produced the most significant work on banking of the free trade movement. In 1849, Hübner (1849, 29) had endorsed full reserve central banking in his book *Oesterreichs Finanzlage und seine Hilfsquellen* (Austria's Financial Situation and Resources). However, in *The Banks* (1854), he argued for free banking and 100-percent reserves for notes and deposits. Free banks were more careful with their funds and went bankrupt fewer times (Hübner 1854, 32). Hübner gave as example Scotland, a country with a free banking system, where banks had never experienced a significant crisis.³²⁶ Free banks were just interested in fulfilling their liabilities and possessed a good reputation because of their outstanding business conduct. Regulated

³²⁶ Murray Rothbard disputes that Scotland had a free banking system in the first half of the 19th century (Rothbard 2008, 269-76).

banks, in contrast, had an incentive to comply with the demands of the ruling class to keep their privileges. They engaged in high-risk investments because they knew that the state would bail them out in a crisis (Hübner 1854, 32). Programmatically Hübner said that “*privileges* [are] always a disadvantage for the common interest” (Hübner 1854, 123, emphasis in original). Bankers had to aim for profit-making and not, as some banks wrote in their statutes, “the promotion of trade and industry” (Hübner 1854, 123). If a bank could not fulfill its obligations, it was either broke or its stock holders had to provide additional funds (Hübner 1854, 124). Under banking freedom, banks would have to give regular account of their activities and would be carefully monitored by their clients:

Bank freedom is often portrayed as bank anarchy, and one asks what could arise if everyone were allowed to issue notes? One might as well ask what would arise if anyone could issue bills of exchange? This is known to be forbidden to nobody and only depends on finding someone, who accepts the bill of exchange. The same would happen with notes. Whoever accepted them would look at who issued them; his judgment would not have been bribed by privileges and concessions [...]. (Hübner 1854, 35)

To avoid bankruptcy, Hübner recommended three rules to banks. First, he proposed a 100-percent reserve ratio:

If this business were made in good order, banks would always sell only the credit they have, and the latter would be as useful to the public as it was to the bankers. In spite of this, when we saw the old banks failing, which went away from the deposit and giro business, the reason lies in the fact that they ignored that rule and sold credit which they themselves did not have. (Hübner 1854, 28)

Second, he formulated the principle of maturity matching, according to which banks should refrain from borrowing for the short term and lending out for the long term (Hübner 1854, 28-9). If a client granted the bank credit for one month, the bank should not lend out the money for a longer period than one month. If a bank emitted notes or received deposits, they had to be backed with assets that could be liquidated immediately. As he wrote: “The credit which a bank can give without running the risk of being unable to meet its obligations must not only correspond in terms of quantity but also in quality to the credit it enjoys” (Hübner 1854, 28). Lastly, banks should not engage in high-risk investments with reserves, like bills of exchange or bonds, because debtors may not render the future payments (Hübner 1854, 29-30). Hübner was particularly critical of credit to government because historically many banks had failed that borrowed to the state (Hübner 1854, 30, 115). Legally, he distinguished between deposits for storage, deposits for administration and deposits for use. The deposit for administration was an asset stored in the bank, with which it made a business deal; like collecting the payment of a bill of exchange at its maturity date (Hübner 1854,

57). Hübner was opposed to the concept of the “deposit for use”. Citing various legal codes, he noted that a bank had to be able to return a deposit at any point of time in kind, whereas it had to repay a credit only after a certain time period in value. Thus, the deposit for use was in reality a credit (Hübner 1854, 58). Hübner railed against the law-makers that did not oblige privileged banks to treat deposited money as a deposit in storage:

Nowhere is it compulsory for concessionary banks to treat giro deposits as ‘deposits for administration’, and they may use, in contradiction to the spirit of such despotism, the funds given to them for a specific purpose for any purpose, which is seemingly advantageous to them, within their sphere of business. (Hübner 1854, 64)

Hence, immediately cancelable deposits had to be backed by assets that could be liquidated at any moment. State bonds or bills of exchange were too risky and should not cover deposits (Hübner 1854, 59). Similarly, a bank of issue had to redeem any note on demand (Hübner 1854, 68) and should not back its note emission with state bonds or bills of exchange, whose prices might drastically fall in a crisis. It should only lend out its specie in form of loans that could be canceled immediately, and therefore had to “hold most times the whole amount in cash” (Hübner 1854, 68). Hübner also opposed the view of the Banking School that national wealth could be increased by expanding the note supply, because the size of production just depended on the level of savings and the capital stock (Hübner 1854, 70, 74). He presented a rudimentary theory of the business cycle by pointing out how an overissue of notes caused an increase of prices, rising imports, an outflow of notes and ultimately a drain of metal reserves. This chain of reasoning based on the quantity theory of money and the specie-flow mechanism was repeated by many free traders, including Michaelis, Faucher and Prince-Smith. Hübner closed his remarks on business cycles by pointing out that unbacked notes, which initiated the cycle, brought about a consumption of capital:

It seems of course odd that, at one moment, paper money should be the trigger for the blossoming of commerce and industry in order to increase the capacity for consumption and general credit and, at another moment, the source of ruin, but the explanation is simply that the blossom is a delusion and is merely the phenomenon that usually results in the consumption of wealth and borrowed sums in private life. [...] Notes, without metal backing, the increase of the prices of all things, are an apparent gain of wealth that is enjoyed and consumed. But since this wealth is only apparent, since it constitutes no capital, no saved surplus, its consumed amount finally acts as a deficit between the credit side and the debit side. One consumed more than one possessed to consume. One consumed no *gain* of wealth, but the old fortune. (Hübner 1854, 73; emphasis in original)

However, although he saw unbacked notes as the cause of the cycle and rejected the concept of the deposit for use, Hübner did not arrive at 100-percent reserves free banking:

Perhaps one will find the principles, which I establish for banking operations as the results of history and logic, narrow-minded and over-strict. But this will be less the case if one notes that I characterize these principles as inflexible only for the privileged institutions, and not for the private banker whose freedom in capital and credit use I expressly defend as his right. (Hübner 1854, iv)³²⁷

Accordingly, he said that banking freedom would not lead to “an excessive issue of paper money” (Hübner 1854, 35) and that free banks may engage in maturity mismatching (Hübner 1854, 69). Thus, Hübner supported a legal 100-percent reserve requirement for privileged but not for free banks. He merely advised free banks against engaging in maturity mismatching, high-risk investments and recommended a 100-percent reserve ratio-policy for notes and deposits. Thus, as Jesús Huerta de Soto (2006, 644) notes, Hübner can be seen as a forerunner of Ludwig von Mises in his defense of free banking and opposition to the issue of fiduciary media under central banking.

3.1.3 Hartwig Hertz and *The German Banks of Issue*

Hartwig Hertz was the fourth orthodox free trader, who rejected central banking in his book *Die deutschen Zettelbanken* (The German Banks of Issue, 1856). As he noted, it was more likely that a monopolized bank of issue emitted too many or too few notes than a free banking system (Hertz 1856, 52-3). Although he supported Peel’s Banking Act in principle, he stressed its shortcomings by stating:

that such a prevention of the [excessive] credit granted by the banks can by no means be achieved by static legal regulation of the issue of notes, since even the loan granted for the bill of exchange or in any other form can be exaggerated; and apart from that, general laws can never be suitable to all cases [...]. (Hertz 1856, 53)

However, even banking freedom did not guarantee that crises would not break out. Hertz rather put emphasis on the carefulness of bankers and clients when granting or taking credit. Accordingly, free banking had worked well in the prudent Scotland but failed in the careless Ireland (Hertz 1854, 58). He defined the banknote as a means of circulation based on credit, and rejected a 100-percent reserve ratio from there, although he admitted that “this [ratio] would probably secure the banknote as far as possible” (Hertz 1856, 56). Notes should be covered with securities like mortgages or state

³²⁷ Hübner referred with the term “privileged” institutions to banks that were granted a monopoly right by the state or enjoyed some other legal advantage over their competitors: “Privileged and concessioned banks mainly differ from free banks, in that [...] the former are protected by the legislators against the consequences of error or deliberate mistakes, while for the latter the bankers have to bear the consequences of their actions; that in the case of privileged and concessionary banks the fulfillment of the statutes, and in the case of the free banks, the fulfillment of the liabilities is the highest goal of the bankers. [...] The concession or privilege, given allegedly under the full effort of government wisdom, confers on the licensed or privileged institutions credit not based on trust in their powers or on their examination, but on the confidence in the judgment of the government, which is composed of people in most cases, who do not understand banking. The free banks, on the other hand, have no other credit than their own” (Hübner 1854, 33).

bonds (Hertz 1856, 18, 57) but not with bills of exchange (Hertz 1856, 46-7). The bank had to take into account that prices of these securities fell in a crisis (Hertz 1856, 33-4, 65). Hence, Hertz insinuated that the par value of these papers should supersede the total note issue to recompense for potential losses. To secure banks of issue under banking freedom, Hertz also proposed that local trade chambers or outstanding businessmen checked the security of notes and agreed on which notes they would accept in their transactions. Banks of issue had to publish weekly status reports, redeem every note immediately at any place of circulation and deposit a security at a government institution to cover the note issue. The directors had to be legally responsible for the accuracy of the status report and their business conduct (Hertz 1856, 63-4). Interestingly, Hertz supported fractional reserves for note-issuing banking but not for deposit banks:

Not only does the giro business of a bank not require credit, but for the greater security of the clients of a giro bank, it is very desirable that the same does not take credit, and if the bank owns and uses its own assets, it is good if granting credit will be kept completely separate from the giro business, so that every doubt fails to appear whether the clients' assets may be lent by the bank without their prior knowledge and consent. (Hertz 1856, 5-6; see also Hertz 1856, 22-3)

Thus, regarding banks of issue, Hartwig Hertz was a fractional reserve free banker but he seemed to endorse 100-percent reserve free banking for deposit banks. In the book, he also warned of an impending crisis due to the excessive note issue (Hertz 1856, 43, 69). Shortly after, he would be proven correct by the panic of 1857, after the Prussian Bank had considerably expanded the money supply in the 1850s. Subsequently, the low interest rate policy of the bank was under attack and many authors argued for 100-percent specie reserves for the note issue under central banking (Smith 1936, 65-6).³²⁸

3.1.4 The Congress on Free Banking (1860-63)

The congress briefly debated banking for the first time in 1860.³²⁹ A year later, Leopold Sonnemann, a Jewish Frankfurt banker, presented a free banking resolution. Besides Michaelis, he

³²⁸ Another free trader and free banker was Max Wirth, who authored the four-volume textbook *Grundzüge der National-Oekonomie* (Fundamentals of Economics, 1856-1873). In the first volume, he added a section on "banking freedom" and approvingly cited Hübner's book (Wirth 1856, 372). He just disagreed with the latter's support for 100-percent reserves for the note issue, reasoning that the supply of notes should follow the demand for money and the public's trust in banks. Financial institutes would only hold 100-percent reserves if the public had zero trust in them, a case that was unlikely to occur (Wirth 1856, 351-2). To the banks of issue that accepted deposits, Wirth recommended a "strong" reserve for deposits that were immediately cancellable (Wirth 1860, 555) However, he did not endorse 100-percent reserves for deposits (Wirth 1871, 371).

³²⁹ Stenographic Reports of the Economic Congress, 1860, 58-59. For the other debates, see Stenographic Reports of the Economic Congress, 1861, 106-118 and Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 241-261.

was the main influencer of the congress on the Banking Question. The politician, patron and journalist was born in Würzburg on October 29th 1831.³³⁰ When his parents died in the 1850s, he turned their business for cloth trade into the bank “M. S. Sonnemann Nachfolger” (M. S. Sonnemann Successors). He founded a financial paper in 1856 that evolved into the democratic and free trade *Frankfurter Zeitung* (Frankfurt newspaper) three years later. From 1871 to 1884, he was a member of the Reichstag for the South German “Deutsche Volkspartei” (German People's Party), which he co-founded and which endorsed the separation of state and church, the abolition of indirect taxes, democratic voting rights and press freedom. A long time city councilor who occupied various honorary posts, Sonnemann was important for the development of the city of Frankfurt. Without a doubt, he was a very intelligent and perceptive man. He died one day after his 76th birthday in Frankfurt in 1909. At the congress of 1861, Sonnemann rejected a draft bill of the Prussian government that would introduce concessions and certain privileges into the Prussian banking system.³³¹ He believed that both measures posed a great danger to the financial system. People showed too much trust for the notes of a state bank of issue. Sonnemann rejected the counter-argument that banking freedom caused financial turmoils such as the crises in England and North America, since these nations had many regulations on the note issue in operation during the last crisis of 1857. He stressed fractional reserves as the cause of recessions:

No banking system will be protected from all crises and considered to be perfect as long as the issue of notes is permitted beyond the amount of specie reserves. Even this measure would not be an unconditional guarantee because deposits are not absolutely secured. The two big banks that fell in England during the last crisis had not issued a single note.³³²

Sonnemann did not go deeper on specie reserves, for example, demanding a reserve requirement for notes or deposits. However, he remarked that banks had to be obligated to redeem their notes immediately. If they did not pay out a client a single time, issuing notes had to be forbidden to them. Directors of banks had to be legally responsible for financial misconduct and banknotes should not be denominated in small sums, because such notes would crowd out metal money. A weekly clearing process had to be established at a central point and a commission, which consisted of members of parliament, representatives of the trade chambers and politicians, had to control financial institutes.³³³ Michaelis believed that Prussia was flooded with foreign banknotes because

³³⁰ See Drummer and Zwilling (2010).

³³¹ Stenographic Reports of the Economic Congress, 1861, 106-107.

³³² Stenographic Reports of the Economic Congress, 1861, 109. Sonnemann made the same point against the currency principle at the congress of 1863; see Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 246.

³³³ Stenographic Reports of the Economic Congress, 1861, 110.

its banking system was not free. In Prussia, there was an under-supply of notes so that Prussians held the notes of foreign banks that were only redeemable far away.³³⁴ Michaelis proposed to establish a central point for clearing, which would make it easier to banks to redeem notes of foreign banks and submit all banks to increased pressure of complying with the obligation to redeem their notes immediately. Gottfried Cohen, a Hamburg businessman, rejected the proposal of Sonnemann to establish a commission for banking control. A state commission was ineffective because its members would feel part of the supervised bank over time. Instead, bank directors had to bear full responsibility under criminal and private law. Cohen was also against concessions for stock companies or banks.³³⁵ The congress passed a resolution that condemned the Prussian draft bill and was for a unified banking legislation for Germany, full legal responsibility of directors, publication of business reports, and against monopolies or concessions.³³⁶ In 1863, the congress had its most profound debate on banking and the free traders disagreed on most questions raised by the resolution. However, they all favored free banking for banks with unlimited liability and rejected monopolies on the note issue. As Michaelis put it:

If we want bank freedom, we must first combat the concerns attached to the issue of banknotes. These [concerns] are essentially based on the fact that through a means of circulation, as the banknote is, a new demand is arbitrarily created, resulting in an artificial increase in prices and finally a trade crisis. These fears would be well justified if banks were able to create any amount of means of circulation under the rule of free competition and full self-responsibility [unlimited liability]. This is, however, not the case.³³⁷

Thus, Michaelis and the free traders believed that free banking would draw narrow limits to the issue of fiduciary media. Banks had to be regulated only if they were granted the privilege of limited liability by the state. What the exact regulations had to be for joint-stock banks was the topic of discussion in Dresden. Among other aspects, the congress decided that banks had to be legally obligated to publish a business report periodically, to redeem their notes for specie immediately upon request and that every note had to be backed by specie or bills of exchange. They had to be prohibited from buying or lending shares of other banks. As an interim solution until a freer banking system was in place, deposit banks had to be established that were forbidden to issue notes.³³⁸ Like

³³⁴ Stenographic Reports of the Economic Congress, 1861, 111-112.

³³⁵ Stenographic Reports of the Economic Congress, 1861, 114-115. Cohen released the article *Zur Geschichte und Gegenwart des Bankwesens* (On the History and Present of the Banking System) in the *Quarterly Journal*, in which he defended fractional reserve free banking (Cohen 1863, 72). In 1866, Friedrich Kleinwächter, a lecturer of the University of Prague, released the article *Eine Studie über Zettel- und Depositenbanken* (A Study on Note-Issuing and Deposit Banks) in the journal, in which he advocated fractional reserve free banking as well (Kleinwächter 1866, 112).

³³⁶ Stenographic Reports of the Economic Congress, 1861, 117.

³³⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 248-249.

³³⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 261.

all free traders, Michaelis was against concessions and wanted to set out Normativbedingungen (normative conditions) in a banking law that each bank had to comply with in its statute and business conduct. He rejected a legal reserve ratio like the 33 percent silver-requirement of the Prussian Bank by arguing:

The only real means of security is the always alert feeling of notes-risk on the side of the bank. So one may say, as many notes are presented to a bank for redemption every day, as many it must redeem *on the day of the presentation* under any circumstances, and if it does not, *then it is bankrupt*, no chicanery, no payout in four penny pieces, no limitation of payments to one bank employee or to one table are allowed for the bank to escape from the immediate fulfillment of the obligation to pay.³³⁹

Michaelis was against allowing banks with limited liability to hold Lombard liabilities or state bonds as collateral for their notes. Note holders should not be given preferential rights over depositors in the case of insolvency. However, Michaelis wanted to permit banks to back notes with business bills of exchange,³⁴⁰ in contrast to the referent Sonnemann.³⁴¹ Speaking after Michaelis, Faucher seemed to agree with his friend because he only wanted to address some minor points “[a]fter the extensive speech”.³⁴² Faucher was against a prohibition for banks with limited liability to buy or lend shares of other banks, since that would foster a false sense of security into banks.³⁴³ He illustrated his argument with the following example:

But what if the bank, of course in secret, founds a stock corporation, sort of a credit lender, which is supposed to be speculating in oil, and only lends the bank's shares? That is not forbidden [...]. It is quite impossible to force a limited liability company to keep its capital in the business.³⁴⁴

Although Faucher intervened at the end of the debate, the congress did not follow him and prohibited banks with limited liability to do business with bank shares. The most far-reaching free trader was Wolff, who called for a debate on whether banks with limited liability should exist at all, and wanted to postpone a decision to the next year.³⁴⁵ However, the free traders and Michaelis rejected his resolution to investigate the circumstances under which banks with limited liability had to be permitted.³⁴⁶ Like Sonnemann, Max Wirth opposed the currency principle, a ceiling to the

³³⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 251, emphasis in original.

³⁴⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 252.

³⁴¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 258-259.

³⁴² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 252.

³⁴³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 260-261.

³⁴⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 260.

³⁴⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 254.

³⁴⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 261.

amount of unbacked notes. In his view, most suited to prevent crises were regular publication of business reports and the duty to redeem all notes immediately. Notes and deposits had to be backed by bills of exchange, specie or Lombard liabilities, but not state bonds whose prices were too volatile. Note holders should not enjoy preferential rights and deposits must not be backed with specie or other assets.³⁴⁷ Thus, all free traders were in favor of fractional reserve free banking for banks with unlimited liability, while they preferred 100-percent reserves of specie and bills of exchange for notes of banks with limited liability. They essentially defended the same standpoint as Hübner in 1854, although the latter had not specified with such detail what collateral had to be allowed to banks with limited liability.

3.1.5 Otto Michaelis and *Notes and Deposits*

Two years later, Michaelis published the important article *Noten und Depositen* (Notes and Deposits) in the *Quarterly Journal*. He was intellectually and biographically close to the orthodox free traders and one of the most interesting attendees of the congress. Michaelis was born in the West Prussian city Lübbecke, close to Hanover, on September 26th of 1826.³⁴⁸ He studied jurisprudence in Bonn and Berlin. For a short time he worked as a civil servant, but lost his job due to a democratic pamphlet that he published during the revolution of 1848. Subsequently, he came into contact with Faucher and Prince-Smith and collaborated with the *Abendpost*.³⁴⁹ It is likely that Michaelis was an anarchist at that time. For the following twenty years, he worked as a journalist and became the editor of the economics section of the Berlin *Nationalzeitung* from 1856 on (Friehe 1933, 210).³⁵⁰ He entered the Prussian parliament in 1861 where he advocated indemnity for the government Bismarck in a historical speech in 1866. One year later, he began to work in the Office of the Federal Chancellor under Bismarck and was instrumental in advancing the economic unification of Germany, together with the president of the chancery Delbrück. However, his hopes that Germany and the constitution of the empire would move into a liberal direction were destroyed. When Bismarck turned to protectionism in the late 1870s, Michaelis became the powerless president of the federal occupational disability fund in 1880. He was depressed and unproductive towards the end of his life (Braun 1891b, 144). Michaelis died in Berlin on December 8th 1890.

³⁴⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 255.

³⁴⁸ See Braun (1891a; 1891b), Friehe (1933, 210-1), Hentschel (1975, 45-6) and Lippert (1892b).

³⁴⁹ See Braun (1893, 132), Faucher (1870b, 164) and Max Wirth in the *Neue Freie Presse*, July 26th 1894, no. 10748, morning issue, 2.

³⁵⁰ According to Friehe, the biographer of the *Nationalzeitung*, the paper defended laissez-faire and unrestricted freedom of trade from 1856 to 1866 (Friehe 1933, 73, 129-30), when Michaelis edited the economics section, and continued to reject protective tariffs throughout the 1870s (Friehe 1933, 190).

Besides his important work on banking, he published articles on railways, speculation and value theory in the *Quarterly Journal*, which he co-founded with Faucher in 1863. He was one of the most ingenious free traders, who frequently spoke at the congress before 1867. In his history of German economic thought, Wilhelm Roscher wrote on “the perceptive dialectician *O. Michaelis*, who especially acquired great merit in the theory of the latest economic phenomena, such as railroads and speculation” (Roscher 1874b, 1015; emphasis in original). Because he was always prepared to make a compromise, the pragmatic free trader Michaelis viewed readiness to compromise almost as a virtue, stating in his collected writings:

It is an often-repeated phrase that practical development is moving forward by compromises. I am so far from seeing a source of discouragement in this truth that I, on the contrary, recognize in the dialectic of these compromises the creative force that creates institutions, which conform so closely to the views and needs of time that the progresses in the sense of our principles, which are realized by these compromises, are secured against any reaction. (Michaelis 1873b, vi)

When Bismarck turned his back on the free traders, it became obvious that Michaelis's view was not a truism but “naive wishful thinking” (Raico 1999, 76). Nonetheless, Michaelis was praised for his political work by Delbrück (1905, 228) who wrote: “None of my collaborators in the confederation and the empire has rendered greater services for the confederate and imperial institutions than he has.”³⁵¹ In *Notes and Deposits*, Michaelis opposed the view that banks had to become associates or share holders of businesses, which permanently operated on the basis of debt and credit. Banks just had to intermediate capital in the form of money from lenders to borrowers (Michaelis 1873b, 336). He was not against the practice of banks to discount bills of exchange against notes, but the bill had to be a sound business bill of exchange (Michaelis 1873b, 342). Otherwise, banks discounted the same stock of goods more than once and created unbacked means of circulation, and ultimately crises:

The bank, on the other hand, which converts the bill of exchange into notes, does not give capital which is otherwise available; rather, it *creates* orders for the available market stocks, which instructions are in turn guaranteed by the promise of redemption in cash, and which, when they come back, may be circulated again and again by crediting to the same persons, as long as the public takes them and does not send them back quickly. (Michaelis 1873b, 335; emphasis in original)

The result was an outflow of specie, a decreasing purchasing power of money and a price inflation. Credit contracted and a crisis ensued when the interest rate increased (Michaelis 1873b, 337). Michaelis illustrated the effects of a monetary expansion of unbacked notes with the example

³⁵¹ Similarly, Bismarck said in a conversation with members of parliament on January 25th 1873 that one made “a good pick” with Michaelis as counselor (Bismarck 2001b, 287).

of the Prussian Bank. The central bank of issue increased its supply of unbacked notes from 1863 to 1865 because manufactures asked for funds to import cotton (Michaelis 1873b, 360-1). This monetary expansion caused an overemployment of productive factors in the rest of the economy because, due to the new artificial demand created by the notes, other industries were not forced to decrease production and channel factors of production to the cotton industry (Michaelis 1873b, 365-6). Ultimately, a permanent and artificial monetary expansion led to a profound crisis:

Thus, it is a natural necessity that, as a result of compliance with the 'demand for money', which initially appears to be temporary, the average unbacked note circulation of the Prussian Bank increases from year to year, and that in longer periods large, deep-encroaching money market crises must occur, so that 'the trees do not grow into the sky'. (Michaelis 1873b, 369)

The solution was a free banking system, where many small deposit and note-issuing banks competed with each other. If individuals were forced to accept the notes of the monopolized bank of issue, this bank was able to emit more notes than under competitive conditions. Under free banking, the banks with an expansive note-issuing policy would lose specie to competing banks or foreign countries with a more restrictive policy (Michaelis 1873b, 382-4). The same held true for free deposit banks that created too many unbacked deposits (Michaelis 1873b, 383-4). Moreover, the notes of monopolized banks circulated throughout a wider area and were less often redeemed, in proportion, than the notes of free banks. Notes of free banks circulated in a smaller area and were redeemed more frequently, since these notes left their area of circulation more often. Free banks might also buy the liabilities of an expansionist bank and ruin it. Thus, Michaelis believed that free deposit and note-issuing banks would not produce such large-scale crises than monopolized or privileged banks (Michaelis 1873b, 384-5). He concluded:

It is *free competition* and the, spontaneously taking place under its rule, *localization of banking*, which imposes the under all circumstances necessary limits of the means of payment upon the note-issuing and deposit banks in the interest of solidity, and which presses down the dreaded creation of artificial means of payment and artificial demand to the importance of a greater effectiveness of the circulating metal money for the need for sales. (Michaelis 1873b, 386; emphasis in original)³⁵²

However, Michaelis did not endorse a 100-percent reserve requirement for the system of free banks. As he wrote, it was beneficial in economic terms if a bank lent out a part of its reserves:

³⁵² Similarly, at the congress of 1865, Michaelis proclaimed: "I have nothing against the note issue itself, I only demand the abolition of monopolization and granting concessions. Once everyone can issue notes, once bank stands next to bank, so that the notes of one immediately pour into the coffers of others and become a weapon of competition for them, then the circulation of notes will soon find its most modest limit." See Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 213. In 1864, he said programmatically that "[p]rivileges must always be avoided"; see Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 203.

They [deposit banks] do not need to keep as much cash as their clients would need to hold taken together, therefore they affect that the necessary revenues are carried out by way of rewriting etc. with a smaller supply of precious metals; the surplus of precious metals becomes available for capital investment, and may also flow abroad. (Michaelis 1873b, 377)

The advantage of deposit banking was that, in comparison to note-issuing banking, people could hold more cash on their accounts because it paid interest. Hence, businessmen did not only realize profits when they sold retail but also when they bought retail, due to their greater financial flexibility. Banks possessed greater insight into the pecuniary circumstances of their clients and made better informed decisions on granting loans (Michaelis 1873b, 377-8). However, Michaelis was aware that deposit banks might create financial crises as well:

In the abstract possibility, deposits opened up for credit [to the bank] may also bring about all the confusion that notes cause in the economy, because one can buy with those [deposits] within the circles, which accept them as cash, as well as with notes within the circles, which accept these [notes] as cash. (Michaelis 1873b, 379)

However, he believed that “[t]he barriers, which are imposed on banks under free competition in the function of their promises as means of payment, turn out to be incomparably *narrower* with deposit banks” (Michaelis 1873b, 386; emphasis in original). This was because deposits could be used as means of payment only by clients of the same bank. If a client wanted to make a transaction to another institute, his bank either had to hold liabilities against that institute or had to send away specie. Moreover, few people possessed a bank account but everybody accepted notes, so the number of the people that accepted unbacked notes was far higher (Michaelis 1873b, 383-4). Michaelis also asked, for notes but not for deposits, what happened if all banks expanded their supply of unbacked notes at the same pace:

Let us assume that all banks existing next to each other are equally reckless in the expansion of their note circulation, then only mutual compensation, not the realization of the note promises, would take place through such reciprocal [interbank] clearing. However, as the different banks proceed according to different principles [policies of note issue], this clearing leads to the necessity of cash settlements, as soon as there is only one among them, which has little circulation in proportion to its turnover. For this one receives more and more foreign notes than other banks may have received from theirs. (Michaelis 1873b, 382)

In sum, Michaelis refined his argument for free banking in 1865 and defended fractional reserve free banking as a solution to the Banking Question.³⁵³

³⁵³ Michaelis's reviews, signed with the number two, may be of interest, which were published in the *Quarterly Journal* in the early 1860s. He reviewed *Banks and Crisis* (1865) by the full reserve central banker Philip Joseph Geyer.

3.1.6 The Congress on Legal Tender Laws and Deposit Banking (1864-68)

Pat the congress of 1864 and 1865, Prince-Smith gave the speeches *Ueber uneinlösbares Papiergeld mit sogenanntem Zwangskurse* (On Irredeemable Paper Money with a So-Called Compulsory Rate) and *Geld und Banken* (Money and Banks). In 1864, the congress discussed a compulsory rate, a fixed exchange rate between banknotes and specie decreed by government. It was accompanied by legal tender laws that forced citizens to accept an irredeemable currency as means of payment.³⁵⁴ The compulsory rate had become important as a means to finance war and because states like Russia, North America and Austria had introduced it (Prince-Smith 1877, 108). The resolution defended by Prince-Smith opposed any legal obligation to accept notes because it caused economic discoordination and was a “violent perversion of justice”.³⁵⁵ It recommended to eliminate a compulsory rate as soon as possible. The congress passed the resolution³⁵⁶ and did not follow Adolph Wagner, who argued for a wealth tax to finance war. The free traders thought, as Sonnemann said, that “it is not our task to show governments the ways and means to best get the money to wage war [...]”.³⁵⁷ A year later, Prince-Smith gave his second speech *Money and Banks*. Concerning economic crisis, Prince-Smith slightly deferred from Faucher and Michaelis. While he emphasized the harmful effects of an excessive issue of unbacked notes, he also believed crises to be the result of entrepreneurial error. Entrepreneurs tended to take credit for a time period that was too short to finish their production projects. Therefore, they had to ask for new credit to avoid bankruptcy. During the boom phase, demand for credit was high on the side of entrepreneurs and everyone wanted to invest his money. When the interest rate increased, entrepreneurs, which had based their long-term production project on a short-term loan, had to liquidate their investments and a crisis set in. This situation was aggravated by the fact that entrepreneurs engaged in excessive

According to Smith (1936, 125), Geyer's “explanation of the original of the boom came very close to the modern 'over-investment' theories of the Austrian school, but he failed to give any acceptable explanation of the more immediate cause of the crisis and depression.” Michaelis rejected the notion of general overproduction, which he read out of Geyer's work, because only a partial over-speculation could occur as a consequence of the monetary expansion. However, Geyer's work contained “much good and the author turns out to be a keen and conscientious thinker” (page 255); see *Quarterly Journal* III/1865, 252-255. His review of Geyer's *Theory and Practice of Banks of Issue* is more critical in tone. He rejected Geyer's view that an emission of unbacked notes caused increased production. It could just be said that a redistribution occurred to the holders of the new notes, prices increased and precious metals left the country, but it was not clear whether production or consumption would rise (page 195). Obviously Michaelis lacked an understanding of capital theory to comprehend the effects of monetary expansion on the productive structure; see *Quarterly Journal* II/1867, 192-203. Of interest might also be his review of *La Question des Banques* by the Currency School central banker Louis Wolowski; see *Quarterly Journal* IV/1864, 220-232.

³⁵⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 200. See also the article “Cours” (rate of exchange) by Adolph Wagner (Rentzsch 1866, 189).

³⁵⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 200.

³⁵⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 205.

³⁵⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 206.

speculation by withholding some of their production in hope for high future prices (Prince-Smith 1877, 75-6). Prince-Smith seemed to give the blame for the crisis to entrepreneurs, who “misuse the temporary bank credit, and, as soon as this error has dire consequences, demand from banks that they misuse their credit and transform the trade deception into a banknote deception” (Prince-Smith 1877, 77).³⁵⁸ However, he stated a year later that this lending conduct of entrepreneurs would remain a minor problem if monopolized banks would not lend out specie reserves of their notes (Prince-Smith 1877, 89) and commented: “If, nevertheless, this form of the loan is maintained for short-term renewal bills of exchange, it has the purpose of control [of the entrepreneur], and may be indispensable to a bank that participates in so many transactions” (Prince-Smith 1877, 88). Prince-Smith then arrived at the same conclusion as Michaelis and Faucher, that a limit had to be set to the note issue of a monopolized bank of issue (Prince-Smith 1877, 77).

Accordingly, the resolution of 1865 declared privileges of note-issuing banks as economically harmful and as hindering the development of deposit banking in Germany.³⁵⁹ Sonnemann declared that “the banking institutions do no longer require state paternalism”.³⁶⁰ As he explained, the free traders’ intention was to set up a system of free deposit banks to mitigate against the dangers of privileged note-issuing banks. Deposit banks had more insight into the financial situation of their clients than banks of issue when they granted credit, and they shared their profits by paying interest. In England, the market share of banks of issue had become small due to deposit banking. According to Sonnemann, ninety percent of the English demand for money was managed by deposit banks. Indeed, it is true that the German banking system was underdeveloped compared to the English banks; deposit banks and cheques did almost not exist and notes were emitted by a few centralized note-issuing banks (Bluntschli and Brater 1864, 309). The free traders wanted to crowd out the notes of monopolized banks of issue by introducing deposit banking and a cheque system. Deposit banks were seen as a remedy against the social ills caused by the overissue of notes. As Michaelis said at the congress of 1865: “The giro services for the public by the [deposit] banks produce relief of the evils, which are to be cured by the paper money mission [...]”.³⁶¹ Moreover, the free traders also advocated deposit banking because they realized that free note-issuing banking was politically not in reach.³⁶² Hence, during the debate, all speakers endorsed freedom of note issue and deposit

³⁵⁸ Prince-Smith made the same argument in his article from 1866 (Prince-Smith 1877, 98-100).

³⁵⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 206-207.

³⁶⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 208.

³⁶¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 215.

³⁶² As Michaelis wrote: “To make the development of banking dependent on the gaining of the freedom of notes means to postpone ad graecas calendas [never at all]” (Michaelis 1873b, 323).

banks and the congress accepted the resolution “almost unanimously”.³⁶³ In 1868, the congress discussed banking a sixth time. The referent Heymann presented a resolution by the association of businessmen from Breslau, which proposed the adoption of the English cheque system and a unified and lowered stamp tax for cheques.³⁶⁴ Faucher endorsed a cheque system and deposit banking in his intervention, and reasoned that England was wealthier than Germany because of its deposit and cheque system. The English held a higher amount of cash under a cheque system. They made better use of cheap opportunities to buy, whereas German businessmen succeeded in selling.³⁶⁵ Dorn, Böhmert and Emminghaus went a step further and was for the abolition of any stamp tax on cheques. The congress followed these three men and rejected the stamp tax on cheques, but accepted the rest of Heymann's resolution.³⁶⁶

3.1.7 Prince-Smith and *On Credit*

Prince-Smith gave his most elaborate answer to the Banking Question in 1866 when he released *Ueber den Kredit* (On Credit). In the article published in the *Quarterly Journal*, he criticized the popular belief that credit had to be solely granted if the debtor was trustful, if it earned interest and if it could be demanded back immediately. A credit could not be available to the lender at any time, otherwise it would not earn interest: “I must always keep lying ready a supply that can be picked up by me at any given moment” (Prince-Smith 1877, 87). Similar as Hübner, Prince-Smith saw a major cause for crises in the fact that privileged banks of issue took a one-day credit in form of notes, but granted a three-months credit to their clients by discounting bills of exchange. Nevertheless, he did not arrive at Hübner's so-called golden rule that prohibited maturity mismatching (Prince-Smith 1977, 89). Like Michaelis and Faucher, he was against legal reserve requirements like the 33-percent reserve silver ratio of the Prussian Bank and recommended a maximum limit to the unbacked note issue (Prince-Smith 1877, 90). However, the superior solution was banking freedom: “It would be better, however, to avert serious crises by replacing the few centralized banks of issue with many free banks, among which competition would produce a rapid mutual reaction against emerging maladjustments” (Prince-Smith 1977, 92). Interbank clearing would discourage banks to overexpand their supply of unbacked notes, deposits or cheques (Prince-Smith 1877, 94). Moreover, there was an international clearing process, by which imprudent countries lost specie to more

³⁶³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 219.

³⁶⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 194.

³⁶⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 194-195.

³⁶⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 199.

prudent nations (Prince-Smith 1877, 95). Prince-Smith also pointed out more clearly than any other free trader that deposit banking may bring about economic crises just as note-issuing banking might do: “Deposit banks [...] are engaged in a business that, in essence, has a very similar effect, and is connected with the same dangers from the same causes” (Prince-Smith 1877, 92). Peel’s Banking Act had failed by permitting the creation of unbacked deposits, so that crises continued to occur in England:

The great creation of uncovered credits [deposits] began just after Peel's curtailment of uncovered notes, probably as a result of it [...]. Today one has not yet learned to recognize a similar warning in the increase of the deposit amounts. One does not look after regular publication of the same. And if they are compiled and released occasionally, one does not think of distinguishing the real deposits from the uncovered credits [deposits] [...]. Now that the amount of artificial means of payment in England has exceeded the requirements imposed by the equilibrium laws of the world market to the extent that a metal export is finally demanded for adjustment, this retroactive blow necessarily falls on the London central bank [...]. But against a deposit mass estimated at three thousand million thalers, what does a reserve of fifty million or less than two, usually rather one percent, want to say [...]?

(Prince-Smith 1877, 95-6)

However, Prince-Smith did not conclude that deposit banks should be forbidden from emitting fiduciary media:

The legitimate business of deposit banks is to credit money, which they received, to the depositor and to keep it permanently available. And insofar as they know that not all customers will command their deposit at the same time, but always want to hold a certain cash balance, they may invest a certain portion of the deposits in short-term bills of exchange for their own benefit. They thereby intermediate the healthiest credit, which consists in the fact that supplies which one [person] already has and does not need, are now used for the time being by another person who already needs them and has them not yet, which leads to the unrestricted use and full exploitation of the supplies. (Prince-Smith 1877, 92)

Thus, he was pessimistic that interbank clearing was sufficient to prevent crises. Apart from international clearing, fractional reserve free banking had “no law of restriction in itself” (Prince-Smith 1877, 98). Hence, when a crisis broke out, banks should meet any demand for specie and not issue any new notes, for that would only prolong the recession (Prince-Smith 1877, 97).

3.1.8 Faucher and Michaelis against the Banking School

In 1865, Faucher and Michaelis prevented in the House of Representatives that the Prussian Bank would receive additional note-issuing privileges.³⁶⁷ This episode would initiate a debate

³⁶⁷ See Stenographic Reports of the House of Representatives, April 1st 1865, 32nd session, 889-892; Michaelis (1873b,

between followers of the Banking School and the free traders. On April 1st, the second chamber of the Prussian parliament debated a draft bill that allowed the monopolized bank of issue to establish subsidiaries outside of Prussia. Faucher and Michaelis were against the bill because they feared a further expansion of the supply of notes. The law would widen the area of circulation of the notes of the Prussian Bank. Both free traders introduced an additional resolution, which set a maximum limit to the issue of unbacked notes for the case that the Prussian Bank would set up subsidiaries. Unbacked notes should not exceed its silver reserves for more than 60 million thalers. The Prussian Bank considered a limit as undesirable and refrained from opening subsidiaries after the bill was passed. In his speech, Faucher warned of a crisis and a metal outflow if the bill would be accepted. Prussia would have to suspend redemption of the notes and introduce—like Austria—a compulsory rate. Prices of all goods would increase faster than wages so that workers would suffer most. Additionally, more silver might flow back to Austria in the future if the Austrian economic situation improved. The House of Representatives accepted the resolution of Faucher and Michaelis. This incident created a great deal of public attention, as Faucher or Michaelis recounted in the *Quarterly Journal*: “Astonishment about this outcome was [...] not small in the whole country [...]. It is perhaps for the first time in the history of parliaments, at least of the Prussian parliament, that a debate had such an effect.”³⁶⁸

Thereafter, Erwin Nasse, a professor of economics in Bonn, released the book about the episode *Die preußische Bank und die Ausdehnung ihres Geschäftskreises in Deutschland* (The Prussian Bank and the Widening of its Area of Business in Germany, 1866). He argued that a central bank was more effective in combating the panic mood of a crisis, because it could meet the high demand for means of circulation by issuing unbacked notes. In contrast to free banks, it was not subject to a domestic drain of reserves due to the interbank clearing mechanism, but just to an outflow to foreign countries. Hence, he rejected Peel’s Banking Act and a ceiling to unbacked notes (Smith 1936, 124; Schumacher 1908, 21). His rather short book has been called “the hitherto most significant of the German banking literature” (Schumacher 1908, 22). It caused a transformation in the thought of Adolph Wagner, one of the leading German monetary theorists. Wagner turned away from free banking due to the influence of Nasse’s book. As a follower of the English Banking School, he was critical of the quantity theory of money and a limit to the issue of unbacked notes. The free traders, on the other hand, followed the Currency School on these aspects and aimed to limit the unbacked note issue under central banking. Thus, Wagner and Nasse came to publicly

344-6) and *Quarterly Journal* II/1866, 230-6.

³⁶⁸ *Quarterly Journal* II/1866, 235.

oppose Faucher and Michaelis on banking. In 1866, the free traders reviewed Nasse's book in the *Quarterly Journal*.³⁶⁹ The reviewer defended the quantity theory and argued along Michaelisian lines that a free banking system with small and local banks would limit the supply of unbacked notes:

Under full free banking, the credit form of the banknote follows the same law that all credit follows. Its uncovered emission only grows in accordance with national welfare, that is, the need. [...] *But where, in the absence of the control by liberty, unbacked banknotes are issued beyond the need [of the public], there will be demand without a proper supply leading to consumption without adequate production, and to a price increase that otherwise would not have occurred, and it is punished by a disturbance of international trade.*³⁷⁰

Hence, crises would disappear under free banking. Faucher's and Michaelis's victory in parliament took place in the middle of the Prussian constitutional conflict. The Progress liberals feared that the Prussian government wanted to obtain a new source of funds in the budget conflict (Schunke 1916, 26-7). As the Progress liberal Hoverbeck wrote in a letter to Witt: "I voted against the law because I do not give this ministry a bill of money, and this, though in an improper way, can become one" (Schunke 1916, 27).

3.1.9 Conclusion: The Place of the Free Traders in the History of Thought

When the free traders defended free banking in the 1860s, two dominant schools of thought existed in the field of monetary theory, the Banking School and the Currency School.³⁷¹ Prominent members of the Banking School, a group of British economists in the first half of the 19th century, include John Fullarton, Henry Parnell, James Wilson, Henry D. MacLeod and Thomas Tooke. They believed that a free banking system operating with a fractional reserve was economically and juridically justified and advantageous for a nation; that monetary expansion by the issue of unbacked paper money was necessary to adjust to the "needs of trade", to economic growth and population growth; and that a growing money supply by the issue of unbacked notes did not increase prices or exert distorting effects on the productive structure (Huerta de Soto 2006, 623-4). The second group of 19th century monetary theorists was the Currency School of which prominent

³⁶⁹ *Quarterly Journal* II/1866, 230-47. Faucher or Michaelis must be the author, because the reviewer identified as one of the editors of the journal; see *Quarterly Journal* II/1866, 235. On page 239, he also expresses views on methodology and the Historical School that are typical for Faucher (compare Faucher 1863a).

³⁷⁰ *Quarterly Journal* II/1866, 242, emphasis in original.

³⁷¹ See Huerta de Soto (2006, 622-46) and chapter nine of Smith (1936).

members were Robert Torrens, S. J. Lloyd (later Lord Overstone), J. R. McCulloch and George W. Norman. Their central idea was that gold had left the United Kingdom as soon as the Bank of England and other British banks had expanded the money supply at a faster pace than other nations. They criticized the expansive monetary policy of the British banks during the 1830s and 1840s, when Great Britain experienced several recessions. However, they made the crucial mistake of not recognizing that the creation of unbacked deposits had the same effects than the issue of unbacked notes. Therefore, since crises did not cease to exist, they eventually advocated the establishment of a central bank (Huerta de Soto 2006, 628-9). In Germany, the most prominent members of the Currency School were Tellkampf, Geyer, Knies and Neisser.³⁷² These men wanted to establish a central bank that operated under a 100-percent reserve ratio. Followers of the Banking School were Lasker and Wagner.

What was the place of the German free traders among these theorists? Huerta de Soto (2006, 645-6) distinguishes four types of theorists that are, among the Banking School, fractional reserve free banking and fractional reserve central banking and, among the Currency School, 100-percent reserve free banking and 100-percent reserve central banking. Among the fractional reserve free bankers, he identifies the British Banking School and the moderns George Selgin, Lawrence White and David Friedman. 100-percent free bankers are Michaelis, Hübner, Ludwig von Mises and the moderns Murray Rothbard, Hans-Hermann Hoppe and Jörg Guido Hülsmann. However, as seen, Michaelis and Hübner never endorsed a legal ban on the issue of fiduciary media. Michaelis stated that free banks might lend out a part of their reserves, so that funds were more effectively employed, but free competition would draw narrow lines to unbacked loans or notes. Similarly, Hübner argued that full reserves should just be mandatory for privileged banks.³⁷³ Thus, Prince-Smith, Michaelis, Faucher and Hübner were fractional reserve free bankers, while Hartwig Hartz is an exception because he seemed to endorse full reserve free banking regarding deposit banks. A further step of analysis might be to divide the German fractional reserve free bankers into an expansionist and a restrictive group. The expansionists (Wagner, Lasker) were critical of the quantity theory of money and welcomed the replacement of metal money with fiduciary media to stimulate the economy. The restrictionists (the free traders) approved of the quantity theory and,

³⁷² Tellkampf was a peripheral member of the free trade movement, since he was a member of the Economic Society of Berlin, founded by Prince-Smith in 1860. Michaelis, Hübner, Faucher, Lette and other free traders visited this group that met once a month and whose objective was to revive interest in economics (Haller 1976, 283). Tellkampf is excluded from this work because he never visited the Economic Congress. See Smith (1936, 116-7) for his monetary theory.

³⁷³ Huerta de Soto (2006, 641-4) writes: “This [statement by Mises] does not seem to square with other comments made by Mises, who at the end of the book proposes a return to a 100-percent reserve ratio and a ban on the creation of new fiduciary media, just as Tellkampf and Geyer (among the defenders of a central bank), and Hübner and Michaelis (among the defenders of free banking) do” (Huerta de Soto 2006, 642).

although they bought into the argument of economic stimulation, believed that narrow limits were drawn to the issue of fiduciary media under free banking. They favored a maximum limit on the note issue under central banking, in contrast to Wagner and Lasker.

3.2 Functions of the State, Municipality and Taxation

The orthodox free traders were not only for free banking, but applied the principle of *laissez-faire* to all fields of economic policy. As seen, Faucher, Wolff, possibly Michaelis and other Berlin free traders even advocated anarchism in 1850. In the 1860s, the orthodox free traders wanted to reduce the state to a security producer. This is shown by the debates on taxation from the first half of the 1860s. In what follows, Faucher's article on taxation from 1863 is examined, which was influential on Braun, Michaelis, Prince-Smith and Wolff. It is also shown that Hübner reached the same minimal state standpoint in the 1860s, although he was less doctrinaire in his youth.

3.2.1 Faucher's Night Watchman State

Faucher published *Staats- und Kommunalbudgets* (State and Municipal Budgets, 1863b) in the second issue of the *Quarterly Journal*. This article was the basis for the resolution on state and municipal taxation discussed by the congress of 1864. In Faucher's view, state and municipal taxes had to be submitted to the benefit principle, according to which public services were paid by those who used them (Faucher 1863b, 184). He demanded a cut of the state budget because cultural progress set in once government withdrew from interfering into the economy. Another, but less preferable, way to decrease the tax burden was raising expenditures for charity and other public purposes, which supposedly benefited the people. However, rulers might use the public good as an excuse to line their own pockets (Faucher 1863b, 187-8). Faucher gave as example the absolute monarchy of the 18th century in France with its pompous castles (Faucher 1863b, 191). Moreover, cultural achievements in sciences, arts and architecture could evolve on a free market, as Faucher explained in a Bastiatian way:

We cannot know what would have happened and developed during hundred years if another power relationship would have prevailed, nor did you [“cultural historian of the political school”]. We never put up with counting *what one sees* as pure profit, simply because *one cannot see* the lost precisely because it was lost. All your wisdom suffers from this basic error, which is practically therefore not just a unusable, no, a most damaging wisdom. (Faucher 1863b, 192; emphasis in original)

Since the 18th century, state expenditures did not only increase quantitatively—for example, in the case of the rising military expenditure—but also qualitatively when the state spent money for goods and services that had been provided by private entities before (Faucher 1863b, 193). Regarding tax collection, in the 18th century, the state did not mind whether collection costs were

high. Taxes were paid by those who did not have to bear them and strong members of society did not have to pay anything, only the poor people (Faucher 1863b, 193). In the 19th century, the state attempted at minimizing collection costs and taking the economic effects into account of a certain tax. The view spread that a state had to correct individual market outcomes: “The budget became the value calculus of an economic mechanism with moral impetus, which had to compensate for the mistakes and imperfections of the ordinary economic mechanism, which solely knows self-interest as impetus” (Faucher 1863b, 195). Faucher arrived at the formula that government was politically less stable the more it intervened into the economy: “*The stability of government diminishes in the square of the extension of its rights and duties*” (Faucher 1863b, 198; emphasis in original). The political nihilism of the *Abendpost* seemed to resurface at this point because Faucher stated that for the formula to hold, it did not matter whether the state was a monarchy, aristocracy or a democracy. Government had to be limited to its former core tasks, the protection of borders, jurisdiction and foreign security. In doing so, expenditures had to be cut back at a slower pace than revenues, because many people had adapted themselves to the present expenditures and their property was devalued in case of a sudden reform (Faucher 1863b, 198-9). Additionally, state expenditures should not exceed revenues (Faucher 1863b, 200) in the process of cutting taxes. Faucher was the only orthodox free trader, who opposed the income tax (Faucher 1863b, 200-1; Wolff 1880, 295). He advocated indirect taxes that followed the benefit principle, for example, a stamp tax for judicial services, a land tax and a pure property tax on physical capital (Faucher 1863b, 200-205). He also introduced the common distinction between municipality and state into the free trade theory of public finance. The municipality possessed an economic character and collected fees or contributions, whereas the state was of a political nature and raised taxes:

In the state, the taxpayer pays for what the state really is, regulation of internal and external power, and, as far as possible, should be held liable on the basis of the advantage which he, either as a whole or as in the case of protection by judicial power, in particular cases, draws from the regulation of power. In the municipality, the individual simply pays for the advantage of *living together with a greater number of people, between whom the labor can be divided without transport*, and has to pay as much as necessary *to make the cohabitation of such a great number [of people] as safe and comfortable as possible and, moreover, to increase as much as possible the benefits of cohabitation.* (Faucher 1863b, 210; emphasis in original)

Faucher compared the municipality to a house where every tenant had to pay for the areas in common use like the roof (Faucher 1863b, 212). He proposed a rental tax for the part of the municipal budget that could not be covered by fees. The rental tax was the closest measure for the benefits, which each inhabitant received from municipal services. Only very poor people should be

exempted from paying the rental tax (Faucher 1863b, 213). He illustrated his view with the case of a big city that built a bridge to small town and collected a transit duty. The new bridge increased rents in the city due to the improved infrastructure and the higher demand for housing. The transit duty followed the benefit principle by taxing those that used the bridge. However, if the city decided to eliminate the duty due to its unpopularity among the citizenry, and finance maintenance and construction from its budget, landlords enjoyed increased real rents while citizens had to finance these rents by municipal taxation (Faucher 1863b, 215-18). Faucher therefore recommended a rental tax because “*the rent is the proportionally most accurate expression of the interest which everyone has in the local creations and institutions*” (Faucher 1863b, 218; emphasis in original). It was high for rich people that usually possessed large houses or apartments, high in the city center and businesses had to pay more than regular residents (Faucher 1863b, 218-9). Those were the groups that utilized municipal services to a greater degree. Since other harmful taxes would be abolished, a rental tax would not raise rents for housing (Faucher 1863b, 213).

Prince-Smith, Braun, Michaelis and Wolff followed Faucher's vision on municipal taxation and favored the night watchman state as well. Prince-Smith argued for a rental tax at a meeting of the Economic Society of Berlin on November 25th 1865, because it imposed the municipal tax burden in proportion on those that profited from the services of the municipality. Being himself a homeowner at Unter den Linden, Berlin's most noble district, he illustrated his point with the following example: “A homeowner at Under the Linden receives rent not only for his room, but also for the Baumallee, for the proximity of the Thiergarten, the university, the palaces, the theaters, for everything that leads frequency to his neighborhood.”³⁷⁴ Braun endorsed Faucher's ideas in the article *Staats- und Gemeindesteuern im Zusammenhange mit Staats-, Heeres-, Kommunal- und Agrarverfassung* (Municipal and State Taxes in Relation to the State, Military and Agricultural Constitution, 1866). Published in the *Quarterly Journal*, the text identified the view of the congress attendee Grumbrecht, that state taxes had to follow the same principles as municipal taxes, as “the sole source of all left errors on this question [of municipal taxation]” (Braun 1866, 3). Like Faucher, Braun saw the state as a political organization that was responsible for questions of power and legal certainty, whereas the municipality was an economic union responsible for agriculture, trade and industry. He described the mission of the state as “[n]othing else than *legal protection of the individual and property domestically and the development of power externally, which is beneficial*

³⁷⁴ *Nationalzeitung*, December 7th 1865, no. 573, morning issue, 6. One year before, Faucher had already presented his ideas on municipal taxation in the Economic Society. He viewed the slaughter and milling tax as the most harmful of the municipal taxes, reasoning that Berlin had to eliminate this tax altogether and just collect rental taxes. According to Faucher, at that time, the revenue of the slaughter and milling tax amounted to 742,000 thalers while the rental tax accounted for 1,4 million thalers of the Berlin Budget; see *Nationalzeitung*, February 4th 1864, no. 573, morning issue, 6.

to individuals and the community” (Braun 1866, 17; emphasis in original). Usually, development of power to the outside was peacefully but Braun allowed for foreign interventions: “It [‘state authority’] will have to do it by way of war, [...] either [to] ward off irreplaceable harm, or to acquire an indispensable aid, or to give external recognition to a change in the relations of power which has already taken place internally” (Braun 1866, 17; emphasis in original). A state that was not capable to protect its citizens had to be abolished. The duties of the citizen were to pay taxes and conscription (Braun 1866, 17). The state was allowed to violate the benefit principle only when it financed its core competences, for instance conscription (Braun 1866, 7).

In contrast to Faucher, Braun did not only allow for a state property tax, but also for a state income tax to finance the core tasks, diplomacy and the military. He interpreted them as an insurance rate for the protection of life and the property of the citizens (Braun 1866, 8, 24-5). Braun supported a stamp tax to finance the justice system. Churches, schools and administrations could be financed in accordance to the benefit principle and fell under the responsibility of municipalities (Braun 1866, 9). He did not delve deeper into the issue of education. Municipalities could be divided into a school community, a church community, a community that helped the poor or a dike community that built and maintained dikes, and so forth. Each community administered its own budget that was provided by its members, which utilized its goods or services. If a municipality was not differentiated and every municipal task was centralized in one local authority, Braun recommended a land tax for rural towns and a rental or building tax for urban villages (Braun 1866, 12). This was because farmers and landowners were the main beneficiaries of municipal spending in rural settlements, whereas those benefits flowed to the owners of houses in urban areas. Thus, Braun followed Faucher in his distinction of municipal and state tasks, on the advocacy of the benefit principle, the rental tax for municipalities and on the stamp tax. They only disagreed on the income tax.³⁷⁵

Thus, the orthodox free traders defended a minimal state that was responsible for jurisdiction, foreign security and border control. These tasks had to be financed, as far as possible, with indirect taxes that followed the benefit-principle, like a stamp tax for judicial services. If indirect taxation was impossible for a budgetary item of the state, Faucher proposed a property tax while the others

³⁷⁵ Loh arrives at a slightly different result and attributes to Braun a centrist position, but admits that Braun was ideologically “close” to Faucher and Prince-Smith on municipal taxation (Loh 1928, 68-9). In his book on the free trade doctrine of taxation, he distinguishes between an extreme group, which supports a minimal state that is just responsible for security and justice, and a moderate group that allows for more government intervention. While the extreme group endorses the benefit principle, the moderate group wants to base municipal taxation on the ability to pay. The extreme group is influenced by Bastiat, whereas the moderate group by Kant and Rousseau. Members of the extreme group are Prince-Smith, Faucher, Braun and Michaelis; moderates are Rentzsch, Emminghaus, Lette, Wichmann, Werenberg and Pfeiffer (Loh 1928, 3-11).

also approved of an income tax. Municipalities collected fees instead of taxes and were an economic instead of a political community. As in England, they had to finance themselves with a rental tax if budgetary items could not be financed with fees. Faucher was the only free trader who opposed the income tax, a position that he would give up in 1866.

3.2.2 The Congress of 1864

The free traders discussed Faucher's ideas on municipal taxes at the congress. In 1864, the resolution of the commission rejected a food and an income tax for municipalities, because they violated the benefit-principle, and advocated a rental tax.³⁷⁶ The referent Wolff opposed the notion that eliminating food taxes did not lower food prices. He endorsed the income tax as a state tax, like most speakers at the congress.³⁷⁷ However, Faucher rejected the income tax on the grounds that rich people evaded it easily while public officials and workers had to bear its full burden. As he said, tax fraud had to be tremendous in Prussia given the current income tax revenue per capita.³⁷⁸ Food taxes were not abolished so far because there was no substitute except for the very unpopular income tax. Faucher explained about its unpopularity:

The unpopularity is not really undeserved. In the state, we bear the income tax, as we bear many public expenditures—for example, those for the military—as a necessary evil, as a consequence of the power still prevalent in the world.³⁷⁹

He also pointed to its high collection costs. Its main disadvantage was, however, that income was not clearly defined: “What is income, what is gross and what is net income? Nobody knows how to set a fixed rule about it.”³⁸⁰ Illustrating his point, he told the story of a rich physician in London, who had been able to convince the authorities that he did not make any income. It was unjust that people with a permanent and secure income had to pay the same as people with an insecure income, or a childless man and a man with eight children. By contrast, the rental tax was characterized by low collection costs and a difficulty to evade it. To Rentzsch, who had argued that a rental tax did not follow the benefit principle, Faucher pointed out that a person owning a great apartment or a house made greater use of municipal resources like the sewer, police or the streets. People, who lived in the city center and whose rents tended to be higher, also utilized public resources to a

³⁷⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 159.

³⁷⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 161-162.

³⁷⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 176.

³⁷⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 175.

³⁸⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 176.

greater degree than people that paid low rents. He concluded that “if you let the individual [resident of a municipality] pay more simply because he has more, you do not act different than the communists, who also punish property because it is there.”³⁸¹ The speaker after Faucher, Wichmann from Hamburg, supported the income tax by saying:

In this last aspect [tax fraud], I note that when the income tax is introduced, the state must have the right, as well as the duty, to let pecuniary circumstances made clear to itself in each case of death; and, if it finds that the deceased person cheated the state, to collect the defrauded sum with Spartan rigor (Protest).³⁸²

Wichmann's intervention created “protest” on the side of the listeners and the next speaker Michaelis called the proposal “terrorism”.³⁸³ Like Wolff, Michaelis followed the line of argument that Faucher expounded in *State and Municipal Budgets*. If the standard for just taxation was not the benefit principle but the distribution of income, one could call the market as such unjust and would come close to “the frontier of communism”.³⁸⁴ Since the benefit principle was “the fullest manifestation of justice”,³⁸⁵ it had to be applied in every case possible and taxation according to the ability to pay had to remain the last resort. Michaelis endorsed Faucher's rental tax for municipalities because, contrary to a food or income tax, tourists and strangers were taxed as well according to their fair share. He opposed a business tax since the size of a firm was not a good approximation for the use of municipal resources. However, the congress did not reach a decision and postponed the topic to the next year.³⁸⁶

3.2.3 The Congress of 1865 and 1867

The congress debated state and municipal taxation two times after 1864. In 1865, the free traders only talked about a resolution that postponed the debate another time.³⁸⁷ The referent Alexander Meyer defended Faucher's view from *State and Municipal Budgets*. The journalist supported the rental tax and rejected the municipal income tax, since the latter violated the benefit principle. He recommended to investigate the issue further to reach an informed decision in future meetings.³⁸⁸ A

³⁸¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 178.

³⁸² Ibid.

³⁸³ Ibid.

³⁸⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 179.

³⁸⁵ Ibid.

³⁸⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 180-181.

³⁸⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 237.

³⁸⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 238.

second group was against applying the benefit principle to taxes. This group was headed by Arwed Emminghaus, the editor of the *Bremer Handelsblatt*. He was a close friend of Böhmert and a member of the Bremen idealist group. Born close to Weimar on August 22nd 1831, Emminghaus studied economics and jurisprudence and was Böhmert's successor at the *Bremer Handelsblatt* in 1861.³⁸⁹ He became a professor of economics at the University of Karlsruhe and the president of the German Life Insurance Bank in 1873, which exists to this day under the name “Gothaer”. In later parts of his life, he dedicated many publications to the life insurance sector, for example, *Die Behandlung des Selbstmordes in der Lebensversicherung* (The Treatment of Suicide in Life Insurance, 1875).³⁹⁰ As Schuricht (1959) notes, he established the basis for a new branch of actuarial science, medico-actuarial science, with his investigations on mortality. He defended almost the same standpoints on economic policy as Böhmert and was influenced by the economics professor of the University of Jena Friedrich Gottlob Schulze. He died in Gotha on February 8th 1916.

At the congress of 1865, Emminghaus argued that, because no market existed for municipal and state services, one could not estimate how much each citizen had to pay for services like state diplomacy.³⁹¹ Moreover, collecting the municipal income tax with the state income tax created less collection costs than a separate municipal rental tax.³⁹² Basing himself on Adam Smith—who had supported, however, a proportional income tax—Emminghaus endorsed a progressive income tax and stated that the functions of state and municipality could not clearly be separated. It was also not possible to apply the benefit principle to all municipal taxes. He therefore recommended a municipal income tax that was collected together with the state income tax (Rentzsch 1866, 894).³⁹³ Wolff disputed Emminghaus's argument that jointly collecting municipal and state income tax was less expensive. The case of the Berlin rental tax proved that rental taxes had lower collection costs than municipal income taxes collected with the state tax.³⁹⁴ Wichmann reasoned that a rental tax would decrease housing prices and be a burden for landlords. Meyer agreed with Wichmann's

³⁸⁹ See Hentschel (1975, 73-4), Lippert (1892a) and Schuricht (1959).

³⁹⁰ For a review by Faucher, see *Quarterly Journal* IV/1875, 193-201.

³⁹¹ See the article “Steuerwesen” (system of taxation) by Emminghaus (Rentzsch 1866, 894).

³⁹² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 238.

³⁹³ See also the article “Einkommensteuer” (income tax) by Emminghaus (Rentzsch 1866, 246-53). In the 1860s, income taxes did not exist in many German states. Exemptions were Austria, Prussia and the small states Weimar, Oldenburg and Zürich. In the case of Prussia, income tax revenues just accounted for twenty percent of the total tax revenue (Rentzsch 1866, 253). From a modern perspective, income taxes were very low in the times of the free traders. Emminghaus commented that “10 percent taxes on pure income already form an enormously high, only occasionally occurring percentage” (Rentzsch 1866, 249). As late as 1892, the Prussian income tax started at 0.62 percent for the lowest class of income and rose up to 4 percent for the highest class above 100,000 German gold Mark.

³⁹⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 239.

critique but viewed decreasing house prices as a small injustice compared to the injustice of an income tax. The congress postponed the discussion to the next year and installed a commission headed by Emminghaus, which had to collect material on municipal taxation in the various German states.³⁹⁵

In 1867, Braun was the referent and defended once again the standpoint of Faucher. According to his resolution, state taxes had to be subject to the individual ability to pay, while municipal taxes had to follow the benefit principle. It recommended a rental tax for municipalities and not an income tax.³⁹⁶ Braun commented the situation in various German states, of which some countries forbade certain forms of municipal taxation while others did not regulate anything. Although the congress was in favor of municipal autonomy in principle, Braun had reservations about letting municipalities choose their form of taxation. If there were no regulations, municipalities might sell their assets to cover current expenses, and one local group could impose municipal expenses on another group.³⁹⁷ Braun illustrated his point with an incident in a small village, where a majority of farmers had introduced a tax that was exclusively paid by a manufacturer, whereas revenues were used to built infrastructure and to put the local forest into common use for farmers. Regarding selling municipal property, he recommended autonomous decisions of municipalities for each particular case.³⁹⁸ Braun defended the benefit principle by repeating the main points of his article from 1866. The municipality was not “a local administrative district of the state” because it predated the state, but “an economic association”.³⁹⁹ He assigned no other tasks to the state than “the development of power to the outside” and “legal protection inside”.⁴⁰⁰ In contrast to local economic purposes, military and legal protection could not be organized in a decentralized manner. Braun admitted that civic society was not prepared to undertake everything by itself except for these core tasks. However, this was mainly the case because the state infantilized its citizens:

If the state wants to fulfill its mission, then it must work to become superfluous on the economic field, and to only remain a large insurance institution to secure persons and possession, and at the same time to raise a premium: by compulsory military service from persons, and by an income or property tax from possession.⁴⁰¹

³⁹⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 240.

³⁹⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 194-195.

³⁹⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 197.

³⁹⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 198-199.

³⁹⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 202.

⁴⁰⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 201.

⁴⁰¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 202.

Emminghaus, Roesler and Grumbrecht rejected Braun's resolution and his strict application of the benefit principle to municipal taxes. As Emminghaus argued, strict application would imply that poor parents would pay high school fees for their children.⁴⁰² Wolff intervened on this point and sided with the orthodox group. While he disagreed with Braun on the nature of the municipality, because both state and municipality were “*coercive unions*”,⁴⁰³ he endorsed the benefit principle for municipal taxes. Wolff responded against the school-fee-argument:

Should I, as a taxpayer, be forced to pay school fees for others? (Shout: sure!) And why should I not be compelled to pay bread and meat for others? (Unrest and protest) Mister Grumbrecht says: that is a difference. Education and food are two different things. Yes, but food is certainly a much more necessary thing than education and going to school. (Laughter) I also do not want to deny that the municipality is obliged to provide food, as it is obliged to provide teaching, under some circumstances, and I therefore have no objection against taxing the community members, so that the children of the poor get lessons.⁴⁰⁴

Hence, he proposed to establish public schools for the poor: “One may thus found schools for the poor, good schools for the poor.”⁴⁰⁵ Like Faucher, he went so far as to apply the benefit principle to state taxes. However, this was a goal for the future once the state was reduced to its core tasks of legal protection and external security. For the moment, a state tax according to the individual ability to pay was preferable.⁴⁰⁶ Michaelis also defended Faucher's standpoint by pointing out that all taxes except for taxes on land aggravated the housing situation.⁴⁰⁷ Nonetheless, the sole speaker that agreed with Braun, Faucher, Meyer, Michaelis and Wolff was Pfeiffer.⁴⁰⁸ The rest joined Emminghaus's side and the congress, in consequence, rejected the part of Braun's resolution that recommended the benefit principle for municipal taxation.⁴⁰⁹ However, neither did the free traders accept a contrary resolution of Emminghaus's group. Faucher and Prince-Smith had not intervened into the debate, although both were present.

3.2.4 Otto Hübner's Limited Government

As seen, Hübner was an orthodox free trader, who advocated free banking in his treatise *The*

⁴⁰² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 206.

⁴⁰³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 207, emphasis in original.

⁴⁰⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 208.

⁴⁰⁵ Ibid.

⁴⁰⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 209.

⁴⁰⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 212.

⁴⁰⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 213-214.

⁴⁰⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 215.

Banks (1854). He also defended a strict minimal state in the 1860s. He was just a few times at the congress and did not attend after 1869.⁴¹⁰ Otto Hübner was born in the Saxon city Leipzig on July 22nd 1818.⁴¹¹ Being an economist and statistician, he originally worked as a businessman for the largest Austro-Hungarian shipping company Lloyd. He was a member of the Committee of Fifty in 1848, a pre-parliament in Frankfurt that existed until the national assembly formed in the St. Paul's church. One year later, he was expelled from Austria and lived in Berlin until his death. He is most famous for his book *The Banks* and was also known for his publication *Statistische Tafel aller Länder der Erde* (Statistical Tables of all Countries of the Earth) that came out from 1851 on, published by Hübner's "Centralarchiv für Statistik" (Central Archive for Statistics). It was a statistical compilation, which Hübner prepared on the basis of official government statistics of all countries. According to the Innsbruck professor and statistical expert Theodor von Inama-Sternegg, the *Statistical Tables* were "an indispensable and excellent tool for science and practice of state and public life" (Inama-Sternegg 1881). Hübner also wrote the small treatise *Der kleine Volkswirth* (The Little Economist, 1852), which was aimed at school education and was an "extraordinarily successful, and today almost forgotten [book]" (Guidi 2013, 5). Although of little theoretical value (Lupetti and Guidi 2011, 1), it came out in Italian, Turkish, Japanese, French, in four Spanish editions in Uruguay, Argentina and Chile and in three Portuguese editions in Lisbon and Macau (Guidi 2013, 5). As Hübner explained in its introduction, socialism was on the increase because schools did not teach economic science and respect for property to children. The book attempted to set straight that "the blinding promises that socialism offers for the overthrow of those sublime principles ["diligence", "austerity", "integrity"] must be a lie" (Hübner 1852, iii-iv; emphasis in original).

Hübner invented and advocated mortgage insurances from 1858 and established a mortgage insurance company in Berlin in 1864. It mediated mortgage claims and covered mortgages against losses from public auctions. His invention proved to be a success. In its first year of business, his company provided 798 insurances with a volume of 9,5 million thalers (Preußische Pfandbriefbank 1912, 11; see also Inama-Sternegg 1881).⁴¹² He headed the mortgage insurance until his death in 1877 and was its "intellectual leader" (Preußische Pfandbriefbank 1912, 14). Hübner was a close companion of Prince-Smith with whom he founded the Berlin Association for Economic Interests in 1860. The society was set up for the benefit of workers, to educate liberal-minded laborers and to

⁴¹⁰ Hübner visited the congress in 1858, 1860, 1864, 1867, 1869. He was sick in 1859 and tied up with business matters in 1868.

⁴¹¹ See Inama-Sternegg (1881).

⁴¹² Hübner gave a talk on mortgage insurances in the Economic Society of Berlin; see *Nationalzeitung*, May 24th 1860, no. 239, morning issue, 3.

agitate for trade freedom, like a reduction of the tariffs on salt, wheat and cattle. It considered to send a workers' delegation to the London industrial exhibition (Haller 1976, 283-4). In 1859 and 1860, Hübner participated in the regular meetings of the fraction Jung-Litthausen in Prince-Smith's house, a circle of liberal politicians out of which evolved the Progress Party (Wolff 1880, 339). In his speeches, he was rich on statistical data on any economic subject. Hübner died in Berlin on February 3rd 1877. While he was extremely laissez-faire on banking, the young Hübner allowed for more state intervention into the economy than Prince-Smith, Faucher or Braun, at least in *Oesterreichs Finanzlage und seine Hilfsquellen* (Austria's Financial Situation and Resources, 1849). In the book, he advocated free movement, economic liberty and trade freedom and explained that every factor of production—labor, land, genius and trade—had to be unhampered (Hübner 1849, 15). Lazy people should not to receive welfare by the state, only those that were not able to work (Hübner 1849, 16). He proclaimed:

If, finally, we think of the freedom of all productive industries to be active in unrestricted competition, certainly the greatest cheapness of all articles would be better attained by it than by any other artificial system. The greater cheapness, however, makes the full satisfaction of his needs easier for every person. (Hübner 1849, 18)

At the same time, Hübner made room for a “material policy” (Hübner 1849, 1-2) that seemed to transcend the state's core tasks of foreign security and justice, because it aimed for “*the well-being of its [the state's] elements*” (Hübner 1849, 1; emphasis in original). He argued for full reserve central banking by saying that the “creation of sums [of money] against which the state does not have precious metal is a bad principle” (Hübner 1849, 29). He wanted to monopolize the mail by establishing a state post agency (Hübner 1849, 26-8). Infrastructure projects such as canals, railways and streets had to be built by the state if their benefits were greater than their costs. The municipalities had to finance maintenance of streets by taxes instead of a toll. Harbors should be responsible for the maintenance of canals and railways had to be trafficked by private companies, while the state managed the rail network (Hübner 1849, 23). Hübner was not against state property in principle, but he recommended selling or leasing for almost all cases: “We hardly know any productive property of the state that is neither suited for leasing nor for sale, except for mining” (Hübner 1849, 25). Despite these exceptions, every productive activity had to be handed to private companies. Hübner was rather critical of public officials. Because they did not realize a profit when they performed well, they were less economic with property than entrepreneurs (Hübner 1849, 30). He was against any tariffs, even financial tariffs (Hübner 1849, 36) and favored an income tax to cover the state budget (Hübner 1849, 32-5).

In the 1850s, Hübner made a transformation to a more doctrinaire liberalism. At the congress of 1860, he said in a debate on mortgage insurances at the congress that, although he was in favor of them, the congress should not recommend a business to private entrepreneurs. He opposed any state intervention into real estate credit, especially by usury laws, lengthy lawsuits to expropriate real estate owners that went bankrupt, or a concession system for financial institutions that granted real estate credit. The sole task of the Prussian government was the “production of justice and security”.⁴¹³ When the congress debated canals in 1864, Hübner defended a minority position in the commission that was more laissez-faire than the majority standpoint represented by the referent Michaelis. He agreed with the commission that government should not intervene into transportation, and that infrastructure had to be built and maintained by private firms. As his resolution stated: “Canal ventures, like all transport ventures, belong to private initiative.”⁴¹⁴ But Hübner went against the commission's resolution, which allowed the government to buy shares of transport companies. Hübner said that this point should not be mentioned at all. If the state bought into transportation, it counted as a private person with the name “treasury”.⁴¹⁵ Additionally, the congress should not recommend to found stock companies to build canals or railways. This decision should be left to private entrepreneurs, who knew best how to run their business.⁴¹⁶ However, the congress passed the resolution defended by Michaelis.⁴¹⁷ Hübner also released a book on the income tax, where he favored a proportional income tax:

Since the income tax increases with the size of the income, and the richer people are therefore more burdened than the poorer, it will tax, so to speak, the nationals according to the degree of advantage and enjoyment, which they derive from the institutions of state society. (Hübner 1850, 7)

He was for a proportional and against a progressive tax because the degree of progression was arbitrary (Hübner 1850, 8). Nevertheless, a proportional tax was just the least worse solution because the income after tax of a family father would be lower than of a childless man. This could not be prevented because the state could not investigate the life circumstances of every citizen (Hübner 1850, 12-3). The tax collection had to be made by self-estimation; every citizen had to declare how much he had to pay and a local committee elected by the inhabitants of a municipality had to check the paid taxes. If this committee decided that a citizen did not declare enough taxes, it was allowed to raise his taxes (Hübner 1850, 14-5). The advantage to a indirect tax regime was that,

⁴¹³ Stenographic Reports of the Economic Congress, 1860, 39.

⁴¹⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 188.

⁴¹⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 197-198.

⁴¹⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 189-190.

⁴¹⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 197-198.

if somebody had bad luck with his business, he did not have to pay taxes (Hübner 1850, 16-7). Hübner opposed a tax exempt amount because the minimum would have to change at every place since costs of living highly fluctuated among distinct places (Hübner 1850, 20). At the congress of 1867, he seemingly continued to endorse the income tax, because he refrained from raising his word after Böhmert had argued against all tariffs in principle and for an income tax against Meyer, Wolff and Michaelis, who favored indirect taxation. After Böhmert's laissez-faire speech, Hübner did not want to intervene anymore and seemed to agree with Böhmert.⁴¹⁸ In sum, Hübner appears to have departed from his earlier view that canals and railways had to be built by the state and maintained by private firms. He was a 100-percent reserve central banker in 1849 but became a fractional reserve free banker in 1854 and explained, at the congress of 1860, that the only state task was “the production of security and justice”. Thus, he seemingly made a transformation in the 1850s and became more doctrinaire, possibly due to the influence of his friend Prince-Smith.

⁴¹⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 160.

3.3 The Prussian Constitutional Conflict

Although Faucher, Prince-Smith and Michaelis favored the night watchman state, they nevertheless granted Bismarck impunity in the Prussian constitutional conflict. After the revolution of 1848, the constitutional conflict was the second fight between the middle class and the nobility over power in the Prussian state. It was one of the main turning points in German history (Biefang 1997, 360) and Michaelis and the orthodox Prince-Smith and Faucher played an important role in it. Behind the struggle over military reform, the question of power was masked because King William I did not want to cede powers on foreign policy and the army to the parliament. One of the leaders of the Prussian liberals, Leopold von Hoverbeck, wrote in February 1863 on a “fight against absolutism and Junkerdom” (quoted in Langewiesche 1988, 96). The origin of this power struggle dates back to the failed revolution of 1848 when the liberal movement split into a democratic part—which did not cooperate with the government, rejected the forced constitution from December 1848 and refrained from participating in the elections—and an Old liberal fraction that sided with government. The Old liberals headed by Georg von Vincke were royalists and followed a cooperative strategy of “nur nicht drängen” (Do not push). The liberal democrats—for example, Schulze-Delitzsch, Waldeck, Virchow, Jacoby or Loewe—favored a constitutional monarchy, where the parliament and not the crown was the greater power (Winkler 1964, 20-2). As the Old liberal Vincke explained:

Essentially, the difference between his [Waldeck's] view and that of the constitutionalists [the Old liberals] is, in a nutshell, that the colleagues of the mister member of parliament from Bielefeld wish to bow his Majesty the King [...] to the resolutions of an assembly, and that my friends *never* wanted to. We are of the opinion that, however the fortunes of our nation may turn out, [...] we always want a monarch to be at the head of Prussia, and therefore we gladly recognize his Majesty the King as our monarch, and *we are and we want to remain his subjects*.⁴¹⁹

The situation began to change when the reaction era ended in 1858 and a new era started with William I's ascension to the throne. The new King replaced the conservative government Manteuffel with a more progressive one. Since the liberal democrats hoped for political reforms, many began to participate in the elections from 1858. Their leaders—for example, Schulze-Delitzsch and Waldeck—renounced their candidacy and recommended to vote for the Old liberals. This compromise of the democrats helped to bypass the differences among both liberal groups. In the early 1860s, the liberals united in the fraction Vincke and cooperated with the Prussian government during those

⁴¹⁹ Stenographic Reports of the House of Representatives, March 8th 1861, 23rd session, 428, emphasis in original.

first years. However, from 1860, it became more and more apparent that the hopes for constitutional reforms were unjustified. In 1858, the Prussian government had initiated a military reform that aimed to weaken the Landwehr, a militia that consisted to a great degree of members of the liberal middle class, for the sake of a greater standing army led by members of the Prussian nobility. The government also wanted to prolong conscription from two to three years. The liberal democrats, by contrast, favored the continuity of the Landwehr, a conscription period of two years and a limit to the military spending. Before 1860, the democrats did not go against the military reform because of the Italian War. However, the first intentions of some liberals to cede from the Old liberal fraction Vincke occurred in November 1860. Some members of the fraction Vincke published an open letter, where they advocated a politically unified Germany, trade freedom, the separation of state and church and opposed an increased military budget. These liberals belonged to the Economic Society of East and West Prussia, a sub-organization of the Economic Congress, and included Leopold von Hoverbeck, Max von Forckenbeck and Raimund Behrend. In the letter, they declared their “systematic opposition” (quoted in Winkler 1964, 8) against the Prussian government. Shortly after, eleven liberals left the fraction Vincke on February 8th 1861 and founded the so-called faction Jung-Lithauen. This group formed the nucleus of the German Progress Party, which was established on June 6th 1861. The group had met in Prince-Smith's house in Berlin during the parliamentary session of 1859 and 1860 (Wolff 1880, 339). Hoverbeck, Behrend, Forckenbeck, Hennig, Behrend and Müller were among others present according to Wolff, and the meetings were important for the later foundation of the Progress Party, since the programme of the party contained the economic demands of the free traders.

The Progress Party was closely connected to the Nationalverein. This nation-wide member organization agitated for a politically unified Germany under Prussian leadership, with a strong centralized power and a parliament. It attempted to engage Prussia in a war with Denmark, France or Austria to achieve a Lesser Germany (Biefang 1997, 366). The Old liberals, in contrast, aimed to reform the German Confederation, which the Nationalverein viewed as incapable of reform. Hence, Biefang believes “The decisive impetus for the secession [of the fraction Jung-Lithauen] stemmed from the national question” (Biefang 1997, 369). The Nationalverein was founded in Frankfurt am Main in 1859 and Schulze-Delitzsch and Rudolf von Bennigsen, who became its president, invited to the founding meeting. Members of the congress—like Böhmert, Lette, Mittermaier, Welcke and Wirth—were “strongly represented” (Eisfeld 1969, 33). The Nationalverein was crucial for the rise of the Progress Party because it commanded over a nation-wide net of local associations, in which politicians of the party gave speeches to gain votes for the elections. The governing bodies of the

Nationalverein and the Progress Party were occupied by almost the same persons. As Biefang states, both constituted together a political party in the modern sense (Biefang 1997, 374-6). The foundation of the Nationalverein had been partially prepared in Prince-Smith's house. Since 1858, members of the congress—Wolff names Wirth, Braun, Böhmert, Michaelis, Pickford and Schulze-Delitzsch—met with politicians, among others, the founder of the Nationalverein Rudolf von Bennigsen. The latter also visited the congress of 1858, 1859 and 1860 on the initiative of the free traders.⁴²⁰ Wolff explains about these meetings:

This conversation [of 1858] was, in a way, decisive for the foundation of the 'German Nationalverein' shortly thereafter, in that, although it was perhaps not the first impetus, certain economic demands were finally included in the program of the association that became truly fundamental for the creation of the [political] unity of the German nation. (Wolff 1880, 339)

Hence, during the foundation process of the Progress Party and the Nationalverein, Prince-Smith played a silent but influential role according to Wolff (1880, 338-344). From 1861 to 1866, the Progress Party became the dominating force in the House of Representatives. It started with 12 seats in 1861 and peaked with 143 seats in December 1863. Since May 1862, the party held an absolute majority together with the fraction Left Center, with which it formed an informal coalition. The Progress Party demanded separation from state and church, religious liberty, civil marriage, more local autonomy, and upheld the economic program of the congress (Eisfeld 1969, 90-4; Langewiesche 1988, 94). Faucher defended this program in an election speech in front of his voters in Delitzsch on December 30th. He demanded adherence to the Prussian constitution by the government, civil marriage, a law that regulated legal responsibility of the ministers if they violated the constitution, and the independence of schools from administrative decrees.⁴²¹ Similarly, Prince-Smith declared himself a “radical free trader” in an election speech in Stettin on December 21st 1861 and supported civil marriage, local autonomy, a school reform, and a law for individual ministerial responsibility. He was against increased military spending, conscription of three years and a higher number of soldiers in peacetimes by reasoning: “Letting be absorbed the funds for financial regulations, railway construction and other improvements of our productive sources by the minister of war; this, gentlemen, means to hang the war calamity over the country already in peacetime.”⁴²²

⁴²⁰ Böhmert and his friends had taken care that Bennigsen would be present at the meeting of 1858. Lammers wrote to Böhmert in a letter dated July 10th 1858 that “von Bennigsen is an prospective statesman, future Hanoverian minister, who cannot be drenched early enough and completely enough with the wine of economic truth” (Emminghaus 1907, 76).

⁴²¹ *Nationalzeitung*, December 31st 1861, no. 608, evening issue, 3.

⁴²² *Nationalzeitung*, December 28th 1861, no. 604, evening issue, 5.

On March 11th 1862, the constitutional conflict broke out due to the resolution of the Progress Party member Hagen, who demanded from the Prussian government to reveal the numbers on military spending. The budget did not clearly state how much money was spent for military reform. The King dissolved the House of Representatives and installed a conservative government Bismarck in September 1862. The voters were highly satisfied by the resistance of the Progress Party and almost unanimously reelected Faucher and Prince-Smith in April 1862.⁴²³ The conflict arrived at its peak on September 16th when the parliament rejected any additional spending for the military that was not in the budget.⁴²⁴ William I was desperate in this situation; he wanted to resign and give the crown to his son Frederick, who would be King for 99 days in 1888. However, Bismarck advised William I against this step. He came back from Paris to Berlin and found the King “worn out, desperate, and discouraged” (Bismarck 1898, 268). When Bismarck tried to lay down his view of the political situation, the King interrupted him and explained: “I see exactly how all this will turn out. Right here, in this Opera square on which these windows look, they will behead first you and a little later me too” (Bismarck 1898, 266). However, Bismarck built the King up and reported about the end of the conversation: “My words appealed to his military honor and he saw himself in the position of an officer who has the duty of defending his post unto death” (Bismarck 1898, 267). He promised to the King to implement the military reform, even against a liberal majority in the House of Representatives. Since the liberals and Bismarck did not reach an agreement on the budget, Bismarck came up with the “Lückentheorie” (Gap theory) that had been first advanced by the *Kreuzzeitung*. According to this theory, the King was allowed to interfere into the budget as long as a budget was not passed, due to a gap in the Prussian constitution. The latter did not state what had to be done if government and parliament did not pass a budget. The Progress Party remained in opposition to this interpretation of the constitution for the next four years. Prince-Smith received a thank you letter from his voters on October 24th 1862 for his vote against the budget and they celebrated him at a meeting in Stettin in November 1862. The *Nationalzeitung* printed the speech of Prince-Smith, where he justified the vote against the budget as follows:

The present majority of the House of Representatives [...] has been bound together by the knowledge of

⁴²³ Faucher delivered four stump speeches in his constituency, in the towns Eilenburg, Delitzsch, Bitterfeld and Zörben. 1,500 voters attended each of the first two speeches and 1,000 each of the latter; see *Nationalzeitung*, April 26th 1862, no. 193, morning issue, 3. Prince-Smith was reelected in front of more than 2,000 voters in Stettin on April 10th; see *Nationalzeitung*, April 12th 1862, no. 173, morning issue, 6.

⁴²⁴ In his article on European history from 1851 to 1861, Faucher suggested that the constitutional conflict had broken out because of a false voting procedure in September 1862. The House of Representatives first voted on the height of the budget and then on how long the funds should be granted to the government. According to Faucher, the conflict might not have broken out if the order of the votes would have been vice versa (Faucher 1874, 51-2). For his view on the time from 1862 to 1966, see Faucher (1876b, 99-114).

the imperious, all-important necessity of creating for the parliament the weight that it deserves constitutionally; and if the parliament attained its due weight, then the center of gravity of power naturally moves into that position, which establishes a stable equilibrium in the body of the state and protects it from fluctuations and conflicts.⁴²⁵

He expressed his optimism that the government would lose the constitutional conflict and that “it will come and knock at the door [of the parliament].” A year later, early elections took place and Prince-Smith wrote a letter to his voters on September 28th 1863. He declared that, in the spirit of the constitution, one could not assume anything else “than that the new mandated elections should be a plebiscite on the resignation of either the present members of parliament [of the Progress Party], or the current ministry.”⁴²⁶ However, the oppositional tone would soon change when Prussia won the Danish War in October 1864.

3.3.1 The Congress on a Militia and Conscription (1862-64)

The congress did not talk about the Prussian constitutional conflict, but the free traders discussed a militia in 1862 and conscription in 1864.⁴²⁷ Nonetheless, the constitutional conflict blended into the debates, for example, when the attendee Breitschweidt said that the discussion was about “whether we want a military caste in the future, a sterile institution that weighs like a weight of lead on the economic and social development, or a nation that preserves and knows to defend its freedom and prosperity by itself.”⁴²⁸ In 1862, the referent Kolb from Frankfurt am Main presented the resolution of the commission that argued for a people's army—a militia—where every citizen was conscripted and had to go to war. He criticized the structure of the Prussian army that consisted of professional soldiers and soldiers signed up for a fixed time period. Citing the famous military officer Radetzky, Kolb argued that a militia maintained alive a healthy spirit of war among a people, the consciousness that it had to defend itself against invaders. People with such a spirit could not be broken or exterminated.⁴²⁹ Nonetheless, a militia could not be introduced immediately and the present size of the Prussian military had to be maintained, otherwise Prussia's defense would be weakened:

⁴²⁵ *Nationalzeitung*, October 25th 1862, no. 493, 3. Prince-Smith gave the speech to the voter delegation from Stettin that handed over the letter.

⁴²⁶ Landesarchiv Berlin, Pr. Br. Rep. 030 Trt 94, Nr 12796, back sheet 24.

⁴²⁷ See Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1862, 129-165 and Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 220-236.

⁴²⁸ Stenographic Reports of the Economic Congress, 1862, 157.

⁴²⁹ Stenographic Reports of the Economic Congress, 1862, 135

Under no circumstances, the military strength of our nation can be weakened without complete replacement. (Listen!) There can be, consequently, no talk of the immediate abolition of the standing armies, with the proviso of forming merely national guards or civilian forces.⁴³⁰

Kolb was against conscription because it violated the principle “equality of rights, duties and burdens”⁴³¹ if it did not apply to every citizen. Compulsory military service was nothing less than “a continuance [...] of *serfdom*”⁴³² if just a part of the male population was conscripted like, for example, in Prussia less than a third. A lottery or a physical examination were condemnable to decide on conscription. He estimated the costs of standing armies to be tremendous for all European states. Prussia and France would get into financial turmoil like Austria and Russia if they did not decrease military spending.⁴³³ Even during peacetimes, the death risk was significantly higher for young soldiers than for non-conscripts, and military health care was poor. Many young men emigrated to avoid military service and even cases of self-mutilations had been reported among potential conscripts.⁴³⁴ Kolb praised the Swiss militia because effectiveness was shown by military exercises, every citizen had to serve and no standing army existed.⁴³⁵ Hence, he concluded that “as far as military matters are concerned, the future belongs to the *militia system*.”⁴³⁶ Bürgers was even more oppositional in tone than Kolb by saying:

But what right does such a historical existence [of standing armies] possess if it has become a cancer, which eats away the existing wealth of peoples, financially destroys states, and leaves the disposition of productive forces and means of production of society to an unproductive class, if it [the unproductive class] willfully invokes conflicts that disturb the peace of nations, if it defiantly opposes institutions that are to guarantee the peace of peoples—what special right does such an institution possess in society, if it has become unbearable with the economic organism of society itself, whose protective power it is to form?⁴³⁷

Michaelis favored a militia as well since it provided the best defense at the lowest costs.⁴³⁸ A source of disagreement was the question whether unfit young men had to pay a tax that was redistributed to conscripts, because rich men or public officials often prevented, by their influence,

⁴³⁰ Stenographic Reports of the Economic Congress, 1862, 130, emphasis in original.

⁴³¹ Stenographic Reports of the Economic Congress, 1862, 132.

⁴³² Stenographic Reports of the Economic Congress, 1862, 131, emphasis in original.

⁴³³ Stenographic Reports of the Economic Congress, 1862, 132-133.

⁴³⁴ Stenographic Reports of the Economic Congress, 1862, 133-134.

⁴³⁵ Stenographic Reports of the Economic Congress, 1862, 139-142.

⁴³⁶ Stenographic Reports of the Economic Congress, 1862, 143, emphasis in original.

⁴³⁷ Stenographic Reports of the Economic Congress, 1862, 147.

⁴³⁸ Stenographic Reports of the Economic Congress, 1862, 152.

their sons from being called up. Goegg introduced a resolution for a tax that was passed by the congress.⁴³⁹ A great majority passed Kolb's resolution for a militia according to the Swiss model, with a standing army that maintained the weaponry, that was responsible for the formation of conscripts and only consisted of high officers.⁴⁴⁰ Therefore, the congress was in line with the Progress Party, which wanted to cut military spending and increase the quota of conscription. The orthodox free traders did not intervene into the debate but Faucher was in the forefront two years later when the congress discussed the military a second and last time.

The congress united from August 22nd to 25th 1864, in the middle of the Danish War that ended on October 30th. The referent Faucher presented his own resolution since the commission had not agreed on the topic "substitution for conscription". The debate was about the question whether rich men should be allowed to pay money to poor men for assuming their military service. Faucher was against substitution because poor men were already conscripted at a high rate although they worked in contrast to rich young men. The wages increased in rural areas due to the decreasing supply of labor. Faucher proposed to combat substitution by recruiting more professional soldiers and increasing their pay, so that more conscripts decided to prolong their military service after conscription. The conscription period also had to be shortened.⁴⁴¹ These measures would relieve the lower classes of the military burden. Professional soldiers had proven their effectiveness in the English army and were patriotic.⁴⁴² By contrast, Engels defended the decision from 1862 by arguing for a tax paid by non-conscripted young men that amount to the benefits of not being conscripted.⁴⁴³ The congress was divided on the issue of a military service tax. On the one side, Meyer, Lette and Michaelis supported the resolution of Faucher. Meyer called the proposal of Engels "communist" and pointed out that conscription was a moral obligation.⁴⁴⁴ The later point was not a disagreement since all free traders viewed conscription as a moral duty of each citizen. Lette said programmatically that "the idea of general conscription has a very moral and political significance, it promotes intellectual energy and national consciousness, without which a prosperous economic development is impossible."⁴⁴⁵ However, on the other side, Hopf did not see a problem when a rich man paid for substitution, if a poor person preferred to be a soldier. Poor people were physically

⁴³⁹ Stenographic Reports of the Economic Congress, 1862, 153-154.

⁴⁴⁰ Stenographic Reports of the Economic Congress, 1862, 165.

⁴⁴¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 220-221.

⁴⁴² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 223.

⁴⁴³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 221.

⁴⁴⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 229.

⁴⁴⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 224.

more robust and adapted to a soldier's life. A rich man, who had enjoyed higher education, was to a greater degree hindered by the military service because his work was more productive.⁴⁴⁶ Faucher argued that Engel's military service tax posed an incentive to increase the number of unrecruited men. The state would prolong military service and conscript a smaller number of men to maximize the tax revenues. Nevertheless, Faucher did not reach through and the congress recommended a military service tax.⁴⁴⁷ Thus, the congress favored a militia and, insofar as a militia did not exist yet, recommended a compensation tax paid by non-conscripted men.

3.3.2 Faucher and *On the Question of the Best Military Constitution*

In 1864, Faucher published the two-part *Zur Frage der besten Heeresverfassung* (On the Question of the Best Military Constitution) in the *Quarterly Journal*. While the first part came out before the congress of 1864, the second part appeared afterwards and after the end of the Second Schleswig War on October 30th. In the article, Faucher turned the question of the best military constitution into a purely economic and kind of utilitarian one, by reasoning that the best organization of the military was the one that was most preferable from economic lenses (Faucher 1864b, 111). For Faucher, an important requirement was that the military tax burden had to be as low as possible (Faucher 1864b, 112). Additionally, the military should not impede more severely on economic progress during peacetimes than foreign armies (Faucher 1864b, 146). If the economy would grow less in one year because of a high military burden, making up for the loss would take more effort during the following years because national wealth grew exponentially. Therefore, the military burden should not be so high that the economy shrunk (Faucher 1864b, 131). For Faucher, the military burden mainly consisted in a lower capital and population growth. The productivity of a conscript tended to decrease due to military service because supply tended to “wear off” (Faucher 1864b, 114-5, 128-9). He therefore endorsed a small standing army by arguing that, due to a low tax burden and the resulting population growth, more soldiers were available in war times (Faucher 1864b, 168). Faucher emphasized—arguing almost in a Bastiatian opportunity-cost-manner—that the military burden was not just the pay of the soldiers, but “the total value of production that would have generated the otherwise-saved capital with the otherwise-available labor force” (Faucher 1864b, 130).⁴⁴⁸

⁴⁴⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 227.

⁴⁴⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 236.

⁴⁴⁸ Faucher attempted to determine this loss by a small calculation. He defined the military burden as the total production divided by the quotient of the number of workers and the number of soldiers (Faucher 1864b, 130). He estimated the number of Prussian soldiers at 210,000 and concluded that 116 soldiers came on 10,000 Prussians (Faucher 1864b, 157). Since a conscript could not marry during the three-year conscription period, and women were

Although he opposed war in the abstract, he was not against war in any case, writing: “One may consider, nevertheless, necessary what one considers to be anything less than attractive” (Faucher 1864b, 116). Similar as Braun, he viewed war as a necessary evil because “[t]he necessity of war flows from the necessity—which is a necessity of culture—to regulate violence inside the complex of states” (Faucher 1864b, 117; emphasis in original). Nevertheless, war was economically undesirable since it destroyed the capital stock of a nation. However, as soon as peace ensued, the capital stock grew at a fast pace because human capital was abundant to physical capital (Faucher 1864b, 129-30). Faucher went as far as to partially approve of a war of conquest. Although he discarded conquest at the beginning because it might lead to a long period of conflict and general economic exhaustion, he then noted that war may raise the wealth of a nation and justified it for a situation, where many great empires evolved on a territory. If potential benefits surpassed losses, conquest was justified for such a case:

In such periods, one says: take action so that you do not become the object of the grips of others. When small states disappear all around and major powers emerge, waiting is a great evil for the state that does not want to give up the game at all, or has to. For such periods of time, reliance on the power increase, which an economic development as undisturbed as possible promises *within* the inherited borders, is not sufficient to compensate for the growth of the dangers, which the power increase of the neighbors from conquest entails. (Faucher 1864b, 133; emphasis in original)

Faucher was basically in line with the agenda of the Nationalverein, which favored, as seen, a war with France, Denmark or Austria to bring about national unity (Biefang 1997, 366). The second part of *On the Question of the Best Military Constitution* was published half a year later in the *Quarterly Journal*. In the meantime, Prussia and Austria had waged war against Denmark from February to October 1864 in the so-called Second Schleswig War. Faucher regretted that Germany did not possess its own fleet because in that case, two million Danish people would not have started a war against 70 million Germans (Faucher 1864c, 131). He approved of the heterogeneity of the Prussian military, which united professional soldiers and conscripts. After a short time of apprenticeship, young conscripts had well fought on the side of experienced soldiers in the past war. The Prussian army proved its effectiveness in the Danish war (Faucher 1864c, 140). Faucher still favored a short draft service to lower the military burden and to increase the number of soldiers easily during a war (Faucher 1864c, 144). The parliament had to decide how much money was

most productive when they were married and had a family, every conscript turned one woman to unproductive work (Faucher 1864b, 159-60). Therefore, the quotient had to be 116 soldiers per 4985 male inhabitants. It further increased by the fact that only 3243 men were older than 14. By weighting men according to their age and productivity, Faucher concluded that 5.5 percent of the total production and the labor force were paralyzed by the Prussian military (Faucher 1864b, 161-3).

spent on the military and how many soldiers the standing army counted in peacetimes, whereas the number of conscripts was set by government (Faucher 1864c, 142-4). Thus, in sum, Faucher endorsed a preemptive war of conquest to secure a nation's position of power if another state's sphere of influence was likely to increase in the future. He did not argue for any compromise with the Prussian government yet and defended the position of the Progress Party. However, this would change in his subsequent interventions in the House of Representatives.

3.3.3 The Schleswig-Holstein Conflict

To understand this conflict, one must look at the division that ran through the Progress Party. Two groups of liberals united in this party, the moderate liberals and the liberal democrats. Prince-Smith, Faucher, Braun and Michaelis belonged to the moderate group that included Viktor von Unruh, Forckenbeck, Twesten and Bennigsen. The liberal democrats posed a minority and its most outstanding members were Schulze-Delitzsch, Eugen Richter, Duncker, Hoverbeck, Virchow, Jacoby and Waldeck. The constitutional conflict was solved according to the wishes of the moderate side, which united in the National Liberal Party after 1866. A major difference between both groups lied in the common right to vote. The liberal democrats endorsed the common right to vote, whereas the moderates favored census suffrage for Prussia.⁴⁴⁹ The democrats advocated basic rights like press freedom, religious liberty, local autonomy and free elections with a more principled attitude. They would not compromise on these rights and estimated liberty far higher than national unity. As Schunke writes:

To them real progress was less important; they believed it was the task of the deputy to remain completely independent of government; [...] if somebody somehow really complied with the minister, it was a tactical difference in the defense of the principle. (Schunke 1916, 10)

By contrast, the moderates were ready to compromise and estimated national unity higher than liberty, because they were optimistic that a unified German state would develop into a liberal economic and democratic direction. The division among the liberals is illustrated by a dispute between Schulze-Delitzsch and Braun in the Prussian House of Representatives. Braun remarked on December 2nd 1867 that, since Schulze-Delitzsch voted against the constitution of the North German Confederation, both men took separate ways from Spring 1867 on. He did not want to continue with the constitutional conflict and believed he gave more importance to national unification than Schulze-Delitzsch:

⁴⁴⁹ For the differences between both groups, see Eisfeld (1969, 34-7), Schunke (1916, 9-13) and Winkler (1964, 10-1).

We do not want the future of our homeland, we do not want the German mission of Prussia in this great time, when the waves of world history go higher than ever, we do not want to abandon this task out of a reverie for a civil or criminal procedure.⁴⁵⁰

As Braun said, a political man had to stand higher as the General State Laws for the Prussian States or the general court order. Germany had to be strong against foreign countries and had to enforce its law order in its interior. One should not hinder unification due to an exaggerated impetus for liberty. Nevertheless, he still spoke of Schulze-Delitzsch as his “friend”.⁴⁵¹ For Schulze-Delitzsch, the North German Confederation and its constitution signified “unity without liberty”.⁴⁵² No foreign danger or any other reason existed that would justify to postpone political liberty in Prussia: “It is impossible for us to separate unity and freedom, and we think that they cannot be separated if they are to meet the national needs of the German people.”⁴⁵³

Before the Second Schleswig War, democrats and moderates set these differences aside and united in the Progress Party because they aimed for national unification and were unsatisfied with the passive conduct of the Old liberals. They believed, like most free traders at the congress, that Prussia was the only state that could bring about German unity and they endorsed a Lesser Germany.⁴⁵⁴ However, in 1864, these differences began to show up and Faucher, Michaelis and Prince-Smith were one of the first Progress liberals aiming at a compromise. Since 1865, the Berlin free traders acted coordinately in parliament and formed “the core of a free economic union, which gradually became the dominant factor in all questions of economic and financial policy in the liberal factions, and indeed in the entire House of Representatives” (Wolff 1880, 340). They tended to view political questions from economic lenses only and were inspirited with great optimism for the future of free trade. Cooperating with Bismarck came naturally to them, since Bismarck had pursued a liberal trade policy from the beginning; for example, with the Franco-Prussian trade treaty. Additionally, as seen, Delbrück had convinced the pragmatic Michaelis of the possibility to cooperate with the government on trade policy while going into opposition on issues of power

⁴⁵⁰ Stenographic Reports of the House of Representatives, December 2nd 1867, 9th session, 145.

⁴⁵¹ Stenographic Reports of the House of Representatives, December 2nd 1867, 9th session, 145-6.

⁴⁵² Stenographic Reports of the House of Representatives, December 2nd 1867, 9th session, 151.

⁴⁵³ Stenographic Reports of the House of Representatives, December 2nd 1867, 9th session, 151. Accordingly, Lauterbach (2007, 17) views the major difference between the Progress Party and the National Liberal Party in the latter's willingness to cooperate with Bismarck in the development of the constitution, while the Progress liberals refrained from any compromise even in the 1870s.

⁴⁵⁴ According to Winkler (1964, 67-8), Jacoby and Waldeck were the only members of the Progress Party in the 1860s that still demanded a Greater Germany that included the German parts of Austria. At the congress, South German free traders like Max Wirth, Pfeiffer and Leopold Sonnemann, who favored a Greater Germany, did not attend from 1867 on, when the German Question was solved according to the wishes of the Lesser German free traders (Hentschel 1975, 129).

politics (Delbrück 1905, 227; Schunke 1916, 5-6).

The Schleswig-Holstein conflict began on November 13th 1863 when the Danish parliament passed a constitution, which effectively incorporated the Duchy of Schleswig into Denmark. Schleswig was populated with Danish people and Germans, while Holstein was entirely German. Before, the duchy had possessed far-reaching autonomy although the London protocol had determined that Denmark ruled over Schleswig. This treaty was signed by Prussia, Austria, Denmark, France and England after the First Schleswig War in 1852. The constitution created an outrage in Germany and the public sided with the pro-German Duke Frederick VIII of Schleswig-Holstein. The Prussian liberals were in a dilemma because Prussia was the sole military power that could decide the conflict. If Schleswig should remain German, the Progress Party had to cooperate with Bismarck, who censored the press since June 1863. Most members of the Progress Party, however, were in favor of granting Bismarck the financial means to wage war against Denmark, the only exemption was Waldeck. They demanded to incorporate the territory of Schleswig-Holstein into the Prussian state (Winkler 1964, 42-5). The debate on the Schleswig-Holstein Question started on December 1st and 2nd 1863 in the House of Representatives. Most members of the Progress Party—including liberal democrats like Schulze-Delitzsch—supported a war against Denmark, while Bismarck just demanded the observance of the London protocol. Faucher wanted to leave the London protocol of 1852 because of the Danish breach of contract. As he said, the Danish rule in Schleswig-Holstein was a threat to Prussia's status as a great power. The major European powers favored Danish rule over Schleswig-Holstein to command easy military access to Prussia and Berlin. It enabled England, Russia and France to march to Berlin without resistance, due to the harbor in the Schleswig city Tönning. As Faucher stated: “The Danish state is a pistol placed on our chest and when, by some lucky coincidence, the pistol was about to break, we even offered hands to repair it. This is the true meaning of the treaty from 1852.”⁴⁵⁵ He even calculated with a potential “European war” if Prussia would support the Duke of Schleswig Frederick VIII. It only won such a war if it relied on the support of the rest of Germany. At times, Faucher sounded quite militarist in his intervention and Raico speaks of “a nationalist-militaristic position that puts him outside the normal limits of liberal thought on these questions in the 19th century” (Raico 1999, 73).⁴⁵⁶

⁴⁵⁵ Stenographic Reports of the House of Representatives, December 1st 1863, 10th session, 234.

⁴⁵⁶ Raico makes this comment in regard to Faucher's view of a war of conquest in *On the Question of the Best Military Constitution* (1864). The historian goes, however, too far when he claims that Faucher endorsed as a justified motive for war an “offended national honor” (Raico 1999, 73). It is true that Faucher wrote of national honor as a motive of war but he merely seemed to describe the reasons why the German public supported a Danish war. Apart from that, Faucher did not justify war due to hurt honor anywhere else. He used to emphasize the need of protecting Prussia's Northern border. The respective passage reads as: “It was, *apart* from questions of violated law and offended national honor, a motive for the war against Denmark—which especially Prussia among the German states should not forget—that even enemy landings were so far possible at this place of the German North Sea coast, *without* taking such precaution as

Unsurprisingly, Faucher supported the resolution of the commission that argued for a military intervention in Denmark. On December 14th 1863, he even said in a faction meeting that the address, in which the Progress Party demanded a military intervention from the King, had to be a “no-confidence vote against the ministry” (Biefang 1996, 113).

After this first debate, the moderate liberal *Nationalzeitung*, whose economics section was edited by Michaelis, and the liberal democratic *Volkszeitung* (People's newspaper) continued the discussion in January 1864. Both papers favored an annexation of Schleswig-Holstein and opposed Bismarck's plan to demand only observance of the London protocol. The *Volkszeitung* endorsed the principle of nationality; those territories of Schleswig had to be incorporated into the German Confederation with a majority of German speakers. A referendum had to take place in areas with a German minority. The *Nationalzeitung* rejected the principle of nationality and advocated an annexation for pragmatic political reasons, as Faucher had done on December 1st.⁴⁵⁷ The paper assumed that all Schleswig people identified as German and was against a referendum (Winkler 1964, 52-5). The Danish war broke out in February 1864 and ended on October 30th 1864 with a victory of Austria and Prussia. Afterwards, public opinion began to change in Bismarck's favor in Prussia (Schunke 1916, 28). The *Nationalzeitung* and *Volkszeitung* demanded that Schleswig-Holstein gave the sovereignty over its foreign and military policy to Prussia. However, the democratic liberal *Volkszeitung* was in favor of a voluntary transmission of power; for example, Schulze-Delitzsch wanted to establish a national Schleswig-Holstein parliament that had to agree to a loss of sovereignty. From now on, Michaelis and Faucher advocated a compromise with the government in parliament.⁴⁵⁸ On March 15th 1865, Faucher spoke for decreased military spending and closed by saying:

Why should both the crown and the people not have a desire to reconcile, and why should we not seek this reconciliation by means of compromise? What is compromise in political life? Compromise, that is the victory of patriotism over egoism, [movement] compromise is the victory of humbleness over vanity,

could be obtained by fortress construction and other facilities for the defense of the sea [...]” (Faucher 1864c, 132; emphasis in original).

⁴⁵⁷ The same division had run through liberal democrats and moderates during the Polish conflict. Schulze-Delitzsch and the democrats supported Polish independence with reference to the principle of nationality, although they did not support the cession of territory to Poland in the Prussian province Posen. Schulze-Delitzsch reasoned that these former Polish areas had been “germanized” by German settlers. Most democratic liberals did not base the nationality principle on the tongue that was spoken by the people, but on a subjective feeling of identification with a nation (Winkler 1964, 38-9; see also Aldenhoff 1984, 123-4). The moderates did not mention the principle of nationality altogether and argued against the cession of territory for pragmatic political reasons. Neither Michaelis, nor the orthodox free traders Faucher and Prince-Smith, spoke on the Polish Question in the House of Representatives.

⁴⁵⁸ August Lammers wrote to Böhmert on January 15th 1865 that Faucher already conducted secret negotiations with the minister of war Albrecht von Roon before the end of the Danish war in Summer 1864 (Emminghaus 1907, 125). However, Dehio (1931, 42) says that Viktor von Unruh conducted the negotiations with Roon.

[listen, listen!] and we in Prussia are patriotic and humble people and hope our government is too.⁴⁵⁹

Like in his article from 1864, he viewed the military question from purely economic lenses and did not reflect on power politics. Two months later, Waldeck took him to charge for his neglect of constitutional questions. On May 4th 1865, Faucher reasoned that the House of Representatives had to pass a law for military reform first and decide then on the number of soldiers in peacetimes. Waldeck saw Faucher's depiction of the history of the constitutional conflict as false. He criticized that Faucher supported a standing army and the continuity of the officer corps, instead of a militia. Waldeck even asked his colleague rhetorically why he did not vote with the conservative government. He took Faucher to charge for just reasoning in economic terms:

Economics also has, however, its place in the military question, but it is a remote, it is a secondary one; it cannot claim that it could solve, by arithmetic and numbers, the question of politics, the question of strength of defense, the question of the constitution.⁴⁶⁰

At that time, Faucher was not seen anymore as a decided opponent of the government, as shown by a letter of Bismarck from August 16th 1865. The President of Prussia therein rejected the appointment of the oppositional Schulze-Deltzisch for a commission on freedom of coalition and endorsed Faucher as a member, whom he viewed as more agreeable (Bismarck 2001a, 580).⁴⁶¹ The Berlin free traders around Prince-Smith seemed to be so convinced by the wealth-generating power of market that they viewed liberal political reforms as unavoidable in the long run. On constitutional questions, they became passive and compliant towards Bismarck and his government. In general, Faucher repeated in parliament the economic arguments from *On the Question of the Best Military Constitution*. On May 4th 1865, when Waldeck took him to charge, Faucher argued for a reduction of the number of soldiers during peacetimes because conscription made too many workers unproductive:

We, the immense majority in the House and in the country, we all believe that 213,000 paralyzed workers cannot be sustained by the Prussian state in the long run, and when the Minister of the Interior said neither a present monarch nor a future Monarch could withdraw something from this organization, then I prophesy to him that it will be changed and must be changed, at least in view of this exorbitant peacetime

⁴⁵⁹ Stenographic Reports of the House of Representatives, March 15th 1865, 21st session, 504.

⁴⁶⁰ Stenographic Reports of the House of Representatives, May 4th 1865, 45th session, 1314.

⁴⁶¹ Bismarck (2001a, 580) wrote to Heinrich von Itzenplitz, the Prussian minister of trade from 1862 to 1873, that the commission should only consist of members of parliament “who are not among the most prominent and determined opponents of the government, and of whom it [government] can therefore assume that they will not exploit the offered field of discussion solely for their political party interests.” However, as Bismarck and Delbrück (1905, 357) report, Faucher did not appear to the debates of the commission, probably to protest against the non-nomination of Schulze-Delitzsch. According to the *Nationalzeitung*, Michaelis was subsequently asked to join the commission, but refused as well; see *Nationalzeitung*, August 25th 1865, morning issue, 12.

strength [...]. The statistics will prove in a short time that the state, which paralyses such an extensive workforce, is even *militarily* not a solid-standing one.⁴⁶²

Faucher demanded the dismissal of the minister of war if the latter would not shrink the size of the army. On March 20th 1865, Faucher excluded political considerations by pointing to the military burden of 100 million thalers per year, or five percent of the workforce.⁴⁶³ The burden resulted in less savings, less capital growth and less population growth. Between 1838 and 1841, when the conscription period was shortened from three to two years in Prussia, the population had grown at an annual rate of two instead of one percent. If Prussia would have had a two-year conscription period over the last 30 years, it would count eight million additional citizens by now. Such a difference was, in military terms, more significant than disposing of a huge standing army in peacetimes. Faucher never endorsed a militia—as the congress had done in 1862—but advocated a reduced standing army and a two-year compulsory military service.⁴⁶⁴ Prince-Smith agreed with Faucher's calculation that a three-year military service caused a population loss of eight million Prussians during 30 years, and calculated that “an additional 18 million thalers per annum in the spending budget are crucial, whether the population annually grows around one or two percent [...]”⁴⁶⁵ He demanded a ceiling to taxes because government, by having to ask for permission, would be unable to increase military spending on its own.⁴⁶⁶ With a tax limit, the Prussian government would have been unable to increase the military spending and push for a military reform. As Prince-Smith reasoned: “Government will always be tempted [...] to make innovations without the parliament's consent and, after the deed has taken place, to entrench itself behind the violence of the facts from the complaints of the violated constitutional law!”⁴⁶⁷ Prince-Smith seemed to be rather distanced from his colleagues Faucher and Michaelis in parliament. Wolff (1880, 344) notes that Prince-Smith hardly spoke in the House of Representatives but supported the

⁴⁶² Stenographic Reports of the House of Representatives, May 4th 1865, 45th session, 1313, emphasis in original.

⁴⁶³ Like in his article *On the Question of the best Military Constitution*, Faucher estimated: “If one calculates, as I have tried, with the exact numbers of our statistics, we even arrive at five percent of paralyzed workforce, the paralysation of the twentieth part of the productive power of the Prussian people. Of this productive activity [...] five percent amount to a hundred million thalers”; see Stenographic Reports of the House of Representatives, March 20th 1865, 24th session, 630.

⁴⁶⁴ Stenographic Reports of the House of Representatives, March 20th 1865, 24th session, 632.

⁴⁶⁵ Stenographic Reports of the House of Representatives, March 27th 1865, 28th session, 760. Prince-Smith assumed that a tax revenue of one million thalers destroyed the livelihood of 10,000 people. Since the Prussian population counted 18 million, one percent of the population was 180,000 people. Consequently, 18 million thalers would be necessary to destroy the livelihood of one percent of the Prussian population; see Stenographic Reports of the House of Representatives, March 27th 1865, 28th session, 760.

⁴⁶⁶ Stenographic Reports of the House of Representatives, March 27th 1865, 28th session, 758.

⁴⁶⁷ Stenographic Reports of the House of Representatives, March 27th 1865, 28th session, 759.

position of Faucher and Michaelis. However, in the above speech, Prince-Smith was more oppositional in tone than Faucher. The militarist rhetoric that can be found in Braun's and Faucher's writings is also not present in Prince-Smith, except for his last work from 1873.

On June 1st and 2nd 1865, the House of Representatives came back to the Schleswig-Holstein conflict, when the government introduced a navy bill to enlarge the harbor in Kiel and to expand the fleet. Michaelis rejected the bill and was for a transfer of Schleswig-Holstein's sovereignty on military and foreign politics to Prussia. The state was unable to be independent and guarantee the security of the Northern border, neither was the German confederation due to its “wrong military constitution”.⁴⁶⁸ Prussia had to exert pressure before Schleswig was constituted as a state, because “the weak spot of its [Prussia's] geographical position lies in this state, because, if this area is not closely connected with Prussia, there are the landing-places from which one can penetrate into the heart of our state without finding fortified resistance.”⁴⁶⁹ A year before, Faucher and Michaelis had already published an open letter, where they viewed “*the military protection of the Northern border*” as the essential aspect of the Prussian and German interests. They gave minor importance to the question of legitimacy of power and saw the line of succession in Schleswig-Holstein as a “pure inner German question.” Quite militaristically, they write that if another conference of foreign states would take place and impose a treaty, Germany would have to “tear apart [the treaty] with the sword, as it tore apart the treaty of 1852 with it [...]”.⁴⁷⁰

On June 15th 1865, the parliament debated the war cost draft of the government. The moderate liberal Twesten praised Bismarck's Schleswig policy because, for the first time in many years, Prussia had showed an own will in the field of foreign policy. Twesten's speech was “an almost revolutionary novelty” (Winkler 1964, 64) because he admitted openly that a conservative government could be beneficial to the liberal cause for national unity. Twesten endorsed a resolution of Michaelis, which was for a transfer of power on military and foreign policy from Schleswig-Holstein and did not mention the constitutional question. Michaelis motivated his resolution with the argument that, if Prussia had to protect Schleswig-Holstein, “that people are obliged to contribute to the same extent to the costs and burdens of protection as the Prussian people contribute.”⁴⁷¹ The great majority of the Progress Party, including Hermann Schulze-Delitzsch, voted against Michaelis's resolution. Nevertheless, Faucher and Schulze-Delitzsch still cooperated

⁴⁶⁸ Stenographic Reports of the House of Representatives, June 1st 1865, 61nd session, 1839.

⁴⁶⁹ Stenographic Reports of the House of Representatives, June 1st 1865, 61nd session, 1839.

⁴⁷⁰ *Nationalzeitung*, May 12th 1864, no. 217, morning issue, 2, emphasis in original. Schunke (1916, 28-9) reprinted the open letter. Winkler (1964, 61) incorrectly writes that the open letter was published in May 1865.

⁴⁷¹ Stenographic Reports of the House of Representatives, June 13th 1865, 68th session, 2116.

with each other and gave speeches in public together. In early February 1865, they spoke in front of Berlin citizens about the current political situation. As the *Nationalzeitung* reported, Schulze-Delitzsch defended a liberal state under the rule of law and disputed that the Progress liberals “will make compromises with the government after the won war”, proclaiming that “law precedes power.”⁴⁷² Faucher talked afterwards about the growth of Berlin during the last three years and the abolition of the fees for entrance and citizenship.⁴⁷³ Until the end of 1865, the *Nationalzeitung* fully endorsed Bismarck's foreign policy so that the public believed that the paper was on the payroll of the conservative government. Its main argument was that a German national state would liberate Prussia since, for reasons of foreign policy, it was forced to maintain an expensive army to secure Germany's safety against potential foreign invaders. Therefore, the paper viewed the liberal democratic program of “unity only with liberty” as Utopian, because Prussia had to expand its sphere of influence first before the military burden could be decreased. The *Nationalzeitung* wrote on August 2nd 1866:

This, too, is a historical development law, that liberty was sometimes too tight in a state, and that it needed a spacious house to unfold. And under this latter historical law [...] the entire German people stand today. It is still unfree because it still lives in too small states [...]. (quoted in Winkler 1964, 77)

On the other side, the democratic *Volkszeitung* stuck to its principles. It would rather tolerate “the accusation of unpatriotic activities” (quoted in Winkler 1964, 78) than submitting itself to the inner moral conflict of not opposing a policy that was incongruent to its principles and harmful to Prussia. It explained prophetically:

The unity of blood and iron, even if it were possible, would destroy the last vestiges of liberty. [...] Unity without liberty is so decidedly the enemy of liberty that, when liberty breathes, it immediately destroys unity. (quoted in Winkler 1964, 78-9)

The position of the moderates and the *Nationalzeitung* changed in December 1865 when Bismarck did not react to their proposal for a compromise. They went another time into opposition and feared that Bismarck did not aim at German unity but at Prussian hegemony in the Northern territories above the river Main. However, when Prussia had won the war against Austria, they finally surrendered to Bismarck.

⁴⁷² *Nationalzeitung*, February 5th 1865, no. 61, morning issue, 2.

⁴⁷³ A month later, Faucher and Schulze-Delitzsch talked together in front of the cooperatives on consumption from the province Brandenburg, about cooperatives on consumption; see *Nationalzeitung*, March 7th 1865, no. 111, morning issue, 3. In April 1866, Schulze-Delitzsch still endorsed Faucher's reelection in his hometown Delitzsch. When the head of the district authority wanted to dissolve the meeting of more than 1,000 voters after a comment of Faucher, Schulze-Delitzsch helped to prevent the dissolution; see *Nationalzeitung*, April 6th 1866, no. 158, morning issue, 5.

3.3.4 The Braunschweig Meeting of 1866

The Austro-Prussian war broke out on June 14th 1866 and lasted until July 3rd, when Prussia won the Battle of Königgratz. At the same day, elections for the House of Representatives took place and the Progress Party fell from 143 to 83 seats and its ally, the fraction Left Center, shrank from 93 to 65 seats. The conservatives gained 103 seats in comparison to the last election of 1863 and counted 142 seats. Together with the Catholic and Polish faction, the Progress liberals possessed a weak minority of 184 to 169 seats against the conservatives and the Old liberals (Winkler 1964, 91; Eisfeld 1969, 173-4). Prince-Smith had not presented himself as a candidate at the election, saying that he was not in the best health. He also did not want to accept the detailed political program to which his Stettin voters wanted to oblige him.⁴⁷⁴ Liberalism was in the defense after Bismarck had surprisingly won the “war between brothers”. More and more voices demanded that the Progress liberals reached an agreement in the constitutional conflict. Heinrich von Treitschke, one of the most famous publicists of the era, condemned the “terrorism of the Progress Party” (Treitschke 1866, 12) on July 10th. He asked the Progress liberals to compromise, because they had to make up for their refusal in the past to cooperate on foreign policy. The liberal Hermann Baumgarten published “a self-critique” of German liberalism and said that it had to become “*able to govern*” and “a power realizing its own thoughts” (Baumgarten 1866, 627; emphasis in original). Böhmert was for a compromise as well and wrote enthusiastically after the won war: “What we hoped to achieve through peaceful political work only in decades [...] already lies at least outwardly half-finished in front of our surprised eyes” (Böhmert 1866, 269). He noted that the constitutional conflict would have never taken so long if the members of parliament would have known that Bismarck and his government aimed for a German nation state as well. Either the liberals took advantage of the moment or they had to refrain altogether from shaping politics:

Anyone, who does not want to acknowledge the power of the facts and wants to turn away from the results achieved without his cooperation, must refrain altogether from pursuing politics and introducing his ideas into state life, must cede the order of circumstances to mere violence, while violence is inclined to call on the German people and to consider popular wishes. (Böhmert 1866, 270)

However, he fastened to point out that “[e]conomic science is the sworn enemy of war, revolution and politics of violence” (Böhmert 1866, 270). Böhmert could also claim with much right that, due to Bismarck's liberal trade policy, the free traders were “never in such a principled opposition towards Bismarck than abstract politics and the constitutional doctrine” (Böhmert 1866,

⁴⁷⁴ *Nationalzeitung*, May 17th 1866, No. 224, morning issue, 5 and *Nationalzeitung*, June 19th 1866, no. 279, morning issue, 5.

270). Thus, the free traders were enthusiastic about the possibility of a politically-united Germany and feared that they might miss the opportunity to put their principles into practice. Moreover, they thought to be in a weak bargaining position. The *Ostseezeitung*, edited by Wolff, wrote on August 9th 1866:

That a state government, after such tremendous exterior successes, should voluntarily make a complete concession on the most important issue [the conflict on the budget] to the opposition—which did not contribute anything to these successes but at first tried to prevent them by all means—that would be truly a strange impertinence. (quoted in Hentschel 1975, 142)

The free traders reacted immediately and only eleven days after the war, on July 22nd, Lette sent invitation for a meeting in Braunschweig to the executive committee and selected members of the congress.⁴⁷⁵ He wrote that a national parliament and a central power would be soon established in Germany. The congress had continuously worked for German unification, which was most needed in the economic sphere (Meyer 1866, 180-1). Therefore, the meeting should debate the proposal of the Prussian government for a reform of the German confederation and delineate the powers of the future parliament and the president (Meyer 1866, 182).

On August 4th 1866, more than sixty free traders and around ten members of the executive committee of the Handelstag united in Braunschweig; among others, Prince-Smith, Faucher, Braun, Michaelis, Böhmert, Soetbeer, Emminghaus, Meyer, Lammers and Wolff. Schulze-Delitzsch and the South Germans Wirth and Sonnemann were not present. Faucher was the referent on the first topic of the agenda “member state contributions”. He opposed these taxes collected by the members states and transferred to the federal state. In such a taxation system, the federal parliament just approved of the spending while the parliaments of the member states passed the taxes. The result was excessive spending on part of the federal parliament. Additionally, it was unjust to not take the different levels of wealth of the member states into consideration. The federal state would be unable to obtain credit and finance its military, since states obtained loans only due to their ability to tax their population. Hence, the federal state should collect its funds directly via taxes (Meyer 1866, 184-5). Braun agreed with Faucher and the meeting passed the latter's resolution unanimously (Meyer 1866, 185). Braun was the referent on the next topic on the agenda, the future of the Zollverein. As he explained, the member states of the Zollverein were the same as the members of the new federal state, except for the Southern states Baden, Bavaria and Württemberg. The question

⁴⁷⁵ Faucher claimed that he originated the idea for a meeting of selected members of the congress, the Nationalverein and the Handelstag in Braunschweig. He presented the idea to Michaelis, who talked about it with some members of the Prussian government, and to Lette, the president of the executive committee (Faucher 1876b, 106-7). This would explain Faucher's prominent role in Braunschweig because he gave the first presentation, was two times referent and frequently intervened into the debate.

therefore arose whether the Zollverein would continue to operate as before or whether the Southern countries would have to join the North German Confederation to enjoy the Zollverein's privileges of trade further on. Braun and Wolff wanted to grant these privileges to the South German states, even if they would not join (Meyer 1866, 186). Böhmert defended the same standpoint, because he feared the Southern states would follow Austria's protectionist trade policy if they would be excluded (Meyer 1866, 186). Grumbrecht, on the other side, opined that the Southern states should not enjoy the low tariffs of the Zollverein if they did not join the federal state. He was afraid that the Zollverein and the liberum veto would continue to exist forever (Meyer 1866, 186-7).

Biedermann proposed a centrist view, which was endorsed by Faucher. The Southern states had to be granted thinking time until 1870 to decide on the accession to the North German Confederation. In the meantime, the new federal parliament had to take over control of the Zollverein and the South had to be able to send representatives to a Zollverein parliament (Meyer 1866, 188). Michaelis did not take sides with Braun, Grumbrecht or Biedermann. In his view, the free traders only had to declare that power over the Zollverein should pass to the new central power and the national parliament (Meyer 1866, 188). Faucher, however, endorsed Biedermann's proposal because he was certain that time would force the Southern states to join, similar as it had happened with Franco-Prussian trade treaty. It was important that time was given to the South, in order to avoid that it leaped to the conclusion to cut ties to the North. In the meantime, the Northern states would be able to look for new trade partners, should the South not join. Once more, Braun was convinced by Faucher's case and followed his friend (Meyer 1866, 190).⁴⁷⁶ The meeting passed Braun's resolution and Faucher's and Biedermann's amendment (Meyer 1866, 190). Bismarck would adopt this strategy and Faucher was proven right when the Southern states joined the German Empire in 1870. Faucher was also the referent in the debate on the tax revenues of the confederation. Due to the experiences from the constitutional conflict, he wanted to limit the parliament's power on approving the budget, and widen its authority of introducing taxes. The tariffs should not be the only source of funds for the federal state because they heavily intervened into commercial life. It needed a steady revenue "so that it has power against particularistic movements" (Meyer 1866, 191). The free traders accepted the resolution of Faucher and Michaelis according to which the federal state had to finance itself with a steady revenue fixed by the federal law, and an adjustable revenue set by parliament. Member states had to cut spending because some tasks were taken over by the federal state (Meyer 1866, 193). In the end, the free traders briefly discussed free movement, railways, the post and the telegraphs. The resolution on free movement

⁴⁷⁶ Grandpierre (1923, 89) is rather misleading when he suggests that Braun did not want to coerce the South into the North German Confederation.

wanted to whither away every monopoly, especially the salt monopoly, and introduce free movement inside the new state. It was unanimously passed by the free traders (Meyer 1866, 193-4). They also decided to centralize telegraphs and the post, instead of continuing with 18 post agencies in each member state, and the profits of the post should flow to the treasury. However, Braun preferred that telegraphs were entirely managed by private companies (Meyer 1866, 194-5). Concerning railways, the free traders did not defend free competition as in the early 1860s. The resolution of Michaelis argued for a central railway authority regulated by a German railway act that was responsible for the supervision and the granting of concessions. The meeting accepted Michaelis's resolution unanimously (Meyer 1866, 195). In sum, the free traders argued for a strong central power at the meeting in Braunschweig. Their decisions would exert a great influence on the legislation. As Braun remembered the Braunschweig meeting with satisfaction in 1882: "He who compares these resolutions with the content of the federal, now Reich constitution, cannot deny that they form the basis of the financial and economic rules of our constitution" (Braun 1882, 332).

3.3.5 The Indemnity Bill and the Foundation of the National Liberal Party

One day after the Braunschweig meeting, the Prussian parliament assembled for the first time after the war and William I gave his King's speech. As he declared, the spending of previous years that had been unapproved by the parliament was "one of the irrefutable necessities" to secure "continuation of a coordinated administration, fulfillment of the legal requirements against the creditors and officials of the state, preservation of the army and the state institutions [...]"⁴⁷⁷ The King admitted that the House of Representatives possessed the right to approve or reject the budget. However, he did not disassociate from the gap theory and asked for indemnity. While the moderates welcomed the speech, the liberal democrats rejected his request for indemnity. In the faction, a heavy dispute arose when Waldeck presented a draft bill that would not grant indemnity to the government and continue with the opposition. When Hoverbeck wanted to obligate all members of the fraction to defend the draft in the plenum, some liberals decided to leave the Progress Party. The first was Viktor von Unruh and Michaelis, Roepell, Krieger and Twesten followed him a week later on November 18th. Both Roepell and Michaelis were members of the Economic Congress. In the next weeks, twelve liberals left the fraction of the Progress Party. On September 1st, when the Prussian parliament debated the Indemnity Bill, Michaelis gave a historical speech where he successfully raised support for the bill. A majority of the Progress Party voted for bill, while the

⁴⁷⁷ Stenographic Reports of the House of Representatives, August 5th 1866, opening session, 2.

liberal democrats were against a compromise.⁴⁷⁸ Gneist, Waldeck, Schulze-Delitzsch and Hoverbeck were among the men that opposed the bill. At this point, Prince-Smith and Faucher did not sit in the Prussian House of Representatives anymore. However, in September 1866, Faucher published *Sachsen am Scheidewege* (Saxony at the Crossroads) in the *Quarterly Journal*. The article was a decided apology for a Saxon accession to the federal state. Faucher wanted all German states to join, but the economically-strong Saxony was crucial because other states would follow its lead (Faucher 1866a, 159). Additionally, Faucher believed that a federal state without Saxony would be too Prussian-dominated (Faucher 1866a, 177). He recognized that Kleinstaaterei had had a peace-making and culture-creating effect on Germany, and politically-persecuted persons could easier get into safety. However, small states had only worked as long as a balance of power existed between Prussia and Austria (Faucher 1866a, 149). This was no longer the case because, on the one side, Prussia was militarily much stronger than Austria due to conscription:

General conscription has the peculiarity that a burning sense of honor does not cause fear to arise in rank and file. The common soldier of high social rank is much too *ashamed* in front of his neighbor of low rank, as to not stand firm and agile, and the man of low social rank does so because he feels honored, and the example fills him with unlimited confidence. (Faucher 1866a, 152; emphasis in original)

The states without compulsory military service—for example, America and England with their militias—were not able to win a war against states with conscription. However, Austria could not introduce compulsory military service because of its many cultures (Faucher 1866a, 152-3). On the other side, Prussia was superior to Austria because the most important factor of national wealth was not soil but the people. The Slavs and other nationalities, which lived in the Austrian Empire, were not able to reach the same living standard as the Germans, with the exemption of the Jews and the Austrian Germans. Austria would lose a future war again because the Habsburg Empire could not compete economically or militarily against Prussia. Faucher concluded that militarily “*Austria* can no longer be counted on as a support for the independence of German small and medium-sized states” (Faucher 1866a, 155; emphasis in original). He also emphasized the significance of the Zollverein for the Saxon economy, and suggested that the Zollverein treaty would not be prolonged or even canceled by the federal state:

Is it everywhere taken into account so entirely full and clear what an exclusion from the Zollverein for the one who excludes, and especially what—in fact one frightens together when one pronounces it—what *Saxony's* exclusion from the Zollverein would mean for Saxony? (Faucher 1866a, 166; emphasis in original)

⁴⁷⁸ Ludwig von Mises comments on the Indemnity Bill in his work *Liberalism* (1927) that it resulted in the “full success for the King and in a complete defeat for liberalism” (Mises 2010, 27). Similarly, Friedrich August von Hayek wrote about the subsequent foundation of the National Liberal Party: “But already with the split of this party [the German Progress Party] in February 1867 begins the decay and tragedy of German liberalism” (Hayek 1959, 593).

original)

Faucher warned that much of the Saxon industry would leave the country. Saxony would lose its position as an economic leader if tariffs would be reintroduced, and the Saxons might starve without trade freedom. He went as far as to argue that big nations could easier export to foreign countries than small states (Faucher 1866a, 173-5). He also insinuated that a North German state without Saxony might regress to “the old pure Prussian great-power politics” (Faucher 1866a, 175) and invade an independent Saxony:

They [the Prussians] will look for allies; they will pay the closest attention to the alliance policy of world politics; will put weight on a strong peace army; will, in a word, lie in wait to make up for what was not possible so far. (Faucher 1866a, 176)

Faucher predicted a dark future for Saxony if the country would not join. From his writings and public statements, it is clear that he was an advocate of a strong central state from 1864 on.⁴⁷⁹ In September 1866, around twenty liberal members of parliament wrote an open letter that was not published until October 25th. They declared their opposition on interior politics to Bismarck's government and cooperation on foreign policy. The Progress Party tried to reassembly as a faction in November, but democrats and moderates could not find a common ground. The fraction “Neue Fraktion der nationalen Partei” (New Fraction of the National Party) was constituted on November 16th 1866 and the congress attendees Lette, Michaelis and Roepell became its members. However, in the first elections of the North German Confederation, the Progress Party and the New Fraction stood together for election. They separated after the elections and the National Liberals constituted under the leadership of Bennigsen on February 28th 1867. This was the birthday of the National Liberal Party, which had won the elections and sent eighty members to parliament. In March 1867, Prince-Smith supported the National Liberal Party in a speech to his Stettin voters. He was for a cooperation with Bismarck in the formulation of the new constitution. He motivated his view with the political paralyzation of Germany before the summer of 1866 “so that it had little impact on the European issues.” Prince-Smith assumed that the South German states would soon enter into the confederation, and believed that a new era had begun in Europe on July 3rd 1866. Nevertheless, he warned “that the new position of power of Germany is not recognized without resistance [by

⁴⁷⁹ In May 1868, Faucher gave a speech in the Economic Society of Saint Petersburg where he depicted small sovereign states as a cause of war and recommended a federal state that was responsible for foreign policy and diplomacy. According to Faucher, some German newspapers criticized his view as “praise of a brutal policy of conquest” see *Quarterly Journal* II/1871, 301. Faucher was in Saint Petersburg to give speeches on free trade and the local Economic Society celebrated him in a banquet on May 5th; see *Berlinische Nachrichten von Staats- und gelehrten Sachen*, May 8th 1868, no. 107, 6. He also published an article about the Russian agrarian legislation of 1861 that developed out of his travel (Faucher 1870a).

foreign countries].” He was for full political unification: “We must not stop at the mere military unification of Germany; because that could prove groundless without political and legal unity.”⁴⁸⁰ At that time, Prince-Smith's trust into the Prussian government was so high that he responded to a letter of French liberals, who asked him for organizing protests for peace in Berlin, that opposition was unnecessary because Germany was just aiming at national unification.⁴⁸¹

Four reasons can explain why the orthodox free traders compromised and refrained from opposing Bismarck in 1866, contrary to Schulze-Delitzsch and Eugen Richter. The first was the optimism for the future of free trade and trust into the ability of markets to control political power. As Hentschel notes: “Since they assumed that nobody could oppose the politically, socially and economically coordinated development, they also considered a change of power as unnecessary” (Hentschel 1975, 132). Prince-Smith expressed such optimism as early as in the 1840s after the abolition of the Corn laws, when he believed that “general freedom of trade” would be the result in Europe because “other states cannot possibly carry out their trade policy in any opposite direction to the English” (Prince-Smith 1879, 225). England would prosper under freedom of trade and other countries would want to follow its example. Similarly, other free traders believed that “politics dies and economics monopolizes the won territory” (Faucher 1863, 187) and that civil society strove for “emancipating from the state and crowding back [...] state power to its true domain, [...] protection of law and foreign power” (Braun 1866, 7).⁴⁸² Due to this optimism, the orthodox free traders developed an apathetic attitude towards the political struggle because were of minor importance at best if free trade was about to come anyway. Wolff displayed this apathy already in 1851 when he said about the anarchists around the *Abendpost*: “Not republic or Cossackdom is the question, but liberty or coercion. [...] that is why political freedom is next to nothing for us, and freedom of trade and business is of infinitely more value to us than democratic voting rights“ (Braun 1893, 137).⁴⁸³ Therefore, Raico intuited quite correctly: “It is as if the fact, that many of them were early linked to anarchism, left them with a lasting aversion to political conflict” (Raico 1999, 74).

⁴⁸⁰ *Berlinische Nachrichten von Staats- und gelehrten Sachen*, March 28th 1867, no. 74, 5.

⁴⁸¹ *Berlinische Nachrichten von Staats- und gelehrten Sachen*, May 11th 1867, no. 110, 2. As he wrote in a letter reprinted by the *Berlinische Zeitung*, protests would solely be necessary “if it [the German government] made a request to a foreign power that would be difficult to reconcile with its right and honor. There is no such case.” If anything, protests would weaken the German government in its bargaining position to the French state, what would be more dangerous to peace.

⁴⁸² The *Abendpost* was even more explicit when it called Robert Peel “the last English ‘statesman’ ever” and wrote after his death that “he represents [...] the ‘dying state’ with a wonderful firmness and clearness.” The cause of the dying state was that “[t]he progress of culture in width and depth has become so enormous, the general level of popular education so tremendously higher [...]” See *Abendpost*, May 11th 1850, no. 107, 1.

⁴⁸³ The *Abendpost* wrote that “liberty is not bound to a certain form of government. Monarchy, feudalism, modern constitutionalism, republicanism may well be manifestations of liberty or servitude”; see *Constitutionelle Zeitung*, March 7th 1850, no. 110, evening issue, 1.

A second reason was the conviction that liberty in the Prussian state was only be attainable after Germany was politically united. As seen, the *Nationalzeitung* reasoned that Prussia could not be free because its military burden was too high. Small states externalized their costs of foreign security on Prussia because of the military constitution of the German Confederation. If more states would enter into a federal state with Prussia, the burden would be distributed more equally among the German states, and that would exert a liberalizing effect on Prussia. A third reason was that most free traders viewed themselves in a weak position. They felt they had to make a compromise with Bismarck after the won war and did not want to miss the opportunity to influence politics. Hentschel concludes after reviewing the most important free trade papers *Bremer Handelsblatt* and the *Ostseezeitung*: “The free traders apparently believed that they were no longer justified in making demands to the Prussian state, but had been placed in the role of debtors that could only ask for 'impetus of the heart' and 'consideration for popular trends’” (Hentschel 1975, 142). Similarly, the orthodox Braun saw the liberals from 1866 on the losing side, saying to the Progress liberals in the Reichstag in 1868:

One is strong after such achievements [national unification brought about by Bismarck in 1866], and the class of society and its representatives that follow the opposite direction—as I like to admit, with the best reasons from their subjective point of view—cannot dictate its world view to such a victorious power, it must achieve, if something is to come to fruition, the realization of that something by compromise [...].⁴⁸⁴

Lastly, the orthodox free traders believed that economic reforms could be implemented easier by a national parliament. The argument had some merit in the 1860s because liberalism was the ruling doctrine and just a minority of the press was conservative.⁴⁸⁵ The Progress Party and the National Liberal Party repeatedly won the elections and had the greatest say in the House of Representatives and the Reichstag. Accordingly, Braun thought that, although the congress had been successful in pushing for reforms on economic liberty or free movement before the unification, these achievements were “only patchwork” (Braun 1882, 325). True economic liberty and freedom of movement could only be obtained in a central state:

If all states would recognize the principle [economic liberty], there would still remain deviant modifications in each of the *individual* legislations then, so that there could only be talk of a true general freedom of trade and free movement with a *common* legislation; and the precondition of the latter was political unity. (Braun 1882, 325; emphasis in original)

⁴⁸⁴ Stenographic reports of the Reichstag of the North German confederation, June 15th 1868, 23rd session, 44.

⁴⁸⁵ The *Magdeburger Zeitung* (Magdeburg newspaper) estimated in December 1862 that the liberal press sold 250,000 copies each day in Prussia, while the conservative newspapers reached 40,000 copies at most (Langewiesche 1988, 100).

Braun believed that a uniform legislation was solely possible in the central state because legislation of small states allowed for distinct legal exceptions. However, he did not see that small states tended to a greater degree to economic liberalism and were a natural check to power, because citizens could easier vote with their feet against anti-liberal policies (see Bagus and Marquart 2017).⁴⁸⁶ Additionally, the reports of the congress show and Braun (1882, 325) admitted that the small German states had already taken a liberal path before 1866 by implementing many economic reforms. Eventually, Braun was proven wrong just a year after he put to paper that “political unity required economic freedom” (Braun 1882, 325). From 1883 on, Bismarck introduced a social security system in Germany.

⁴⁸⁶ None other than the German poet Johann Wolfgang von Goethe praised Kleinstaaterei. On October 23rd 1828, he said in a conversation with Johann Peter Eckmann when Germany was still divided into almost forty states: “I do not fear that Germany will not be united; [...] she is united, because the German Taler and Groschen have the same value throughout the entire Empire, and because my suitcase can pass through all thirty-six states without being opened [...] Germany is united in the areas of weights and measures, trade and migration, and a hundred similar things [...] One is mistaken, however, if one thinks that Germany's unity should be expressed in the form of one large capital city, and that this great city might benefit the masses in the same way that it might benefit the development of a few outstanding individuals [...] What makes Germany great is her admirable popular culture, which has penetrated all parts of the Empire evenly. And is it not the many different princely residences from whence this culture springs and which are its bearers and curators? Just assume that for centuries only the two capitals of Vienna and Berlin had existed in Germany, or even only a single one. Then, I am wondering, what would have happened to the German culture and the widespread prosperity that goes hand in hand with culture [...] Germany has twenty universities strewn out across the entire Empire, more than one hundred public libraries, and a similar number of art collections and natural museums; for every prince wanted to attract such beauty and good [...] Gymnasia, and technical and industrial schools exist in abundance; indeed, there is hardly a German village without its own school. How is it in this regard in France! [...] Furthermore, look at the number of German theaters, which exceeds seventy [...] The appreciation of music and song and their performance is nowhere as prevalent as in Germany [...] Then *think about cities such as Dresden, Munich, Stuttgart, Kassel, Braunschweig, Hannover*; and similar ones; think about the energy that these cities represent; think about the effects they have on neighboring provinces, and ask yourself, if all of this would exist, if such cities had not been the residences of princes for a long time [...] Frankfurt, Bremen, Hamburg, Lubeck are large and brilliant, and their impact on the prosperity of Germany is incalculable. Yet, would they remain what they are if they were to lose their independence and be incorporated as provincial cities into one great German Empire? I have reason to doubt this” (quoted in Hoppe 2002, 118-9; emphasis in original; see also Bagus and Marquart 2017, 85-9).

3.4 Patents, Gambling and Debt Detention at the Congress

In the period from 1863 to 1865, the free traders debated three minor topics once or twice at the congress. These are casinos and lotteries, intellectual property and debt imprisonment. While they rejected patents and debt imprisonment, they supported a prohibition of casinos and lotteries for moral reasons.

3.4.1 Intellectual Property⁴⁸⁷

Like most attendees of the congress, Prince-Smith and Faucher were against intellectual property. Faucher had already commented on the issue on July 1st 1862, when the Prussian parliament debated intellectual property on photographs. A photographic studio from Berlin had petitioned for copyrights, and Faucher explained that an introduction would cause rich men to ask for payment if someone took a picture of them. The state would have to prevent others from copying protected images. He did not view taking a photograph as an artistic achievement or a creative act, because it merely consisted in positioning one or several persons. However, Faucher supported copyrights for authors.⁴⁸⁸ One year later, the congress debated patents for the only time.⁴⁸⁹ In the 1860s, a unified patent legislation was brought up for the Zollverein area and patent advocates demanded to strengthen the patent legislation of the individual German states.⁴⁹⁰ These efforts created resistance among the free traders. At the congress, Prince-Smith delivered his speech *Ueber Patente und Erfindungen* (On Patents and Inventions, 1863) and condemned all legal rules

⁴⁸⁷ See Grambow (1903, 53-9), Machlup and Penrose (1950), Rentzsch (1866, 625-36) and Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 221-238.

⁴⁸⁸ Stenographic Reports of the House of Representatives, July 1st 1862, 16th session, 441.

⁴⁸⁹ In 1867, Böhmert unsuccessfully tried to set the issue a second time on the agenda when the federal government thought about passing legislation on patents; see Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 140. The free traders planned to discuss copyright in 1875. Alexander Meyer introduced a resolution against copyrights while the Berlin manufacturer Max Weigert defended the pro-side with his resolution. However, there was not enough time for a discussion; see Stenographic Reports of the Economic Congress, 1875, 136.

⁴⁹⁰ In the 1860s, almost all greater nations and large German states had implemented patent laws; for example, France in 1791, the United States in 1793, Austria in 1810, Russia in 1812, Prussia in 1815, Württemberg in 1842, Hanover in 1852 and Saxony in 1853 (Rentzsch 1866, 626; see also Machlup and Penrose 1950, 3). Rentzsch noted that “with the exception of Switzerland, patent legislation exists in all major civilized states” (Rentzsch 1866, 629). Patents were granted to new discoveries or to innovations that built upon patented technologies. The latter were issued by the patent office if the holder of the initial patent agreed or if the initial patent had expired. The inventors had to reveal their innovation to the patent office, which issued a patent with a duration between three and twenty years. Others were then legally forbidden from using the patented technology (Rentzsch 188, 625-6). The patentee had to pay a fee that was usually quite high (Rentzsch 1866, 630).

that restricted the use of technological ideas.⁴⁹¹ He introduced an anti-patent resolution⁴⁹² that was accepted by the congress after a heated discussion. According to Prince-Smith, the public was almost entirely in favor of patents because the belief was wide-spread that patents stimulated technological innovation (Prince-Smith 1863, 150-1). However, historically, patents were not introduced to stimulate innovation but to grant privileges to favored entrepreneurs. The Stuarts in England were the first to implement patents by establishing monopolies to sell a certain good (Prince-Smith 1863, 151).

Prince-Smith discussed the legal philosophical question whether intellectual property was a legitimate property right. In his view, property rights were not absolute and should only be granted if they served the common good. If property was not beneficial to society as a whole, the state had to expropriate owners. As he said: “Any claim for protection of private property is a demand for the intervention of the power of the state, which should follow exclusively the dictate of common welfare” (Prince-Smith 1863, 157; see also Prince-Smith 1879, 238). However, Prince-Smith derived from his legal positivist view a case against state interference. Since private property of physical things was in conformity with unalterable economic laws of nature, it benefited society and owners should not be expropriated. This could not be said of patents because they were “injurious to the progress of production and to the common welfare and, thus, illegitimate in the light of the principle of property rights” (Prince-Smith 1863, 157). Faucher shared Prince-Smith's legal positivism by saying that economic science just accepted property “insofar as it *benefits* and stems from work”.⁴⁹³ In contrast, Braun justified rights of ownership by two natural law considerations in his book *On Usury Laws*. Since all goods and services were an outflow of productive forces that stemmed from an individual, the results of production had to be owned by the individual as well. Hence, individual property rights had to exist. Moreover, the fate of a human being was to live and, since he was not able to live without the exclusive ownership in the results of his labor, he had to own the fruits of his labor (Braun and Wirth 1856, 29-30). However, the economic part of the book likely stemmed from Wirth and was not written by Braun. In later years, Braun justified property rights with a psychological consideration. Human beings were sluggish and needed an incentive of accumulating property beyond the basic needs in order to create wealth. He argued: “Only *the institution of property* inspires labor because it grants it the possibility of capitalizing *in favor of the*

⁴⁹¹ The speech is not reprinted in his *Collected Writings*, perhaps because Wolff did not estimate the work much: “His speech [...] is, in my opinion, the one which, among all works from the period of his maturity, is least suited to be lastingly convincing because it undertakes to answer a question, which probably requires concrete treatment more than any other economic question, by means of abstraction and conceptual development” (Wolff 1880, 346).

⁴⁹² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 221.

⁴⁹³ Stenographic Reports of the Economic Congress, 1873, 153, emphasis in original.

worker” (Braun 1865, 71; emphasis in original). However, elsewhere he made it clear that property was a “positive legal regulation” and not an absolute right, and “it cannot be defended for any other reason than because it works benevolently for humanity” (Braun 1869, 99). In contrast to orthodox utilitarianism, the idealist Böhmert discarded legal positivism and defended natural law. He wrote in *Socialism and the Worker Question* that property “does not stem from recognition by the state or the law, but comes from the natural right of every worker to keep and save the product of fine work” (Böhmert 1872b, 44; emphasis in original).

Going back to patents, a crucial difference existed for Prince-Smith between physical things and ideas: “A *thing* cannot be used by more than one person at the same time; an *idea* can be applied by countless people at the same time” (Prince-Smith 1863, 157; emphasis in original). Hence, forbidding the use of an idea signified to prohibit the production of machines or other goods. Moreover, if an innovation was patented, nobody considered or remunerated the groundwork of others that contributed to its development. Patents incentivized the inventors to work out their ideas in secrecy out of fear that another person might steal their innovation. But since an invention needed many abilities and resources, a group of people was more successful in launching it. In consequence, many potentially successful ideas were not brought to fruition. Furthermore, a minor part of the patents created benefits for their holders and Prince-Smith doubted that those exceeded the patent fees in most cases (Prince-Smith 1863, 158). Since other technicians could not build upon a patented idea, launching a new technology needed more time. Additionally, many inventors did not pursue their ideas for money, but followed an intrinsic motivation. A lot of inventions or artistic contributions were realized in the absence of a patent system (Prince-Smith 1863, 159-160).

In contrast to Prince-Smith, Max Wirth favored patents with a duration of five years, which patentees could prolong if they paid a tax. A centralized patent office had to be established in Germany and a unified patent law. The countries with a patent system such as the United States, England or France counted a higher number of technological innovations as states without patents, like Switzerland. Hence, experience showed that patents stimulated technological innovation. He agreed with Prince-Smith that intellectual property could not be justified on philosophical grounds because they were “blossoms on the tree of civilization”⁴⁹⁴ that could have been discovered by others. Only in the case of artistic work, intellectual labor possessed an individual component that made it unique and not reproducible by others. Wirth therefore supported copyright.⁴⁹⁵ Böhmert

⁴⁹⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 222.

⁴⁹⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 222-224. It might be interesting to know that Max Wirth's brother Franz Wirth was a patent lawyer, who founded his own patent law office. He published pro-patent books and under his guidance the publication *Der Arbeitgeber* (The employer), which published the reports of the congress from 1858 to 1860, became a professional journal for intellectual property. Franz Wirth also lobbied for

perhaps took up Wirth's metaphor when he published the anti-patent *Die Erfindungspatente* (Invention Patents, 1869) in the *Quarterly Journal*. He wrote that patents were more and more recognized to be “rotten fruits on the tree of civilization” and “ripe to fall” (Böhmert 1869, 106). Hermann Rentzsch was another free trader, who disagreed with Wirth and rejected patents at the congress of 1863. Rentzsch wrote the articles on patents and intellectual property for the *Concise Dictionary* and released *Der Staat und die Volkswirtschaft* (State and Economy, 1863), which was praised by Faucher for its hostile and “original” treatment of intellectual property.⁴⁹⁶ The most outspoken advocate of patents was the Berlin manufacturer Philippson, who represented a union of engineers. According to him, patents constituted an exchange with the state, the inventor revealed his technology and the state granted him monopoly rights for a limited time period. No incentive for innovation existed without patent laws because years of work were necessary for an invention.⁴⁹⁷

Michaelis turned the debate towards the anti-patent side by pointing out that groundbreaking innovations like the art of printing and gunpowder had been made without a patent system, under the threat of “breaking wheel and stake”.⁴⁹⁸ In England, some people built upon a patented technology, applied for an improvement patent and carried on a law suit against the holder of the initial patent, to force him to buy the new patent for a high price in order to avoid huge trial costs. Michaelis gave the example of the English telegraph company that had to pay 140,000 pounds of patent fees and 200,000 pounds to holders of such subsequent patents.⁴⁹⁹ Emminghaus joined the anti-patent-side by referring to a study of the Zürich Federal Polytechnical School, which argued that the success of the Swiss economy was due to the absence of patents.⁵⁰⁰ In the debate, the manufacturer Philippson recognized that he lost ground and introduced a resolution to postpone the decision to the next year. In his second intervention, he pointed to the injustice of the fact that many inventors did not find investors and died poor, without benefiting from their discoveries.⁵⁰¹ Faucher responded that an inventor would only spend a lot of time and energy into an innovation if a discovery was already in the air, and prepared by scientific progress. But in such a situation, not

the patent bill from 1877 (Fränkel 1898; Machlup and Penrose 1950, 14). Faucher reviewed Franz Wirth's book *Die Patent-Reform* (The Patent Reform, 1875). He criticized Wirth's proposal to ask manufacturers and technicians as experts for advice in the legislation process. Those had an interest in the introduction of patent laws; see *Quarterly Journal* I/1875, 257-258.

⁴⁹⁶ In the review of the book, Faucher wrote on intellectual property: “what an unfounded—juridically as well as economically unfounded—concept, which was only born by the French Revolution”; see *Quarterly Journal* IV/1863, 197-198.

⁴⁹⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 226.

⁴⁹⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 228.

⁴⁹⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 229.

⁵⁰⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 232.

⁵⁰¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 234.

only one but 25 or 100 inventors worked on the same idea, and granting a patent to the first was the true injustice:

Do you think that you reward the spent effort in this way? No, you destroy the reward for tremendous effort. Does this correspond to your sense of justice that, when 25 expend the same effort and expense at the same time, one man should only receive the benefit; only one who, moreover, is already sufficiently benefited from being the first? [...] The purpose of the entire patent is to get a higher price for one's goods than one would normally get.⁵⁰²

Faucher suggested to offer prizes to encourage new discoveries. The great majority of the congress followed the orthodox group and passed the resolution of Prince-Smith.⁵⁰³ The latter had claimed in his speech that public opinion was largely pro-patent. However, the situation would change in the 1860s. When being asked by the Prussian ministry of trade, 31 of 48 Prussian trade chambers and associations of businessmen were in favor of the abolition of patents in 1863. Ten years before, only nine had supported a complete abolition (Faucher 1864, 196, 199). By the end of the 1860s, the German public mostly rejected patents so that “the cause for patent protection seemed completely lost” (Machlup and Penrose 1950, 5). Accordingly, Bismarck decided against introducing patent laws in the North German Confederation in 1868. Prince-Smith's ultimate interventions on intellectual property took place in the German Reichstag. He discarded a prohibition of reprinting of books by third parties, because publishers would print larger editions at a lower price if reprinting was allowed.⁵⁰⁴ One month later, he demanded the abolition of all patent laws that existed in Germany.⁵⁰⁵ The intellectual climate would change in the early 1870s, when the free traders started to lose ground due to the socialists of the chair and the recession of 1873. Finally, patent laws were passed in the German Reichstag in 1877 and Ackermann explained in the debate on the bill that “thanks to the bad crisis” public opinion had turned away “from the pernicious theory of the dominating [free trade] school” (quoted in Machlup and Penrose 1950, 6).

3.4.2 Casinos, Lotteries, and Premium Bonds

In 1864, the free traders debated casinos, lotteries and lottery bonds and in 1869, they spoke about premium bonds, a special type of lottery bonds. In 1864, the referent Böhmert recommended

⁵⁰² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 235.

⁵⁰³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1863, 238.

⁵⁰⁴ Stenographic Reports of the German Reichstag, April 15th 1872, 6th session, 33.

⁵⁰⁵ Stenographic Reports of the German Reichstag, May 10th 1872, 19th session, 304-307.

a prohibition of all casinos and lotteries.⁵⁰⁶ The distribution of wealth did not depend on individual work and effort in the case of gambling, but on coincidence. Moreover, gambling subverted the working ethic of the people. Casinos squeezed money out of poor people, lowered the savings and slowed down economic progress.⁵⁰⁷ All free traders agreed with Böhmert except for Faucher. Although he rejected casinos and lotteries, Faucher supported bets since they stimulated culturally valuable activities like dog and horse breeding. Accordingly, they were not forbidden in England, as Faucher said:

A similar course [as in England] would presumably also take place here. The morbid form of gambling, as expressed in raw gambling, would disappear and the form of the bet would arise, which replaces the blind luck with the wisdom and work of the gambler.⁵⁰⁸

Although he did not favor casinos, Faucher explained that nationals were not allowed to gamble in the four casinos of the state Hessen-Darmstadt. The Landgrave of the small state viewed his casinos as a tax on foreigners. Sonnemann rejected Faucher's approval of bets by reasoning that they “grew fruits of equal, if not much greater, vileness and economic harm in the Tattersalls and the boxer fighting games”.⁵⁰⁹ Böhmert simply said about the argument of casinos as a tax on rich foreigners “that we cannot wish for Germany to become a place where the business of exploiting idiots is run by the state.”⁵¹⁰ The congress followed Böhmert and passed the resolution that recommended a prohibition of all casinos and lotteries. In 1869, the congress debated premium bonds, securities whose interest payments were partially raffled among their holders (Rentzsch 1866, 671). The cause for the debate was the firm “Diskonto-Gesellschaft zu Berlin” (Discount society of Berlin) that wanted to issue a premium bond over 100 million thalers to finance the construction of a railway line.⁵¹¹ Böhmert's close friend and referent Emminghaus feared that other railway companies demanded the same privilege once it was granted to the Berlin firm.⁵¹² He rejected premium bonds altogether and privileges granted by government for the issue of a premium bond. The latter enabled firms to collect funds below the market rate of interest. Böhmert agreed

⁵⁰⁶ According to the *Concise Dictionary*, the only concessionary casinos of Europe existed in Germany, which counted twelve casinos in the early 1860s. Other nations, like France in 1837, had forbidden casinos altogether (Rentzsch 1866, 815-6). Similarly, nine state lotteries existed in Germany while many other states—for example, England in 1826 and France in 1836—had prohibited them (Rentzsch 1866, 562).

⁵⁰⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 164-166.

⁵⁰⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 169.

⁵⁰⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 170.

⁵¹⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 172.

⁵¹¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 227.

⁵¹² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 228-229.

with Emminghaus by saying:

I must resolutely declare my opposition to the, although only, indirect sanctioning of gambling and the premium bond in particular contained in the rest of proposals. The last speaker [Ludwig Bamberger] even advanced the very radical principle: 'I am for individual liberty,' and declared himself the most decided free trader. No, we are not for *that* liberty, which would also be the liberty to rob and plunder. That is *not* the principle of liberty, that is the principle of *arbitrariness*.⁵¹³

On the opposite side, Faucher and Wolff took a rather utilitarian standpoint. Faucher supported Wolff's resolution that allowed for the free issue of premium bonds. Like in 1864, he opposed the lottery from a moral standpoint because gambling promoted malversation in all areas of life. But the moral danger was not so great for premium bonds because their holders only played with the interest payments. They first had to save funds before they invested in premium bonds. If states decided who issued premium bonds, states would misallocate capital to certain industries. Faucher concluded: "I know of no other way out than *the absolute prohibition or the full legally regulated release*."⁵¹⁴ A full liberalization would end capital misallocation and bonds with the highest yields would be sold most. Thus, Faucher supported a complete deregulation of premium bonds. Wolff considered gambling as economically dangerous for the individual, but not as morally wrong. Many premium bonds circulated on the German market and the state was not able to buy them without interfering into the freedom of the stock market. If these securities were forbidden, foreign premium bonds would flood the German market:

There is only *one* means to make this situation impossible [foreign and privileged German premium bonds exploit the German market], that is, within the North German Confederation *everyone* is allowed to exploit the gambling addiction as he pleases. I have the comforting confidence that exploitation of gambling will then stop being a profitable business.⁵¹⁵

Ludwig Bamberger was on Faucher's and Wolff's side by arguing that the state should not intervene into the relationship between debtor and creditor. Every credit was a lottery since the repayment was always subject to coincidence because of the possibility of default.⁵¹⁶ The congress rejected Böhmert's and Emminghaus's resolution with 30 to 27 votes and passed a resolution that expressed the position of Faucher, Wolff and Bamberger.⁵¹⁷ Braun endorsed the position of the Berlin free traders in the Prussian House of Representatives, where he advocated the liberalization

⁵¹³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 239, emphasis in original.

⁵¹⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 242, emphasis in original.

⁵¹⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 232, emphasis in original.

⁵¹⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 237-239.

⁵¹⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 244.

of premium bonds. On October 26th 1869, he spoke against the issue of premium bonds for selected railway companies by asking rhetorically:

[D]oes the state have an obligation to help anyone, who cannot silver their promissory notes? If we pay homage to this principle, how are you going to ward off the desire of landowners to establish a state bank to raise their credit?⁵¹⁸

Braun made a distinction between premium bonds and lottery bonds. While investors only played with an eighth or tenth of the interest payments of a premium bond, the entire interest payment or invested money was gambled with in the case of lottery bonds. Braun rejected lottery bonds but not premium bonds and he was against privileges for the issue of these bonds, stating:

But I say to you that [...] the best medicine is economic freedom; we give normative conditions under whose observance (under penal and civil liability) everybody can issue premium bonds: well, then the dangers of the privilege are eliminated.⁵¹⁹

The Prussian House of Representatives followed Braun by rejecting concessions for premium bonds.⁵²⁰ Ultimately, Braun's efforts were just partially successful since the Reichstag passed a law on June 8th 1871 that introduced concessions for the issue of lottery bonds (Grambow 1903, 350; Endemann 1871, 81).

3.4.3 Debt Imprisonment

In 1865, laws existed that allowed a creditor to imprison an illiquid debtor to force his relatives or friends to pay his debt. These laws were existent in most German states but public opinion was for a liberalization. Faucher and Braun favored an abolition at the congress of 1865. Alexander Meyer, the first referent of the commission, believed that debt detention led to reckless debt making and was for a full abolition of it. Prison labor was unproductive because it could not make up for the costs of imprisonment. It could be economically harmful if a debtor would have repaid his liabilities in freedom. If it served as a penalty, it was not morally justified in any case. Some people became bankrupt due to misfortune and not personal fault. Moreover, a careless debtor was sufficiently punished by his imprudence.⁵²¹ It was immoral to force his relatives or friends of the debtor, who did not bear responsibility for his actions, to repay on his behalf. For Meyer, the core

⁵¹⁸ Stenographic Reports of the House of Representatives, October 26th 1869, 9th session, 204.

⁵¹⁹ Stenographic Reports of the House of Representatives, October 26th 1869, 9th session, 205.

⁵²⁰ Stenographic Reports of the House of Representatives, October 26th 1869, 9th session, 212.

⁵²¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 171.

problem was careless credit granting. It was stimulated by debt detention laws because creditors were sure to dispose of the labor force of the debtor in the case of a default.⁵²² Hence, many people had recognized that detention for debts was an outdated means, but still favored imprisonment for exceptional cases. Meyer was against any exemption—for example, irresponsible debt-making—and asked: “Who is an irresponsible debtor, and who should decide on the issue?”⁵²³ Irresponsibility was contained in the penal law as a crime: “[L]et us make no exception to the rule that debt imprisonment is a reprehensible means of punishment”⁵²⁴ He viewed detention for debt as a remnant of Roman Law. For Romans, it was inconceivable that a free man could be indebted, so that a debt contract always included the personal liberty of the debtor.

Braun delved deeper into Meyer's historical explanation. Historians, who reasoned that debt detention existed in all cultures at all times, did not understand that these rules became less strict under cultural progress.⁵²⁵ In the early Roman Empire, individual property had not existed and property was owned by collectives such as the family or the municipality. If a creditor gave a loan to a person that did not belong to his collective, debt imprisonment was his security that the collective paid back the borrower's debt. Braun therefore reasoned: “Detention for debt, then, is nothing else in reality than a remnant of the cultural conditions of past centuries in which the assets were still in the bonds of tribal ownership or feudalism, and constituted no substratum for the creditor's satisfaction.”⁵²⁶ Michaelis too rejected debt imprisonment for practical reasons, although he was not fully satisfied with Braun's and Meyer's arguments, pointing out there was another reason why debt laws had existed for such a long time. Individual liberty was a security without which many people would not receive a loan. Detention for debt caused credit to flow to the debtors that could only offer their personal liberty as a security and did not possess “personal credit”, a good reputation as a businessman. Thereby, credit did not always flow into the hands of the most able businessman. Not personal liberty but the interest offered should be the decisive factor:

Another price than individual liberty—which is no achievement, no price—should only be offered, and it does not help to keep detention for debt, but to establish freedom of the lending business. It is not the possibility of being able to deprive the debtor of his liberty, not violence, which is the determining factor for the creditor in granting a loan, but the *price* offered, the premium for the risk that he bears, and that is

⁵²² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 172.

⁵²³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 173.

⁵²⁴ *Ibid.*

⁵²⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 175.

⁵²⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 176.

the promised *interest*.⁵²⁷

Wichmann from Hamburg was opposed to suing insolvent debtors. It was the responsibility of the creditor to find trustful debtors. Since thirty years, he applied this principle to his own company with success, even to foreign debtors. Faucher suggested to found companies that kept black lists of entrepreneurs, which had not paid their liabilities in the past. He had seen companies, which dealt with such information in England. Wolff told that a company successfully operated in Stettin that kept a black list.⁵²⁸ In the end, a great majority accepted the resolution that called for an abolition of detention for debt.⁵²⁹ In 1868, at the congress in Breslau, the free traders briefly returned to the issue. In the same year, detention for debt had been abolished in the North German Confederation. Afterwards, the Breslau association of businessmen had called for a discussion on substitutes for debt imprisonment. In the debate, Faucher was against any legal measures to enforce debt. Various types of loans existed that were legally not protected, like loans between businessmen that lived in two different countries.⁵³⁰ A solution was the reference, a paper that Englishmen received from their bank, that attested their credit-worthiness. If a debtor failed to pay his liabilities once, it became difficult to receive a reference. Another instrument was a friend, who stood surety for a loan, for example, in case of installment credits. The congress repeated its decision from 1865 and recommended the abolition of debt detention without any replacement by substitutes.⁵³¹

⁵²⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 178, emphasis in original.

⁵²⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 180.

⁵²⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 181.

⁵³⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 235-236.

⁵³¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 237.

IV. The Time of the North German Confederation (1867-71)

When the North German Confederation was founded, the free traders could implement many of their reform proposals. However, these achievements were bought about by compromises on constitutional questions. Faucher also started a campaign for housing reform in 1865, but his attempts were not crowned with success. Bismarck did not offer his help after Faucher sent him a letter and a copy of his article. The orthodox group also debated the socialists. Prince-Smith had a newspaper polemic with the leader of the social democrats Jean Baptista von Schweitzer and Faucher reviewed Karl Marx's *Capital* quite generously. Lastly, in 1869, the congress debated public welfare and Böhmert assumed a more doctrinaire position than Faucher: he wanted to abolish all public welfare.

4.1 Faucher and the Housing Question

After the congress of 1865, Faucher published a series of articles on the Housing Question in the *Quarterly Journal*. This topic was an early interest of his because he wrote two articles on housing in the mid 1840s and spoke on the issue in the Economic Society of Berlin in July 1862.⁵³² Besides the debates on housing at the congress of 1865, two events might have raised his interest. In June 1863, a revolt of tenants broke out in Berlin, who protested against the degrading conditions of tenancy agreements.⁵³³ Workers had protested in European capitals like Paris or Vienna before, but the Berlin protests stood out due to their level of violence. From then on, the Berlin papers often reported on the shortage of housing. Additionally, a Berlin census was conducted for the first time in 1861 and 1864, which also investigated the living conditions of the Prussian capital.⁵³⁴ The results of 1861 showed that ten percent of the Berlin inhabitants lived in basement flats and half of all apartments possessed only one heated room shared by 4.5 persons (Faucher 1865, 177-9). The Berlin population increased by sixteen percent to 609,000 inhabitants from 1861 to 1864. The number of houses increased by 12.4 percent and the average house was inhabited by 49 instead of

⁵³² *Nationalzeitung*, July 4th 1862, no. 305, evening issue, 3. Faucher talked about large building cooperatives, which he knew from England and which he recommended to the Berlin workers. Faucher presents the Berlin housing situation and his own efforts in regard to the Housing Question in his last book (Faucher 1877, 45-56).

⁵³³ Faucher (1865, 99-106) tells with great detail the events around the protests that lasted over a week. The cause was a Berlin restaurant owner, who was forced by his landlord to leave the house. Compare also Faucher (1877, 45).

⁵³⁴ See Faucher (1865, 177-86) and Faucher (1866b, 135-49) for the results of the census from 1861 and 1864.

46 persons (Faucher 1866b, 139). For comparison, 7.7 persons shared a house in London and the English poor lived, according to Faucher, far better than their German counterparts. The 2000 Londoners, living in extreme poverty amounted to one poor person in a town of 1700 inhabitants (Faucher 1865, 174). The Berlin housing conditions worsened due to the ongoing industrialization that drove workers into the cities. Moreover, Berlin possessed a legally binding land-use plan that prohibited construction on much of the land in the outskirts. Another cause was the high income tax, which was a burden to tenants. Since it was mainly spent on infrastructure, which benefited landlords and raised rents, tenants were forced to pay twice—for taxation and high rents.⁵³⁵ Thus, as seen, a major demand of Faucher, Braun, Michaelis, Meyer and others was a reform of municipal taxation, and even the American economist Richard Ely explained at the general meeting of the “Verein für Socialpolitik” (Association for Social Policy) in 1911: “The necessary consequence of German municipal taxation is the housing shortage” (quoted in Hegemann 1930, 337). Hence, in 1865, Faucher started to take action against the housing problem by publishing the two-part *Die Bewegung für eine Wohnungsreform* (The Movement for a Housing Reform).

4.1.1 The Congress of 1865

The first debate on housing took place at the congress of 1865. In the resolution, the commission demanded the elimination of all regulations for the construction sector, to facilitate building of cheap apartments.⁵³⁶ The referent Parisius, a retired judge from Berlin, explained that all studies sent to the congress agreed that the cottage system, small houses with a little garden, were preferable to workers' barracks. He said to the attendees that “we can assume that apartments are generally the worst, the least healthy, and the least numerous, where the strongest obstacles to transport and free enterprise have been in place.”⁵³⁷ Housing shortages were also worse when industrial production and work migration increased at a fast pace. During the last fifty years, housing construction had not kept up with population growth. This was due to insufficient institutions for real estate credit, a poor legal framework for mortgages and court auctions, interest rate ceilings and regulations in the construction sector. Construction cooperatives and housing unions brought little improvement because they assumed the character of charity organizations and paid too low dividends. They built workers' barracks, which workers did not like because they preferred single-family houses. Parisius, therefore, called for the construction of family houses that

⁵³⁵ Hegemann (1930, 336) claims that 82 percent of the Berlin tax revenues stemmed from the income tax at that time.

⁵³⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 186-187.

⁵³⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 188.

were sold and not rented to workers.⁵³⁸ Architect Klette from Holzminden was the second referent and reported on technical matters. In his view, speculation was the cause why many big and luxury houses were built, because constructors wanted to earn a fast profit. Additionally, a great number of workers' barracks were built that were cheaper, but had thinner walls that did not protect from heat or cold.⁵³⁹ Klette recommended to construct mixed houses because the cottage system was not practicable.

Against Klette's "hostility" against speculation, Böhmert defended the doctrine of harmony: "What is speculation anyway? It is calculation. Correct calculation, then, will bring about the harmony of interests and will lead to the goal we all strive for."⁵⁴⁰ He gave the example of Bremen, where almost every worker possessed his own small house. This was because of the unhampered construction sector and the local custom to live in one's own house. However, although he preferred the cottage system, Böhmert did not want to recommend a specific form of housing. Wolff criticized the Bremen idealist for arguing too explicitly for the cottage system. Workers had to decide freely whether they wanted to live in small houses or mixed housing. He also found fault with the emphasis on cooperatives of some free traders: "I am afraid that the principle of cooperative self-help is often applied to an extent that is not consistent with the principle of the division of labor."⁵⁴¹ Workers had to be members of so many cooperatives that they could not even take care of a single cooperative due to a lack of time:

I am by no means an opponent of cooperatives, I only deny that cooperative work is a higher level of human interaction. At times and under certain circumstances, however, the cooperative may be the best form for it, but in the long run I regard individual economizing as the very basis of all social development.⁵⁴²

As Wolff said, it was a mistake to recommend cooperatives when they did almost not arise on the free market. Credit unions had only evolved because the banking system was not free.⁵⁴³ The pragmatic Meyer was against Wolff's criticism, stating that there was no other solution to the Housing Question than deregulating the construction sector and cooperatives. Meyer also opposed Böhmert's depiction of the housing situation in Bremen. During the last twenty years, rents had

⁵³⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 189-190.

⁵³⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 191.

⁵⁴⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 195.

⁵⁴¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 196.

⁵⁴² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 205.

⁵⁴³ *Ibid.*

doubled in Bremen and people did not live as pleasant as one might expect.⁵⁴⁴ Böhmert answered by pointing out “that there may well be three to five narrow working streets in Bremen, but that there are certainly forty to fifty streets where workers live and that all have a completely sufficient width.”⁵⁴⁵ The congress passed the resolution for building cooperatives and a deregulation of the construction sector. It also decided to debate the issue at a future meeting again.⁵⁴⁶ At the congress of 1865, Faucher did not raise his word but by the end of the year, he published his first article on the Housing Question.

4.1.2 Faucher and *The Movement for a Housing Reform*

In his article, Faucher believed the central problem on housing to be how rents could increase faster than incomes. He did not arrive at a final answer before 1869. From his time in London, he was familiar with the English way of life. Londoners lived in small single-family houses and members of the middle class were able to receive a loan to build their own house. Huge building societies bought land, constructed houses and the infrastructure like streets, and sold them outright. They competed for undeveloped land at the outskirts of the city. In Berlin, workers mostly lived in workers' barracks, municipalities built the infrastructure, and small-scale firms constructed houses. As the census showed, the number of single-family houses and small workers' barracks decreased between 1861 and 1864, while more large workers' barracks were built with over fifty families. Thus, since this had not occurred in London, Faucher did not see the Berlin workers' barracks as a natural development due to the population growth in the city (Faucher 1866, 88; see also Faucher 1877, 45-6). He believed the English way of life to be the higher form of living and, insofar as the number of persons per house was above the average number of family members, the German people had not achieved this higher stage yet (Faucher 1865, 174-5).

Faucher did not only reject workers' barracks for health reasons, but also for their negative influence on the relationship between servants and the head of a household. If a family lived in a workers' barrack, the servants compared themselves to other attendants and changed their employer frequently (Faucher 1866b, 115-6). They solidarized with families from low classes and gave them personal information about their family (Faucher 1866b, 117-8). The servants also got into contact with businessmen and might lie about the money spent on food or else on behalf of the family. However, they did not come into contact with the outside world if the family occupied a

⁵⁴⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 200.

⁵⁴⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 203.

⁵⁴⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 206.

single house, because businessmen delivered their merchandise directly to the house (Faucher 1866b, 118-9). Moreover, ways were longer in workers' barracks because servants had to be sent out to buy housewares, while businessmen went to each home directly in case of single-family houses (Faucher 1866b, 121-5).⁵⁴⁷ Faucher was against building regulations and constructing districts according to the plans made by public authorities. Every newly-built house passed through different stages of use which could not be anticipated by regulations (Faucher 1865, 151). The market was able to take over this task because in many cities, complete districts were already planned and built by private companies (Faucher 1865, 152).

Faucher proposed two measures to combat the housing shortage. First, it was crucial to introduce a rental tax and abolish municipal income or consumption taxes. Otherwise, tenants had to pay twice for their apartment; they paid a high rent and municipal taxes, whose benefits mainly flowed to landlords (Faucher 1865, 190). Generally, Faucher emphasized that liberal economic reforms would improve the housing situation, because a freer economy would be more prosperous: “The normal way of life depends on national prosperity, *just as well as national prosperity on the normal way of life*” (Faucher 1865, 191; emphasis in original). However, his main proposal was that the middle class should leave the city center and move to the outskirts of Berlin. Private building societies should construct villa quarters and the infrastructure, so that going from the outskirts to the center required little time. Faucher's ulterior motive was that the middle class owned the funds to finance an own home. For poor people, apartments could not be built in a profitable manner. After the middle class would have left the center, their apartments of high quality would be available to the poor, whose living standard would rise because the demand for housing and the rents would decrease in the center (Faucher 1865, 198). Thus, the quality of houses and the societal rank of its inhabitants increased from the center to the outskirts. Faucher believed that every class of society profited from this process:

One notices that the same *people* have not sunk, but the same houses. The people, on the contrary, have all only *risen*. Those, who went away, went where it is *better*; those, who remained—widows and the like—have remained where they could not have remained in the diminution of the household, which inevitably accompanies certain conditions of life, if the possibility of exploiting the normal house beyond its own needs would not have made it possible; and those, who came, came from where it was worse. (Faucher 1865, 158; emphasis in original)

In Faucher's conception, the improved housing situation of the middle class, which became an

⁵⁴⁷ Faucher believed that, contrary to popular opinion, the solution of sending servants to buy merchandise was far more ineffective than a businessman, who went to each single-family house directly. He calculated that 9000 additional miles were walked in Berlin each day because servants were sent to go shopping (Faucher 1866b, 123).

engine for societal change, also benefited the poor. This idea was quite significant, as experts on urban planning emphasize. Gerhard Fehl writes that Faucher “laid the foundations for a housing-policy guiding principle, which has since passed under the name 'Filter Theory' through the reform of housing and urban planning” (Fehl 1985, 101).⁵⁴⁸

4.1.3 The Congress of 1867

Shortly after Faucher's article, the congress debated housing reform a second time. According to the resolution by Timmermann, an attendee from Hamburg, the Housing Question had to be solved by the market and the state should not determine any health conditions by law, which entrepreneurs were forced to follow.⁵⁴⁹ Faucher, as the referent of the commission, agreed with the resolution and noted:

[...] since all resolutions of an economic congress can only amount to solving the housing question by private effort, the state is only able to act by encouraging and granting the greatest possible liberty for private activity and by facilitating the transition.⁵⁵⁰

The problem were rents that increased faster than incomes, so that a Berlin tenant had to spend 20 to 25 percent of his income on his rent. The cause was that people preferred to live in high-rise buildings and narrow streets in the city center and not in the suburbs, because they were used to this mode of living since generations. Formerly, space in the cities had been limited by the city walls and became scarce due to the population growth. Landlords began to rent one apartment to two families because it was impossible to build more houses inside of the city walls. The emergence of high-rise buildings could also not solve the housing shortage.⁵⁵¹ When the city walls disappeared, the population was used to the old living conditions and continued to live in narrow streets and high-rise buildings. As a solution, Faucher proposed to make propaganda against the old mode of living. Additionally, the middle class had to live in the suburbs, since they had to work less than the working class and could have an own garden there. Workers had to live closer to the city center. In Berlin, this system proved to be a success according to Faucher so that prices of houses decreased and rents began to fall.⁵⁵²

⁵⁴⁸ See Fehl (1985, 147-8) for the filter theory, according to which housing of the poor can be improved by raising the living conditions of the rich, so that the better housing conditions “filter down” to the lower classes.

⁵⁴⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 122.

⁵⁵⁰ Ibid.

⁵⁵¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 123-124.

⁵⁵² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 128.

Timmermann, the second referent from Hamburg, took a very orthodox position. The architect believed that the advantage of the city consisted in its spatial concentration and short distances. People should not live far away from the center, but technology had to make it possible that many persons lived at the same spot without worsening health conditions. One could not expect that workers traveled for hours just to go to work. The growth of the cities had a natural limit by increases in living costs and deteriorating living conditions. Furthermore, individuals had to decide which mode of living most suited them, because general solutions like Faucher's did not live up to the individual case. They had to be told that only the market could solve the Housing Question. Timmermann went as far as to declare the Housing Question as solved because markets would eliminate any problems in the long run:

But if one says that dwellings are too expensive, then one spreads the wrong view, as if it were in the power of the state or any other person to give people better dwellings than they earn. It is a duty to convince the workers that they cannot have a better home than they can produce for their money. But then there is no more housing question.⁵⁵³

Timmermann welcomed high rents because in all places where rents were low, the situation of workers was poor. The workers had to work harder if they could not pay their rents. Thus, Timmermann's views are very orthodox, but little else is known about him.⁵⁵⁴ Lette criticized Timmermann's orthodox position by saying that the rich and educated had to help the poor:

If one followed closely the principle expressed by Mr. Timmermann, the educated persons would not be allowed to take care of craftsmen's and workers' associations either. One would then be able to say that education is my property and that others may see how they acquire it.⁵⁵⁵

However, Lette did not state whether the rich had to give voluntarily to the poor or whether they had to be forced by the state. Michaelis argued that humanness could only show where markets had to produce relief, and relief could just be provided by the market: "But it [humanism] cannot remedy the need itself; this can just be done by capital invested in an economic sense."⁵⁵⁶ The Housing Question could not be solved without reforming municipal taxes. The services of the city raised the value of land and benefited landowners, for instance, if a street, a school or street lighting

⁵⁵³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 130.

⁵⁵⁴ Timmermann just visited the Hamburg congress of 1867 and possibly the meeting in Bremen in 1876. The member list of Hamburg does not contain his name, while the Bremen report possibly mentions him as "*Timmermann, Chr., Hannover*"; see Stenographic Reports of the Economic Congress, 1876, 207, emphasis in original. However, he did not raise his word in Bremen. The *Bremer Handelsblatt* described him as an architect and "fill-in", possibly because he replaced another person that had not been able to attend; see *Bremer Handelsblatt*, August 31th 1867, no. 829, 294.

⁵⁵⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 132.

⁵⁵⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 134.

was built. Hence, without a land tax, one supported price increases and shortages of apartments. It was inconsistent to endorse a slaughter and milling tax or a municipal income tax and denounce the housing situation at the same time.⁵⁵⁷ In his second intervention, Faucher made the argument that workers knew better than architects how to construct their apartments and houses. He reported of an exposition in Paris, where workers had delivered better proposals than architects. He did not attack Timmermann, who had criticized him, but defended the architect against Lette's charge that Timmermann opposed charity of the rich: "If, then, humanity wants to cooperate with it [the private market], then economic science will surely have nothing against it, and that was certainly not the opinion of Herr Timmermann."⁵⁵⁸ In the end, the congress passed the liberal resolution of Timmermann.⁵⁵⁹

4.1.4 Reform of the Mortgage Sector

In 1868, the congress debated the topic "Reform of the mortgage credit" and Faucher wrote *Die Hypothekennot in Norddeutschland* (The Shortage of Mortgages in Northern Germany). As he explained, there was a shortage of credit to land and houses east of the river Elbe in Prussia, especially in big cities like Berlin (Faucher 1868a, 116). This shortage was accompanied by a "epidemic of public auctions" (Faucher 1868a, 116) since three percent of all Berlin houses were sold each year in compulsory auctions. In Faucher's view, legislation on real credit, apart from other factors, worsened the housing situation (Faucher 1868a, 117-8). He established various conditions that mortgages had to comply with. A noncancellable mortgage had to be sellable by the debtor and creditor. It should be possible to split the mortgage and it should not be bound to a certain name or person (Faucher 1868a, 125). Financial institutions had to estimate real credit, which they granted, on the basis of the quality and the location of the credited land (Faucher 1868a, 137). At the congress of 1868, shortly after Faucher's work had come out, the free traders advocated freedom of real credit. However, the referent Wilckens-Pogarth wanted to outlaw non-callable mortgages because landowners needed more credit due to the economic situation. Since the average revenue of land was difficult to estimate, a legal minimum limit for mortgages had to be set in place. Such a ceiling was necessary because no satisfying system for the estimation of real estate prices had been found so far. He also advocated the establishment of credit unions of landowners to facilitate mortgage lending and defended fractional reserve free banking for these mortgage banks: "[C]redit

⁵⁵⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 135-136.

⁵⁵⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 138.

⁵⁵⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 139.

institutions must be established that guarantee landowners permanency and capitalists free availability [of mortgages].”⁵⁶⁰ He rejected concessions and guarantees for these banks: “[W]e do not want a special government guarantee or government concession for the credit institutions that are to be founded; rather, their foundation should only be made dependent on compliance with the normative conditions to be adopted.”⁵⁶¹ Other measures endorsed by Wilckens-Pogarth include a simplified law of public auctions so that auctions needed less time, and the establishment of public mortgage offices. In contrast to Wilckens-Pogarth, Wolff, Michaelis, Böhmert and Faucher rejected a limit to mortgages and an abolition of non-callable mortgages. According to Wolff’s resolution, creditor and debtor had to agree voluntarily on the conditions of the mortgage contract. Wolff reasoned in his speech that a ceiling to the sum of a mortgage either exerted no effect if it was too low, or benefited the debtor if it was too high. A ceiling as the beginning of a development that had as its goal “the *abolition of private property*”.⁵⁶² Faucher similarly advocated free choice between cancellable and non-callable mortgages and opposed mortgages with an eternal duration by stating:

In the case of permanency as well as of amortization, the productive use of capital is assured; one can therefore decide for one thing or for the other. All real loans with an eternal rent, however, were always found death by their own hand. They were only able to produce a wasting aristocracy and a starving peasantry.⁵⁶³

The congress followed Faucher and passed Wolff’s resolution.⁵⁶⁴

4.1.5 Faucher’s Turn to the “Building Site Monopoly”

A year later, Faucher published his ultimate work on housing *Ueber Häuserbau-Unternehmung im Geiste der Zeit* (On Construction Ventures in the Spirit of Time, 1869). As he said, the article summarized his earlier investigations and aimed to give advice to entrepreneurs. In 1865, Faucher had already noted that entrepreneurs followed his proposal by building villa quarters in the outskirts of Berlin. One middle class family should live in one villa and the houses were intended to be sold and not rented (Faucher 1866b, 86-7).⁵⁶⁵ In the meantime, Faucher had realized that his former

⁵⁶⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 175.

⁵⁶¹ Ibid.

⁵⁶² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 185, emphasis in original.

⁵⁶³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 192.

⁵⁶⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 193-194.

⁵⁶⁵ Faucher’s text *The Movement for Housing Reform* was published in the *Speyer’sche Zeitung* (Newspaper from Speyer), so that entrepreneurs became aware of his work. According to Faucher, his proposal to built villa quarters was taken up in other cities like Breslau, Görlitz, Gladbach, Krefeld and Karlsruhe. In Berlin, it was not successful because it was mandated that building societies had to reinvest revenues from the sale of real estate and could not use them to

proposal did not solve the housing shortage. As Fehl (1985, 131-2) reports, the plan to build villa quarters was of little success in Berlin because entrepreneurs just constructed the infrastructure like streets in the outskirts, but not villas. They aimed to sell these parcels to the middle class, which would then contract a homebuilder to construct the villa. But the middle class showed little interest in buying these parcels. Hence, Faucher adopted a new strategy that was motivated by the problem of the “building site monopoly”. In 1865, he had not recognized this problem when he was unable to explain why the lowest difference between land prices in the outskirts and the center were found in Berlin (Faucher 1865, 186). This observation disagreed with his theory of rent, according to which rents had to be higher in the city center as in the outskirts because of shorter distances and time saving. However, price differentials were very minor between the center of Berlin and the outskirts. In 1869, Faucher reasoned that housing construction was only possible inside of a small circle around the periphery of the city, namely for two reasons. First, the advantage of a city was its spatial proximity that allowed for an increased division of labor. Incomes and demand for housing of city residents rose due to the increasing division of labor, raising prices of land, rents and building costs (Faucher 1869a, 50-1). He saw land as a monopoly in regard to the production of immovable goods like streets and houses, because it was less abundant than capital goods and was only of interest for new construction if it was situated in a small circle around the periphery of a city. As Faucher proclaimed: “A monopolistic tendency is contained, as Proudhon already felt, in the ownership of land” (Faucher 1869a, 52; emphasis in original).

Second, the owners of houses and land aggravated the housing situation in Berlin because they had to hold, according to the Prussian constitution, at least fifty percent of the seats in the city council, although they only amounted to one percent of the Berlin population. The city council had the power to decide on which land the citizens could construct houses. Therefore, the owners of houses and land authorized construction only on a small circle of land at the periphery of the city, the “monopolized construction site ring” (Faucher 1869a, 52). They pushed up rents and land prices and reaped the benefits, while the tenants had to pay high rents, entrepreneurs had to accept low profits and workers low wages in the construction sector. Construction firms only made profits if the population was in a constant growth (Faucher 1869a, 51-2). Even more, in the absence of a land or rental tax, municipal taxes were a burden to workers and served landlords, as Faucher (1869a, 53) pointed out again. Entrepreneurs tried to solve the twisted housing situation by constructing houses with more floors. However, high houses did not push down rents because the owners of an estate raised land prices accordingly, and forced entrepreneurs to build high-rise workers' barracks

amortize their shares (Faucher 1877, 54-5). The *Bremer Handelsblatt* wrote on a “relative success” of Faucher's plan in Berlin to build villa quarters in the outskirts; see *Bremer Handelsblatt*, November 20th 1869, no. 945, 8.

instead of single-family houses (Faucher 1869a, 56). Faucher had already explained at the congress of 1867:

Wherever there was a steady supply and an ever-increasing demand combined with a growing solvency as a result of the increase in population, there had to be inevitably a steady increase in the construction site price. The fact that individual families built houses for themselves was hardly possible anymore, 'because the construction price was too expensive.' And while one had to construct, on the one side, high-rise buildings, because of the large amount of people looking for housing given the limited supply of space, and one thereby increased the price of land, the expensive price of land, on the other side, forced to build on the construction sites in this way. So one moved here in a vicious circle.⁵⁶⁶

Hence, Faucher recommended as a new strategy that construction companies should build entire districts or streets (Faucher 1869a, 57). In this way, landowners had to compete against each other when they sold land and had to lower prices, because the companies would otherwise build elsewhere. Construction firms should not build inside of the small “monopolized construction site ring” in the outskirts, but in the area that was beyond the frontiers of the city, where the owners of land and houses could not prevent construction (Faucher 1869a, 57). Firms would also not depend on the municipalities in these areas when building infrastructure like streets (Faucher 1869a, 58). On April 30th 1870, he sent a copy of one of his works on housing—probably his article from 1869—to Bismarck. In an accompanying letter, he said that Karl Braun had told him about Bismarck's supposed interest in the Housing Question. Faucher wanted to obtain Bismarck's help for his plan to found private building societies because the housing situation had worsened. His first attempt to solve the shortage in Berlin had failed in 1845 because it had been carried out as charity and not private enterprise: “Charity can always create just very limited [resources]; its appearance on the arena scares off business venture for the moment and for a long time [...]”⁵⁶⁷ He had given two public speeches in Berlin that had shown:

that the prospect of owning a home and a garden is a means of traction to which socialist and political doggedness, like fog and storm, give way. If action is taken now, not only the housing reform but the political health of the big cities is secured, and it will be credited to whom helps.⁵⁶⁸

Faucher asked for a private conversation on housing reform and concluded: “The urge of the masses makes the matter urgent.”⁵⁶⁹ As the comment written on the first page suggests, an assistant reported about the letter to Bismarck on May 3rd. The chancellor was interested in Faucher's plans,

⁵⁶⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 124.

⁵⁶⁷ Otto-von-Bismarck-Stiftung, Bismarck-Archiv, B 41/9, back sheet 82.

⁵⁶⁸ Otto-von-Bismarck-Stiftung, Bismarck-Archiv, B 41/9, front sheet 84.

⁵⁶⁹ Otto-von-Bismarck-Stiftung, Bismarck-Archiv, B 41/9, back sheet 84.

but unwilling to help for unknown reasons.⁵⁷⁰ The plea to Bismarck eventually failed and the Housing Question remained unsolved.

4.1.6 Emil Sax and the Congress of 1873

Should the state intervene to solve the Housing Question? This was the main question at the congress of 1873 when the free traders debated the issue for a last time. The referent Emil Sax answered the question affirmatively, while Faucher favored the unhampered market. Sax introduced a resolution according to which the cause of the housing crisis and high real estate prices was found in the custom of building barracks instead of single-family houses. The state and municipalities had to intervene and improve transportation infrastructure to the city centers. They should construct, if necessary, residential complexes outside of the city where land prices were low.⁵⁷¹ Sax said in his speech that governments had deregulated the construction sector, as the congress demanded in earlier meetings. But although many firms were subsequently founded in the big cities and many houses were built, the housing shortage persisted to this day. Sax believed that the barracks, which were prevalent in Germany, were the reason for the high housing rents. As he said: “Historically, the *barracks system* has been the cause that land has been priced so high.”⁵⁷² They were a remnant of the times when the cities had been surrounded by a wall and one had to build inside of a city, due to limited building ground. When the walls disappeared, people stuck with barracks due to custom.

Although the barracks faced lower construction costs, they possessed other disadvantages that made them more expensive than family houses. For example, only a few construction companies were able to built barracks at a given place due to their high capital value. This limited competition raised their price.⁵⁷³ There was no housing shortage in England and America because Americans or Englishmen just built family houses: “I claim, therefore, [...] that only the systematic, principled acceptance of the single-house system can lead us to a thorough and lasting liberation from the housing shortage.”⁵⁷⁴ Sax's solution were residential complexes of family houses outside of the city that were connected to the cities by train or horsecar. The state and municipalities had to intervene only when private firms failed to built these residential complexes or the infrastructure. However, Sax was not able to establish a clear principle when the state or municipalities had to interfere.

⁵⁷⁰ Otto-von-Bismarck-Stiftung, Bismarck-Archiv, B 41/9, front sheet 81. The comment stated: “His Excellency is very interested, but ...”

⁵⁷¹ Stenographic Reports of the Economic Congress, 1873, 115-116.

⁵⁷² Stenographic Reports of the Economic Congress, 1873, 119, emphasis in original.

⁵⁷³ Stenographic Reports of the Economic Congress, 1873, 120-121.

⁵⁷⁴ Stenographic Reports of the Economic Congress, 1873, 124.

Intervention depended on whether the population was mature enough to engage in self-help, and on the domestic legislation. However, the state first had to eliminate every regulation that hindered the construction sector.⁵⁷⁵ Sax also advocated price ceilings for land if a limited amount was available in a certain area. Meyer introduced a resolution that aimed at eliminating every regulation and legal obstacle to the construction sector.⁵⁷⁶ He was against price ceilings and criticized Sax for presenting residential complexes and an extension of the infrastructure as the only solution, because improvement would come from a reform of the legislation on mortgages as well. Rudolf von Gneist, a member of the Verein für Socialpolitik, held a very liberal position. As the law professor surprisingly said, high housing prices were the first sign of improvement because they redirected capital into the construction sector:

The state cannot [help], even the church cannot make lazy speculation alive; self-interest must help itself. Acute stimulants are needed to promote the uninviting investment of capital in construction companies, and these acute stimulants are the high prices in land and in rents. These strong stimulants have finally taken the capital masses, which are destined to really help in the industrial hot spots. But I ask you to consider that without these stimulants, we would never have received massive investment of capital. Thus, real remedy of the housing shortage begins with the flourishing of the building societies, but realization does not take place with the blossoming of the building societies, but with the beginning of their ruin [...].⁵⁷⁷

Gneist believed that the housing shortage could be over in five or six years and concluded: “If construction companies are in fever, this is necessary to recover from a serious illness.”⁵⁷⁸ Faucher was enthusiastic about Gneist's “Manchester position” and said that the congress had to recommend private initiative as the solution to the housing shortage:

I must confess that I myself was very much in the mood for such a version [as Gneist's] but, along with the referent, I was afraid of defending the rotten and defeated Manchester position for fear of the meeting in Eisenach [of the socialists of the chair].⁵⁷⁹

Faucher referred to the very polemic debate with the socialists of the chair, which explains his reluctance to argue for a free market solution to the housing shortage. Like Sax, he viewed construction of barracks as a harmful custom adopted from former times. But he opposed Sax's proposal to just allow the construction of houses with two or less floors. This would lead to an

⁵⁷⁵ Stenographic Reports of the Economic Congress, 1873, 127.

⁵⁷⁶ Stenographic Reports of the Economic Congress, 1873, 133.

⁵⁷⁷ Stenographic Reports of the Economic Congress, 1873, 134.

⁵⁷⁸ Stenographic Reports of the Economic Congress, 1873, 135.

⁵⁷⁹ Stenographic Reports of the Economic Congress, 1873, 149.

increasing amount of apartments in the basement of buildings. Even if the state would prohibit basement apartments, it would have to pass many new prohibitions subsequently. Concerning appropriations, Faucher stated that he would not be against them if the municipal tax system would follow the benefit principle like in England.⁵⁸⁰ Although Faucher was not for government intervention, he was highly positive about Sax's intellectual labor on the Housing Question. In the *Quarterly Journal*, Faucher praised a work of the Viennese economist as “by far the most diligent work that most penetrates into the details of the question”⁵⁸¹ and explained elsewhere that his own work until 1867 was in agreement with Sax's research in its basic findings.⁵⁸² The congress followed Faucher and Meyer by passing a resolution that did not advocate for state intervention.⁵⁸³ Some researchers argued that Faucher's liberal proposals failed in practice and proved the need for state interference in housing. For example, Fehl writes:

Faucher's housing reform was not strictly followed by private entrepreneurs in the real estate and construction business, nor was it taken up by municipalities; but with its failure in practice, it provided the important proof that, under the historical conditions prevailing in Berlin—and cum grano salis in Germany—at that time, a completely private production of the city could not be realized, and that with the 'new era' and the end of the 'old Schlendrian' urban problems could not be overcome in this way. (Fehl 1985, 145)⁵⁸⁴

However, Faucher's plan for a housing reform cannot have failed and not be taken up by private entrepreneurs at the same time. Either it was tried out and failed or it was not “strictly” tried out and did not fail. Indeed, some of the important parts of Faucher's reform were not implemented. The municipal taxation scheme was still in place that was a burden to tenants and aggravated the housing situation. Moreover, at the beginning of the 1870s, the problem of the legally binding land-use plan continued to exist in Berlin and a lot of land was unavailable for construction. Migration was tremendous to Berlin; its population tripled between 1840 and 1877. Thus, the housing situation would have been worse if governments would not have followed the advice of the free

⁵⁸⁰ Stenographic Reports of the Economic Congress, 1873, 153-154. Meyer explained that Faucher had not been for appropriations by government but appropriations by private people, who appropriated other that made no use of their land; see *Deutsches Handelsblatt*, January 9th 1873, no. 2, 13.

⁵⁸¹ *Quarterly Journal* III/1868, 277. On Emil Sax as an almost forgotten economist of the Austrian school, see Schulak/Unterköfler (2011, 49-52).

⁵⁸² *Quarterly Journal* II/1869, 215.

⁵⁸³ Stenographic Reports of the Economic Congress, 1873, 154-155.

⁵⁸⁴ Similarly, Hentschel (1975, 221-2) seems to suggest that the historical development proved a liberal solution to the Housing Question as ineffective. Teuteberg even contests that Faucher defended a liberal solution to the Housing Question, writing: “Here [at the Economic Congress] the publicist and journalist Julius Faucher stood out, refuting the widely prevalent liberal ideas of an automatic balancing process between supply and demand in the housing market with observed facts” (Teuteberg 1983, 10). On the other hand, Grambow writes for the 1870s and 1880s that “an improvement [of living conditions] in general is undeniable” (Grambow 1903, 116).

traders at least partially. The housing shortage remained a problem in Germany.⁵⁸⁵ Faucher noted in 1877 that the movement for housing reform had stopped in Berlin after 1869 and that housing conditions had become worse (Faucher 1877, 55). The single house was not prevalent except for the Northwest. But “[l]asting liberty is only possible with the former”, he remarked.⁵⁸⁶

⁵⁸⁵ When the results of the Berlin census from 1875 came out, Faucher reported that more than ten percent of the city's population lived in basement apartments. Half of the population lived in apartments with just one heated room. The population of Berlin had increased to approximately one million inhabitants, in contrast to roughly 800,000 at the beginning of the 1870s; see *Quarterly Journal* II/1875, 224-226.

⁵⁸⁶ *Quarterly Journal* I/1874, 217.

4.2 The Economic Congress and its Years of Political Success

The years from 1867 to 1870 were the years of the greatest political success for the free traders, but they also marked the beginning of the decay of free trade. Prince-Smith and Faucher became evermore silent and the congress moved to a less oppositional and more interventionist course. Eugen Richter did not visit the meetings after 1865 and Schulze-Delitzsch would complain in a letter to Böhmert from February 1872 about “the humiliation [of the congress] in the service and reward of common stock market interests” (Thorwart 1913, 329). He chided Braun, Wolff and Bamberger for being “our stock market economists” (Thorwart 1913, 329), who were partially responsible for the rise of the socialists of the chair.⁵⁸⁷ Similarly, Meyer observed for the time after 1866 that “the discussion that arose between it [the circle of men around the *Bremer Handelsblatt*] and the more realistic-minded party made much of the debates unfruitful.”⁵⁸⁸ Accordingly, when Lammers visited the free traders in Berlin in 1868, he noted that free trade propaganda had come to a standstill. He wrote in a letter to his friend Böhmert, dated May 15th 1868:

I sought [...] to gain contact with the local free-trade school, but made the surprising discovery that it no longer exists. Prince-Smith had become old and aristocratic, Faucher was in St. Petersburg, Michaelis absorbed in the consciousness of being a government counselor—there was nothing left, however. Consequently there is no trace of interest and even activity for the proper exploitation of this golden opportunity for free trade. No trace of the use of the press for this purpose. (Emminghaus 1907, 136)

Apart from the demise of the orthodox group, another reason for the decay of doctrinaire free trade were the new visitors that attended from 1869. Ludwig Bamberger, Heinrich Bernhard Oppenheim and Heinrich Rickert were leading members of the National Liberal Party and formed the political group at the congress. They would closely cooperate with the pragmatics Wolff and Meyer. Bamberger was born in Mainz on July 22nd 1823.⁵⁸⁹ The son of a businessman and banker studied jurisprudence in Göttingen, Heidelberg and Gießen and worked for some time as a junior lawyer in Mainz, but was suspended due to his Jewish origin. Because of his participation in the revolution of 1848 and a death penalty, he had to flee from Germany and settled in Paris, where he made a fortune as a banker. After German unification, he sat in the Zollparlament and was a member of the Reichstag from 1871 to 1893. He was instrumental in the establishment of the gold standard and a German central bank. The monetary theorist Karl Helfferich was influenced by

⁵⁸⁷ Perhaps he referred to an incident around Braun, who had reportedly voted for the privatization of the railway line from Hamburg to Stade in the Reichstag and then became second president of the railway society; see *Fränkischer Kurier*, May 24th 1872, evening issue, no. 263, 2.

⁵⁸⁸ *Deutsches Handelsblatt*, October 31st 1872, no. 44, 382.

⁵⁸⁹ See Hentschel (1975, 169-71) and Heuss (1953).

Bamberger. In 1880, he left the National Liberal Party and opposed the protectionist and interventionist course of Bismarck. He died on March 14th 1899 in Berlin. A close friend of him was Oppenheim, whom he got to know in Heidelberg as a young student. Heinrich Bernhard Oppenheim was born on July 20th 1819 and came from a rich Frankfurt Jewish banking family.⁵⁹⁰ He studied jurisprudence in Göttingen, Heidelberg and Berlin and worked as a Privatdozent at the Heidelberg university. He turned to publicism from the mid 1840s. He was on the radical democratic side in the revolution of 1848 and published the newspaper *Die Reform* (The reform) with Eduard Meyen and Arnold Ruge. Like Bamberger, he distanced himself from his earlier radical democratic views and joined the Progress Party in 1861. He became a member of the National Liberal Party in 1867 and was for a cooperation with Bismarck in the foundation process of the new nation state. However, he had to wait until 1874 before he entered the German Reichstag. His first work on economic questions dates to 1870 and was the book *Ueber Armenpflege und Heimathsrecht* (On poor relief and right of residence). He initiated the debate with the socialists of the chair in December 1871. Hentschel writes about Oppenheim's work *Philosophie des Rechts und der Gesellschaft* (Philosophy of Law and Society, 1850): "He alone defended a reasonably consistent theory of the state" (Hentschel 1975, 127).⁵⁹¹ Oppenheim died on March 29th 1880 in Berlin. The third political free trader was less important than Oppenheim and Bamberger, and was more laissez-faire than them. Heinrich Rickert was born in the West Prussian city Putzig on December 27th 1833.⁵⁹² He studied economics in Breslau and became a journalist and later co-owner of the free trade *Danziger Zeitung*. He was a founding member of the National Liberal Party and sat in the Prussian House of Representatives from 1870 and in the Reichstag from 1874. Besides Lasker, Bamberger and Forckenbeck, he was the leader of the left wing of the National Liberal Party. Later, he headed the Liberal Union from 1880 and co-led the German Free-Minded Party together with Eugen Richter, that existed from 1884 to 1893. Due to these new visitors, among other reasons, the pragmatic and political free traders would gain the upper hand over the orthodox and idealistic group.

4.2.1 The Hamburg Congress of 1867

After German unification, the question arose whether the congress had become obsolete. At the

⁵⁹⁰ See Hentschel (1975, 171-3) and Wippermann (1887).

⁵⁹¹ Certainly, Hentschel's conclusion is overly dismissive of the orthodox conception worked out by Faucher and Braun about the power sphere of the municipality and the state. See Hentschel (1975, 127-9) for more information on Oppenheim's work from 1849, that defended a nation of law free from the influence of special interests.

⁵⁹² See Hentschel (1975, 173-4) and Thier (2003).

meeting in 1866, Prince-Smith had answered to Faucher, who suggested to hold the next congress close to the new parliament, that he hoped that members of the congress would sit in the parliament and not close to it (Meyer 1866, 196). A year later, Faucher and Prince-Smith were not elected into the new Reichstag of the North German Confederation. The only orthodox free trader, who became parliamentarian, was Karl Braun. He was joined by the congress attendees Otto Michaelis, Grumbrecht, Lette, Weigel, Wachenhausen and Müller. Meyer, Wolff and members of the Bremen group like Böhmert or Emminghaus had not tried to enter parliament (Hentschel 1975, 160). However, from August 26th to 29th 1867, the free traders assembled in Hamburg and were quite enthusiastic about the recent run of events. Lette explained that liberalism had “penetrated deeper and deeper into the consciousness of the nation, and in all classes of society to an extent, as is perhaps the case with no other people.”⁵⁹³ In Prussia, interest ceilings on loans on movables had been abolished, free enterprise had been introduced in the annexed territories and the cooperatives of Schulze-Delitzsch had been permitted. Many demands of the congress found their way into the constitution of the North German Federation, for example, on free movement, free trade, tariffs and the postal service.⁵⁹⁴ Nevertheless, the free traders did not take a rest but continued to discuss the topics they already had debated in 1865 and before. The agenda listed the Housing Question and municipal taxes, topics from 1865; the simplification of the tariff system, a standard topic; and a national gold currency, a new issue set on the agenda by Böhmert in 1865. While a look is taken on the remaining topics elsewhere, the debates on the simplification of the tariff system are now examined.

a. Simplification of the Tariff System

According to the resolution, all protective tariffs had to be eliminated except for a few financial tariffs. Tax losses were to be compensated by the resulting increase of tax revenues from a higher production and a reform of the sugar tariff. To cover tax losses, the state should moderately increase the tobacco tax and taxes on some consumers' goods, but not on goods of vital importance.⁵⁹⁵ Michaelis commented as a referent that the Zollverein parliament was not bound to the liberum veto since the German unification, and could lower tariffs immediately. There was one finance minister now, who was responsible for the budget and the system of taxation for the entire area of the North German Confederation. Hence, the congress had to modify its reform program by taking these new

⁵⁹³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 118.

⁵⁹⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 121.

⁵⁹⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 141.

circumstances into account.⁵⁹⁶ Michaelis wanted to abolish all protective tariffs and aimed at keeping solely a few to finance the budget. If protective tariffs would be eliminated, there would be temporary tax losses that had to be covered. Theoretically, Michaelis favored a national income tax but believed that it was too unpopular.⁵⁹⁷ He proposed to cut ten percent of the current national budget, which was four million thalers. Increasing revenues would cover these spending cuts in the long run, especially if one did not eliminate every tariff immediately. Taxes on sugar beets and on sugar refinery products had to be abolished and sugar taxes decreased, to raise sugar consumption and sugar tax revenues.⁵⁹⁸ In general, Michaelis established the principle that every tax increase had to be accompanied by a tax decrease, which was at least as high as the increase: “[...] we must not approve of a tax reform that assumes a repressive character in relation to production or distribution.”⁵⁹⁹

The pragmatics Meyer and Wolff sided with Michaelis. Meyer rejected an income tax and endorsed Wolff's and Michaelis's resolution.⁶⁰⁰ Wolff reasoned that tax increases had to be prolonged each year by the parliament.⁶⁰¹ Emminghaus agreed “by and large”⁶⁰² with the resolution. He wanted to modify the tobacco tax, because a production tax based on the extent of the cultivation area would ruin the Southern tobacco farmers. On the other side, Rentzsch, Faucher and Böhmert opposed to recommend any taxes to cover the budget. As Rentzsch said: “We have to set up the right principles; we do not have to worry about *coverage* [of the state budget].”⁶⁰³ He criticized that the resolution did not define goods of vital importance, and what a “moderate” increase of the tobacco tax meant exactly. Böhmert agreed with Rentzsch and viewed the proposal to tax consumption goods, that were not of vital importance, as an regress. It was true that the congress had to make decisions that could be implemented by politicians. But its task was not to make a pact and collaborate:

In this question, however, the goal to be pursued by the economic congress can only be: the elimination of all indirect taxes! It is a contradiction to the great principles of economics that *tariffs* are levied at all. It is unreasonable to spend twelve percent of tariffs on collection costs, keep an army of officials, and force merchants to hold their own comptorists, who spend all their time and labor just to get the tariff issues

⁵⁹⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 145.

⁵⁹⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 148-149.

⁵⁹⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 151.

⁵⁹⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 152.

⁶⁰⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 167.

⁶⁰¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 171.

⁶⁰² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 155.

⁶⁰³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 153-154, emphasis in original.

done (Bravo!). One must have the courage to insist on the complete removal of tariffs. It must be established as a principle that the intrinsically unreasonable customs duties cannot be justified by pointing to the difficulty of raising large sums of money by means of *direct* taxation. It has to be a *joyous duty* to pay tax directly, be it from income or from consumption.⁶⁰⁴

Böhmert asked for eliminating point three of the resolution, which demanded to cover tax losses with consumption taxes on goods that were not of vital importance, and argued for covering tax losses with direct taxes. He disputed that an income tax was too unpopular to be introduced. Faucher made the same point against tax coverage as Böhmert and Rentzsch, by saying: “In my opinion, the question of coverage is not important to us at all.”⁶⁰⁵ Contrary to his early work, he now endorsed a small national income tax to cover tax losses of the tax and tariff reform. The income tax had to follow the American model that did not tax secure and insecure incomes with the same rate. However, perhaps for the first time, the congress followed the pragmatics and not Böhmert and Faucher.⁶⁰⁶ It was the first congress where the free traders started to take a less orthodox path and made more compromises, apart of the meeting in Braunschweig in 1866 and the conduct of Faucher and Michaelis in the Prussian constitutional conflict. The struggle between the pragmatic Wolff and the more principled Böhmert remained a standard theme at the congress in the following years. Faucher did not participate much in this struggle and remained more principled on economic policy than Wolff and Michaelis, his former comrade-in-arms from the *Abendpost*.

4.2.2 The Breslau Congress of 1868

A year later, the free traders still rationalized the continuance of the congress. Braun explained on the question whether the meeting had become obsolete, that the congress was “a *representation of economic-scientific opinion of the nation*”.⁶⁰⁷ It could not be replaced by the Handelstag and its task was the enlightenment of the masses. In 1868, the free traders talked about a reform of the mortgage sector, banking reform, domestic shipping, the rice tariff, the iron tariff, and state supervision of the forestry.

a. Rice Tariff

The referent Meyer explained that peeled rice was taxed with one thaler per centner, while

⁶⁰⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 159, emphasis in original.

⁶⁰⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 165.

⁶⁰⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 173.

⁶⁰⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 172, emphasis in original.

unpeeled rice was burdened with a tariff of twenty Silbergroschen per centner. Since no industry for unpeeled rice existed in Germany, only the tariff on peeled rice was of practical relevance. Meyer showed on the basis of statistics that consumption of rice had increased more than ten times since 1848.⁶⁰⁸ In 1851, the rice tariff had been lowered from two to one thaler, which led to import increases, so that not only the upper class had been able to consume rice. Meyer recommended to lower the rice tariff from one thaler to 15 Silbergroschen, a reduction of fifty percent.⁶⁰⁹ Rentzsch followed Meyer's resolution because the North German Confederation needed to finance its budget with the rice tariff revenues, although he preferred a complete elimination in principle.⁶¹⁰ Wolff, however, viewed other foods as more nourishing—for instance, the potato—and recommended to decrease taxes on these foods first and lastly on rice. He went as far as to oppose the introduction of a tax on paraffin oil instead of a decrease of the rice tariff.⁶¹¹ The reason for Wolff's argument against the rice tariff was, as he subsequently admitted,⁶¹² a fiscal dilemma of the North German Confederation, which needed the rice tariff to finance its budget. The Prussian government had proposed in Spring 1868 to halve the rice tariff by raising the tax on tobacco and by introducing a tariff on paraffin oil, to compensate for tax losses (Hentschel 1975, 166). However, Böhmert was not as eager as Wolff in making pacts and accused him of compromising. As he passionately said: “I have to speak for the complete elimination of the rice tariff. The congress has to set *principles*; his job is not to pact!”⁶¹³ The food rice was of greater importance for workers than paraffin oil, with which they made light in their houses. It was capable of becoming food for the masses, as shown by the huge increases in its consumption, especially after the tariff decrease in 1851. Wolff responded by accusing Böhmert of “radicalism”:

But anyone, who wants to be radical, like Böhmert, must not stop at the request for the abolition of the rice tariff; he must demand the abolition of all tariffs and all indirect taxes. It is obvious that nothing would thereby be achieved. [...] We are probably going to have the tariffs for a long time, and if we want to change and improve something, we must pact. However, we will not abolish a tariff to introduce another more harmful one!⁶¹⁴

Wolff disputed that rice was a food of the masses. Instead, paraffin oil could become an

⁶⁰⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 200.

⁶⁰⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 201-202.

⁶¹⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 203.

⁶¹¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 204.

⁶¹² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 209.

⁶¹³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 205, emphasis in original.

⁶¹⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 207.

important industrial material and a tax on it had to be avoided. However, as Emminghaus explained, the rice tariff could be easily eliminated because the masses were in favor of an abolition.⁶¹⁵ The pragmatic Meyer won the congress with his resolution for a fifty percent reduction of the rice tariff and the Bremen idealists lost again.⁶¹⁶ The orthodox free traders did not speak up against rice tariffs.

b. Iron Tariff

While Faucher did not intervene on the question of a rice tariff, he was the referent on the iron tariff. Originally, there had been a tariff of ten Silbergroschen on a centner of iron but it was lowered to five Silbergroschen in 1868. Faucher believed that iron consumption would increase significantly if the iron tariff was abolished altogether, because it was a crucial industrial material. Faucher viewed iron as lighter, fireproof and more solid than wood, and hence cheaper: “Iron competes, wherever you look, with almost all the mighty materials in which there is a significant cultural tendency.”⁶¹⁷ Therefore, iron prices used to be very volatile, but they would easier increase than decrease. If the elimination of iron tariffs would result in a lower price and a higher consumption, people would get used to the higher living standards and would be unwilling to limit their iron consumption. Faucher pointed out that per capita consumption of iron was high in England (100 kilogram per year and per capita) and low in Prussia (30 kilogram). In England, iron was used in industrial production for more time and in more lines of production. If iron tariffs would be eliminated, the surplus consumption in Germany would be so high that English mines were unable to satisfy the additional demand. Thus, even iron mint owners had to vote for his resolution.⁶¹⁸ Nonetheless, an iron mint owner present at the congress was not convinced by Faucher's arguments and asked for a delay of the abolition of iron tariffs. The German iron industry had to become competitive to the English mints first.⁶¹⁹ Against the argument that German infrastructure was too poorly developed for free trade, Wolff put forward the significant improvement of transport routes over the last years.⁶²⁰ Faucher added that the infrastructure would only improve if tariffs would be abolished. Additionally, one could not wait until all countries

⁶¹⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 208.

⁶¹⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 209-210.

⁶¹⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 212.

⁶¹⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 213.

⁶¹⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 214.

⁶²⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 215.

lowered their tariffs since that was unlikely to happen.⁶²¹ The great majority of the congress followed Faucher and voted for the abolition of the iron tariff.⁶²² However, the congress had even become weak on its core topic of freedom of trade, as the debates on the rice tariff had shown.

c. State Supervision of the Forestry and Domestic Shipping

Another topic of 1868 was the forestry and domestic shipping. The referent Rentzsch opined that the worst-developed forests existed in countries with the strictest forest legislation. The states had intervened into the forestry because the nobility wanted to have extensive hunting districts. Additionally, the widely-held belief into a timber shortage was used as a justification for government interference. Rentzsch disputed this belief, because the timber price would increase in case of excess demand and landowners would plant more trees.⁶²³ Hence, his resolution advocated complete liberty of the forestry but the state had to be able to expropriate forest owners in case of “an paramount danger to the common good”.⁶²⁴ However, expropriation should only be possible if an expert commission proved its necessity. It was only necessary in few cases, for instance, if a spring that supplied a city with water was underneath a forest. Rentzsch's resolution recommended state forests to preserve extensive areas of forest.⁶²⁵ Braun was against state supervision of the forestry, which should remain at the municipal level by explaining: “The state is, in general, a bad economic administrator [...]”.⁶²⁶ However, he seemed to agree with Rentzsch's resolution for state forests and expropriations. Emminghaus made the liberal case against expropriations by arguing:

Such cases [“of dreadful prohibitions and orders as a result of state supervisory over forestry”] are there, where that supervision exists, the rule rather than the exception. Because in case of doubt, the supervisory authority always decides against clearing, however much it may correspond to the economic needs of the interested parties.⁶²⁷

Full freedom would lead to a superior economy of forests: “But with culture generally advancing, even with complete liberty, and especially with it, everywhere forestry is becoming ever more healthy, ever more rationally managed [...]”.⁶²⁸ The orthodox Hermann Maron was also

⁶²¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 219-220.

⁶²² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 220.

⁶²³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 222.

⁶²⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 225.

⁶²⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 224.

⁶²⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 229.

⁶²⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 230.

⁶²⁸ *Ibid.*

against state intervention into the forestry. It was not proven that deforestation was the main cause of dryness, because the climate had been far more dry 600 years ago, when deforestation had not been a problem. The state could pass special laws if it had to expropriate forests.⁶²⁹ The congress accepted the first part of the resolution that recommended state forests, but rejected the second part that advocated expropriations.⁶³⁰ Faucher did not raise his word but two years later, he reviewed *Beibehaltung oder Veräußerung der Staatswaldungen!* (Continuity or Privatization of State Forests!) by Ottomar Victor Leo.⁶³¹ Faucher disputed that state forests were more profitable than private forests. It was the other way around: “It is not even true in the majority of private forests that their higher yields are due to gradual robber economy; they stem from the lower production and administrative costs.”⁶³² In 1868, the congress also debated domestic shipping. Hempel's resolution recommended to construct railways in a way that they were connected to shipping infrastructure, to facilitate the exchange of goods. The bridges of highways or railways should not hinder shipping. The rivers had to be improved or developed to widen the infrastructure. Hempel criticized that “[t]he railways are cleared of any obstacle, while there are daily built new ones to shipping.”⁶³³ He opposed any involvement of the state in railways, which he viewed as the cause for the poor development of shipping. The government did not want competition against its railway monopoly. The congress established the commission and accepted Hempel's resolution.⁶³⁴

4.2.3 The Mainz Congress of 1869

Lette had died in 1868 and Prince-Smith was elected president of the executive committee a year later. Although the orthodox free traders occupied two important positions, president of the congress and president of the executive committee, they increasingly lost ground in the debates. This was because Michaelis was not present anymore since he worked in the Office of the Federal Chancellor under Bismarck from 1867. Wolff as well became less doctrinaire and used to distance himself from the “radical” Böhmert. As Wolff explained, “several years of struggle”⁶³⁵ were between him and Böhmert, who regularly accused Wolff of making political pacts instead of sticking to free-trade principles. Moreover, as seen, new visitors attended the congress from 1869, namely, Ludwig

⁶²⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 226-227.

⁶³⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 231.

⁶³¹ *Quarterly Journal* IV/1870, 178-180.

⁶³² *Quarterly Journal* IV/1870, 178.

⁶³³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 241.

⁶³⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 243.

⁶³⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 174.

Bamberger, Heinrich Bernhard Oppenheim and Heinrich Rickert. Thus, Braun wanted the congress to stick to its views on economic policy and to refrain from compromising, even if it meant that the assembly would lose influence over politics. He also formulated the doctrine of harmony by saying that government intervention could not change the laws of nature of the economy.⁶³⁶ Braun remembered the achievements of the congress during the last ten years. He praised the new German trade law although it was less liberal than the legislation, which had existed in some German states before.⁶³⁷ Freedom of marriage and free movement were introduced in the North German Confederation while debt detention and compulsory insurances for workers were abolished.⁶³⁸ Contentedly, Braun commented “that congress can present *practical successes* as perhaps no other economic society in Europe”.⁶³⁹ However, perhaps Braun sensed that the congress had passed its peak. In 1869, the free traders debated a law of stock companies, social welfare, premium bonds, and liability of entrepreneurs in case of workplace accidents.

a. Law of Stock Companies

In 1869, stock companies were a relatively recent legal innovation and the free traders debated if and when they were justified in economic life. The resolution of the referent Alexander Meyer only recommended stock companies for businesses with a high proportion of fixed capital, which could not easily be transformed for other purposes. As Meyer explained, these were businesses where revenues were created almost “*automatically*”⁶⁴⁰ without the need for much entrepreneurial supervision. He gave the example of a gas company, railways or shipping. Hence, these were industries without much speculation. Deposit banks could be organized, for example, as stock companies but not credit mobilizers. Stock companies had to be submitted to a system of normative conditions but not to concessions.⁶⁴¹ The free traders were rather critical of stock companies because they were not subject to personal liability, only the company assets were liable for entrepreneurial losses. Meyer opposed concessions and the involvement of the state administration into the management of a stock company. Disadvantages of concessions were the potential corruption among public officials and a too high trust into a state concession and consequently careless business behavior. Concessions might hinder competition among stock companies if they

⁶³⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 108.

⁶³⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 106.

⁶³⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 107.

⁶³⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 108, emphasis in original.

⁶⁴⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 126, emphasis in original.

⁶⁴¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 116-117.

were denied to certain stock companies. Additionally, the state was not capable to correctly evaluate in every case whether a new firm deserved market entry.⁶⁴²

Bamberger supported more regulation for joint-stock companies than Meyer. He wanted to introduce a minimum threshold for the company assets, below which an entrepreneur could not establish a stock company. A threshold would allow for defining with legal exactness when a stock company came into existence.⁶⁴³ Stock companies led to a higher waste of capital because personally liable entrepreneurs would leave the market immediately if they would incur losses. Hence, Bamberger considered it “one of the most detrimental aspects of the joint-stock industry that thereby such a great part of the national wealth is destroyed.”⁶⁴⁴ He criticized the the irresponsibility of the managers: “If one sees what the general director of a stock company, surrounded by administrative councils, who mean nothing for the management, may allow himself, one would almost despair of the direction of the state by deputies.”⁶⁴⁵ Bamberger recommended the possibility for stockholders to introduce own resolutions at the general meeting, which were not set on the agenda beforehand, so that the management did not possess full power over the general meeting. The business report had to be distributed to the stockholders before and not during the meeting. The discharge of the management had to take place a year after and not directly at the meeting. The Board of Directors should not count more than four members.⁶⁴⁶ According to Schulze-Delitzsch, stock companies evolved when entrepreneurial risk was too high for an individual entrepreneur.⁶⁴⁷ He opposed the spontaneous resolutions at the general meeting proposed by Bamberger. Stockholders might travel from very far to the meeting and had to be sure that the topics on the agenda were discussed. Schulze-Delitzsch was against concessions and for normative conditions. These conditions should not be controlled by the public administration, but a judge only had to determine whether the normative conditions were existent for a stock company and had to register the firm.⁶⁴⁸ Dorn took a very liberal position and rejected concessions or a minimum capital threshold:

The state only has here the purely political task of securing property against fraud and crime. The normative conditions are only intended to prevent the getting out of hand of fraud, over-exploitation,

⁶⁴² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 130.

⁶⁴³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 132.

⁶⁴⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 133.

⁶⁴⁵ Ibid.

⁶⁴⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 134-135.

⁶⁴⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 136.

⁶⁴⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 137.

deception of the public, as much as possible in stock companies.⁶⁴⁹

Faucher was very critical of the legal form of a juridical person by proclaiming: “No greater enemy exists for economics than the 'juridical person.' We want the living person with flesh and blood, whom we marry, who we can beat, who has honor and also personal credit.”⁶⁵⁰ Stock companies should be able to receive real estate credit but no personal credit because they were not a real person that could be sued. Like at the congress of 1863, he was against joint stock banks since they could lend out money for their own shares, so that all assets would leave the bank: “For such purposes [businesses “which rely substantially on taking *personal* credit”], the form of the corporation is quite inapplicable, especially for the banking business.”⁶⁵¹ Faucher also opposed Bamberger's proposals of a minimum capital threshold and a limitation of the number of board members.⁶⁵² Bamberger restated that the danger did not lie in personal credit and that a stock company could not exist without personal credit.⁶⁵³ Faucher responded that he did not care as much about stockholders as Bamberger. Stockholders were businessmen and had to take a risk when they invested into a company. They had to be liable if a stock company took personal credit.⁶⁵⁴ The congress followed Meyer and Faucher, rejected concessions and advocated full liberty of stock companies under a system of normative conditions.⁶⁵⁵

b. Liability of Entrepreneurs in Case of Workplace Accidents

The referent Braun viewed the German legislation on liability as flawed and defended an own resolution. In the 1860s, entrepreneurs were only liable in the Prussian law if workers did not possess the financial means for compensation and if the entrepreneur had been careless in the selection of his employees.⁶⁵⁶ Braun's resolution demanded that entrepreneurs had to be liable if they or their employees were culpable and if operating supplies were faulty. The entrepreneurs were only absolved in cases of force majeure or if they demonstrated their innocence.⁶⁵⁷ As Braun explained, the number of workplace accidents had increased over the years due to a wider division

⁶⁴⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 139.

⁶⁵⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 140.

⁶⁵¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 141, emphasis in original.

⁶⁵² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 142-143.

⁶⁵³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 146.

⁶⁵⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 147.

⁶⁵⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 148-149.

⁶⁵⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 248.

⁶⁵⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 245.

of labor, technological progress and more economizing business behavior, where entrepreneurs wanted to obtain a maximum of products out of a minimum of time and effort.⁶⁵⁸ He demanded that the courts adjudicated compensation and that civil proceedings were “*easy and effectively realizable*”.⁶⁵⁹ Under economic freedom, everybody had to be liable for the damage that he created. Braun was against special legislation for certain industries, like the Railway Act from 1838, by stating: “For he who claims freedom, and especially economic freedom, who pretends the *rights*, must also undertake the *duties* by being liable for all that he does wrong by the use of his economic freedom.”⁶⁶⁰ Braun's objective was to prevent workplace accidents, because entrepreneurs had the incentive to make workplaces safe if they were liable. He did not accept the argument that liability was too costly: “If one says: 'Die, I want to pay your burial costs', then the answer is: 'I want to save you the expenses and stay alive.' This is much better for both parties.”⁶⁶¹ A problem of the present legal system was that, according to Braun, judges demanded too much evidence in court.⁶⁶² The entrepreneurs had to take the burden of proof and not the damaged party. An entrepreneur should even be liable for the case that one worker harmed a co-worker, if the employer could not prove his innocence. Against the objection that mining became impossible with this legal arrangement, Braun pointed to France where this rule was already established.⁶⁶³ However, the entrepreneur should not be liable in case of events that could not be influenced by him and were subject to coincidence, force majeure; for instance, natural phenomena like earth quakes. Works with dangerous substances should also not be subject to liability, because risk was already priced in the high wage.⁶⁶⁴

Prince-Smith supported Braun's resolution, but advocated liability of entrepreneurs in cases of force majeure where the extent of damage was influenced by the occupation. For example, if a worker was struck by a lightning during work, his employer should not be obligated to compensate but if the laborer worked in a ammunition factory, the entrepreneur should be liable.⁶⁶⁵ The orthodox Dorn wanted to replace the word “accident” with “damage”. The resolution would then include damages of goods during transportation. Additionally, the resolution should not be restricted to railways and mining, but refer to every industry and service sector. Dorn gave the example of an

⁶⁵⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 246-247.

⁶⁵⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 247, emphasis in original.

⁶⁶⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 248-249, emphasis in original.

⁶⁶¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 250.

⁶⁶² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 254.

⁶⁶³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 255-256.

⁶⁶⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 257-258.

⁶⁶⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 262-263.

accident while a person walked over a carpet in a hotel and fell. In Germany or Austria, the damaged party did not receive compensation from the hotelier. He supported the resolution by Braun and Prince-Smith and opposed Dernburg. If coincidence would also count as a case of liability, a landlord had to make good for damaged furniture after an earth quake.⁶⁶⁶ Dernburg had argued for complete liability of entrepreneurs, even in cases of force majeure.⁶⁶⁷ Böhmert rejected the resolution of Dernburg and supported Dorn with the demand that liability had to be extended to every industry. He proposed a resolution according to which entrepreneurs were fully liable apart from cases of force majeure and culpability of workers.⁶⁶⁸ The difference between the orthodox free traders and the Bremen group was that the idealists did not want to hold entrepreneurs liable for workplace accidents, if the workers were culpable. As Böhmert said:

But we do not have to consider the workers as automatons; they are responsible for certain accidents *by themselves*. If they were to be relieved of this responsibility, then self-insurance, the main basis of progressive development, would gradually cease to exist.⁶⁶⁹

Emminghaus endorsed the resolution of Böhmert. However, the congress followed the orthodox free traders.⁶⁷⁰

4.2.4 Braun's Activities in the Reichstag (1867-70)

Braun was an active and able speaker in the Reichstag.⁶⁷¹ His activities in parliament illustrate the agreeableness of the orthodox free traders on political questions, and their opposition on economic issues. Braun used to be one of the first to make a compromise on political liberty, but gave pure Manchesterite speeches on economic policy. On March 11th 1867, Braun supported the draft for the new constitution and the establishment of a German nation state.⁶⁷² As he said, none of the constitutional rights of the federal parliaments should be eliminated for the new Reichstag, so that the new parliament possessed more powers than each of its precursors. He demanded a liberal policy for the new federal state and, although he favored centralization in most cases, saw room for a justified particularism; for example, when small states opposed interventionist economic policies

⁶⁶⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 265-267.

⁶⁶⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 261.

⁶⁶⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 268.

⁶⁶⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 268, emphasis in original.

⁶⁷⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 275.

⁶⁷¹ See Grandpierre (1923, 94-8, 113-5), Hentschel (1975, 147-54) and especially Seelig (1980, 128-51, 183-98).

⁶⁷² Stenographic Reports of the Reichstag of the North German Confederation, March 11th 1867, 10th session, 128-132.

of the central state. Braun was against centralization of agriculture policy because federal states were more capable to legislate agriculture, due to differing climates.⁶⁷³ Once a unified Germany was established, its full cultural and economic powers would develop by establishing civil and economic liberty, and Germany would face a most promising future. Only a unified Germany was able to enter “into the society of the great fully entitled nations of Europe”.⁶⁷⁴ State taxes had to be indirect and taxes on telegraphs or the post, tariffs, or member state contributions, but the latter should be just as an interim solution. In the long run, the federal state had to introduce an income tax. This was basically the program of the meeting of Braunschweig, which had recommended a fixed source of revenue, an income tax, and a steady revenue. Braun also endorsed a common citizenship law and the congress's demands for economic liberty and free movement:

If we want to make a general German citizenship out of this indygenat [the unsatisfying state of citizen rights in Mecklenburg], then we must *unconditionally* proclaim the principle of freedom of movement and trade; we must write in the draft [of the constitution]: 'No state, no municipal authority, no guild, no other corporation can refuse any member of our federation the right of marriage, establishment, trade and business anywhere!'⁶⁷⁵

On political questions, Braun was eager to compromise with the conservatives. On March 21th, when the parliament discussed constitutional basic rights, Braun aimed at reconciliation between the left and the right, who opposed to write basic rights into the constitution.⁶⁷⁶ Braun wanted to postpone a law that granted basic rights to every citizen of the federal state. Besides the common, secret, equal and direct right to vote, he considered freedom of the press and the right to form associations as crucial. The federal state had to make it impossible to its member states that they curtailed these basic rights, especially press freedom. This was a demand that Braun would often repeat in his parliamentary speeches. He especially had the reactionary state of Mecklenburg in mind when he explained: “In no German federal territory, the press may be subject to the discretionary power of the police or the administration, in no German state may newspapers be only judged with the police truncheon without judgments and law.”⁶⁷⁷ Another issue was individual ministerial responsibility, which was a longtime demand of the liberals to strengthen the power of

⁶⁷³ Similarly, Braun favored decentralization of the administration of sea shipping. He opposed to centralize the task at the federal state and reasoned that Hamburg and Bremen had to administrate sea shipping separately, because competition among several entities led to preferable results; see Stenographic Reports of the Reichstag of the North German Confederation, March 20th 1867, 16th session, 282.

⁶⁷⁴ Stenographic Reports of the Reichstag of the North German Confederation, March 11th 1867, 10th session, 130.

⁶⁷⁵ Stenographic Reports of the Reichstag of the North German Confederation, March 11th 1867, 10th session, 132, emphasis in original.

⁶⁷⁶ Stenographic Reports of the Reichstag of the North German Confederation, March 21th 1867, 17th session, 299-300.

⁶⁷⁷ Stenographic Reports of the Reichstag of the North German Confederation, March 21th 1867, 17th session, 300.

the parliament against the crown. It would allow the parliament to put a minister in front of a court, if he followed an unconstitutional or illegal policy. This was necessary because the King, as the head of the state, could not be put to charge in front of a court. On March 23rd 1867, Braun suggested to establish a special court because ministers could not be charged in front of a normal court.⁶⁷⁸ However, he was not decisive on this point and ready to compromise. When the law for individual ministerial responsibility was not passed, Braun defended a resolution on March 29th that demanded personal presence of the chancellor in the Reichstag if the parliament ordered him to come.⁶⁷⁹ However, Bismarck did not want to support Braun's substitute for ministerial responsibility. He replied to Braun's speech in a tone that was “concise and almost contemptible” (Seelig 1980, 141), reasoning that a chancellor might want to remain silent in certain political situations:

If you want to force the Federal Chancellor, in the case of the absence of any government representative, by a warrant that he appears to you [in parliament], then I do not know—if I think me into his position—what kind of violence, what parliamentary [violence] at least, could force me to talk, if I want to remain silent [...].⁶⁸⁰

Bismarck proposed to send a representative if the chancellor did not want to appear. Thereafter, Braun readily changed his resolution and followed Bismarck. When the Old liberal Vincke attacked him for his resolution, Braun subdued without any protest and refrained from defending a minimum of ministerial responsibility. On April 5th 1867, the Reichstag debated the military of the new federal state. Braun favored to limit the military spending and the size of the military to 300,000 soldiers, which was one percent of the population, for the next ten years.⁶⁸¹ If the South German states would join the federal state or if the population would grow, the percentage would have to be lowered. Braun hoped that the countries with financial troubles would lower their military spending, so that Germany could follow them. However, Germany should not decrease the military spending unilaterally. Braun had the case of Italy as a negative example in mind, which became independent and had been in war with Austria shortly after. The size of the military during peacetimes had to be written in the constitution and, thus, crown and parliament had to reach a compromise. Funds had to be granted for ten years in advance, because government needed time to finish the reorganization of the army. The reorganization was important to prevent an attack of a foreign army, and had to be

⁶⁷⁸ Stenographic Reports of the Reichstag of the North German Confederation, March 23rd 1867, 18th session, 342-344.

⁶⁷⁹ Stenographic Reports of the Reichstag of the North German Confederation, March 29th 1867, 22nd session, 444-445.

⁶⁸⁰ Stenographic Reports of the Reichstag of the North German Confederation, March 29th 1867, 22nd session, 445.

⁶⁸¹ Stenographic Reports of the Reichstag of the North German Confederation, April 5th 1867, 27th session, 575-577.

financed by the industry to which it guaranteed a basis for trade and commerce: “National unity is not won without sacrifice and in order to establish, execute and maintain it, a military force is necessary, and the military force costs money.”⁶⁸² The Progress Party criticized that the army would not be under the control of the parliament if the money was granted for ten years in advance and the power of the purse of the House of Representatives would be weakened. Seelig thinks that Braun's arguments against the Progress liberals were “not convincing” (Seelig 1980, 144) and ignored their main points. Prince-Smith endorsed Braun's position on the military budget. He stated in a letter to his Stettin voters in March 1867 that the funds for the reorganization of the federal army had to be granted to Bismarck. However, Prince-Smith demanded that “[t]he military budget, like any other budget, must be subject to the budgetary control of the Reichstag.”⁶⁸³ Thus, Grandpierre notes that Braun “was always one of the first who, at the constitutional assembly [in 1867], when the constitutional work stagnated, was prepared to compromise in order to reach the grand goal [of national unity] as quickly as possible” (Grandpierre 1923, 96). Braun even came into troubles with his Nassau voters, which criticized his agreeable attitude on issues like constitutional basic rights. His popularity among his people began to fade away and he became estranged from his homeland (Grandpierre 1923, 96-8 & 112). In a journalistic debate with the liberal Georg Gottfried Gervinus, who denied that the years 1866 and 1871 had brought about unity and liberty to Germany, Braun would respond:

I opine that it does not really serve the fatherland in the severe crisis it has to go through, that any scholarly 'professeur de jeu' builds up an infallible 'système' and demands that such should be considered as an eternal world order. Rather, one can and must demand of the politician that he always diligently observes and thoroughly researches the respective real constellation of things, and that the knowledge thus gained, without any consideration for his purely personal preferences and pet issues, at the given moment, is utilized in favor of the fatherland. He must place the good of the nation above his traditions, his 'consequence', and his 'system'. (Braun 1871, 59)

However, Bismarck seemed to be impressed by Braun's humor and rhetorical qualities that the free trader displayed in the parliamentary debates. He supposedly shook Braun's hand after the latter's first speech in parliament (Grandpierre 1923, 98; Seelig 1980, 133). Braun was certainly an outstanding rhetoric in parliament. As Dernburg writes: “In terms of repartee and bubbling mood, he only had Georg von Vincke as his rival in the history of parliamentary eloquence” (Dernburg 1910, 458). From October 1867, Braun took a more decided liberal position when the parliament debated economic policy. He favored free competition on the telegraph market on October 3rd but

⁶⁸² Stenographic Reports of the Reichstag of the North German Confederation, April 5th 1867, 27th session, 577.

⁶⁸³ *Berlinische Nachrichten von Staats- und gelehrten Sachen*, March 24th 1867, no. 71, 5.

supported monopolization of telegraphs, because economically-underdeveloped regions would be supplied with a telegraph net.⁶⁸⁴ Braun followed the decision of the meeting in Braunschweig, where he had also endorsed free competition, but the meeting decided for a centralization of telegraphs. On October 10th, Braun gave a Manchesterite speech of the purest water defending free banking, free competition and the doctrine of harmony.⁶⁸⁵ On that day, the parliament discussed usury and Braun argued for an abolition of all usury laws. Eleven days later, Braun reasoned for free movement with his resolution. Nobody should be denied to buy land, open a business or settle down inside of the North German Confederation because of his origin from another federal state, from another town, or of his religion.⁶⁸⁶ He mentioned the state Mecklenburg as a negative model, where Catholics and Jews were prevented from buying land. Braun also wanted to eliminate guild privileges and examinations for craftsmen or other professions. Free movement was best to prevent poverty migration because everyone went to places, where work was available. He mentioned France as a positive example, where the citizens of a municipality decided voluntarily to contribute money for social assistance, carrying it out without state or municipal interference. However, Braun allowed for expelling a foreign person that committed a crime.⁶⁸⁷ Three year later, when the Reichstag discussed a citizenship law, Braun wanted to grant citizenship to nationals of the North German Confederation in each of its member states as soon as the citizen settled down and registered himself at the local authorities.⁶⁸⁸ The citizenship of the North German Confederation should not become time-barred. A North German should just lose his nationality if he lived in foreign countries for over ten years and received the citizenship of another state.

On April 6th 1869, Braun went against the construction of a harbor on the North Sea island Norderney by the state. If it would be a profitable project, private entrepreneurs would build it. Moreover, no funds would be left for other infrastructure projects: “Have you forgotten the old wisdom that the budget must remain in balance? Every private person knows where that leads, if he continually increases his expenses and reduces his revenues.”⁶⁸⁹ A standard theme of Braun in

⁶⁸⁴ Stenographic Reports of the Reichstag of the North German Confederation, October 3rd 1867, 13th session, 238-239.

⁶⁸⁵ Stenographic Reports of the Reichstag of the North German Confederation, October 10th 1867, 17th session, 326-329, 348-350.

⁶⁸⁶ Stenographic Reports of the Reichstag of the North German Confederation, October 21st 1867, 25th session, 548-550.

⁶⁸⁷ Stenographic Reports of the Reichstag of the North German Confederation, October 21st 1867, 25th session, 564.

⁶⁸⁸ Stenographic Reports of the Reichstag of the North German Confederation, March 10th 1870, 18th session, 254-255, 266-267. Nonetheless, Braun emphasized that the citizenship law had to distinguish between citizens of the North German Confederation and foreigners. For the latter, it should not be so easy to receive citizenship.

⁶⁸⁹ Stenographic Reports of the Reichstag of the North German Confederation, April 6th 1869, 13th session, 218.

parliament was his rejection of concessions for any industry. On April 13th 1869, he spoke against concessions or censorship for theaters. If public authorities would prohibit theaters, citizens would look for amusements of greater immorality. Theaters were not centers of revolution, which would also take place without them. Braun asked amidst laughter of some members of parliament: “But do you think that any Italian ballerina or French balleuse was the instigator of the revolution of 1860?”⁶⁹⁰ The theater had to be as free as in England, where the queen visited a play that featured her father as one of the characters. Similarly, Braun was against concessions to newspaper sellers on the street,⁶⁹¹ concessions and cautions to newspapers⁶⁹² and against the requirement for apprentices to be able to write, read and calculate.⁶⁹³ On May 29th 1869, he opposed to sell the labor of prisoners on the market because wages would fall and entrepreneurs, who employed prisoners, would be given a competitive advantage by the state.⁶⁹⁴ Politicians would be able to use cheap prison labor to get political support from the businessmen. Thus, in sum, Braun endorsed economic liberty in parliament, but he was weak on political liberty. Nevertheless, the efforts of Braun and the free traders were crowned with success at least in the short run. At the congress of 1873, Braun gave a brief summary of the accomplishments of the congress since its foundation. He could point out that, as the congress had demanded in 1868, iron tariffs would be eliminated in 1877 by the German Empire.⁶⁹⁵ Debt detention and usury laws were eliminated and free movement was introduced in the North German Confederation in 1867. Freedom of marriage was established in 1868, which did not depend on state, municipal or any other approval and in 1869, the Reichstag passed a citizenship law and a trade regulation act. A supreme trade court was also established in Germany, as the congress had demanded in 1864.⁶⁹⁶ Amid the applause of the crowd, Braun said that “they [the meetings of the congress] bore their *fruit*”.⁶⁹⁷ Indeed, the free traders reaped the fruits of their compromise with Bismarck during the North German Confederation. But they turned out to be short-lived and of a questionable quality.

⁶⁹⁰ Stenographic Reports of the Reichstag of the North German Confederation, April 13th 1869, 18th session, 355-356.

⁶⁹¹ Stenographic Reports of the Reichstag of the North German Confederation, April 17th 1869, 21st session, 427.

⁶⁹² Stenographic Reports of the Reichstag of the North German Confederation, March 16th 1870, 21st session, 322.

⁶⁹³ Stenographic Reports of the Reichstag of the North German Confederation, April 27th 1869, 28th session, 623.

⁶⁹⁴ Stenographic Reports of the Reichstag of the North German Confederation, May 29th 1869, 48th session, 1143.

⁶⁹⁵ Stenographic Reports of the Economic Congress, 1873, 14.

⁶⁹⁶ Stenographic Reports of the Economic Congress, 1873, 15-17.

⁶⁹⁷ Stenographic Reports of the Economic Congress, 1873, 19, emphasis in original.

4.2.5 Excursus: Heinrich Beta's Vision of a Decentralized Germany

In contrast to Prince-Smith, Faucher and Braun, Beta argued for a decentralized Germany and rejected the German Empire. In 1871, Heinrich Beta published the book *The New German Empire on the Basis of Germanic Nature and History*. It was not an original work for he popularized *The Natural Doctrine of the State as the Basis of all Natural Sciences* by the Prussian intellectual Constantin Frantz (1817-1891). As seen, Beta broke with his earlier anarchist views in this work. He also advocated a decentralized German confederation in the form of a constitutional monarchy and discarded the newly-founded German Empire of 1871. He saw the new empire as a manifestation of French centralism, which had its origins in the reign of Philipp the Handsome in the thirteenth century. Germany had to return to its decentralized tradition of the Holy German Empire that was rooted on Germanicism, Christianity and the Roman Empire, and made important economic, scientific and political contributions throughout the Middle Ages. The Holy Roman Empire could not be described in terms of modern political theory, for it was neither a federal state, nor a republic or an empire: “This commonwealth was an incarnation *of bodies of state and peoples over and above modern concepts of the state*” (Beta 1871, 11; emphasis in original). Its parts were connected by international or constitutional law, or were almost autonomous states. Existing for over a millennium, it granted so much liberty that Luther published his 95 theses and Gutenberg invented the printing press (Beta 1871, 12). Beta disassociated himself from hailing the Middle Ages, but Germany had to take up and advance its earlier tradition of decentralization (Beta 1871, 18-9).⁶⁹⁸ The French tradition saw the ruled as an atomistic mass, on which a political system could be imposed from above. Everyone had to vote for a deputy, who represented him in parliament, and the deputies created law for the entire nation (Beta 1871, 18-9). On the other side, the German tradition started from below in forming associations of professions, of cities or districts, which sent their representatives to parliament. These deputies represented the interests of a collective behind them, not of the entire nation; they were not civil servants and were only paid by their collective (Beta 1871, 53):

He [the parliamentarian in the French tradition] might talk big in the chamber, and since he represents the entire nation in theory, act on the authority of the entire nation, which stands behind him—for sure a formidable guard if it would really stand behind him!—In reality nobody stands behind him. He is elected for one time by a conglomerate of voters that met for this act of voting, only to disperse immediately afterwards into its atoms, comparable to a cloud of dust without any reality and true connection with its representative. (Beta 1871, 23)

⁶⁹⁸ Beta's portrayal of the Middle Ages resembles the historical revisionism of Hans-Hermann Hoppe, who believes in a civilizational decay from the Middle Ages to modern times, and writes that “the Middle Ages can serve as a rough historical example of what I have just described as a [libertarian] natural order” (Hoppe 2015, 111).

In practice, a constitutional assembly had to decide which association, district or city sent their representatives to the parliament (Beta 1871, 27). A defined legal criterion of demarcation had to exist so that not any collective could name a deputy (Beta 1871, 29). Thus, Beta was one of the few free traders, who did not endorse a strong central state.

4.3 Against the Socialists Marx and Schweitzer

After the debate with Ferdinand Lassalle ended abruptly due to his death in August 1864, the free traders debated socialism a second time in 1869. The cause was a speech by Jean Baptista von Schweitzer, Lassalle's successor as the president of the General German Workers' Association, delivered in the parliament of the North German Confederation. While Braun responded Schweitzer in the plenum at the same day, Prince-Smith published a newspaper article that initiated a polemic between both men. Meanwhile, Faucher took Karl Marx and the first volume of *Capital* to task in a review for the *Quarterly Journal*.

4.3.1 Braun versus Schweitzer in Parliament

Schweitzer's speech took place on March 17th 1869, in a parliamentary debate on the trade regulation act. Schweitzer demanded the abolition of private property in the means of production.⁶⁹⁹ As he explained, since even Schulze-Delitzsch and Adam Smith admitted that the value of the results of production stemmed from labor, the capitalists exploited workers by claiming more than their due share, which was the wage for entrepreneurial labor. One tried to justify the capitalists' high income with their risk-bearing or greater thriftiness. However, risk was not really existent for the capitalist class because, although some entrepreneurs failed, their wealth was constantly increasing and they became richer and richer, while the working class suffered. They had not generated their wealth due to greater thriftiness in the past, but because they had already exploited the masses in the Middle Ages by means of the feudal system. Schweitzer said: "Just as slavery is legal theft on the slave and his labor force, just so, only in another form, the whole process of production is nothing more than a constant *legal theft* of the possessor on the non-possessor."⁷⁰⁰ As first steps, he demanded coalition freedom for workers, so that they were free to unite in associations. He argued for a restriction of daily working time, factory legislation that introduced free Sundays, and the collection of statistical data about the social situation of workers. Immediately after Schweitzer's speech, Braun raised his word for an intervention.⁷⁰¹ Braun pointed out that half of the working population labored in agriculture and only a small part of the rest worked in factories. To this small minority, Schweitzer had to refer when he spoke of a worker exploitation by

⁶⁹⁹ Stenographic Reports of the Reichstag of the North German Confederation, March 17th 1869, 9th session, 114-119.

⁷⁰⁰ Stenographic Reports of the Reichstag of the North German Confederation, March 17th 1869, 9th session, 116, emphasis in original.

⁷⁰¹ Stenographic Reports of the Reichstag of the North German Confederation, March 17th 1869, 9th session, 119-123.

the capitalists. However, the mechanization of the industry was a positive development because it freed the worker from performing slave labor. Machines increased the national wealth by saving working time and providing a greater quantity of goods. As Braun said, workers were not slaves if they earned a minimum level of subsistence. Slaves were persons whose power over their lives lied in the hand of others. If one eliminated private property in the means of production, individuals would save less and culture and the economy decay. Braun elaborated:

If you now want to abolish these savings of labor, which accumulate in capital, [...] then you abolish the moral motives for work and saving in man, and you degrade him to cattle, which goes out on pasture. So when you say that capital stems from labor, that capital is saved labor, so grant capital also to *the one* who saved it by the work of his *ancestors*. Because the ancestors only worked and only saved to be able to leave it to their descendants.⁷⁰²

The capitalist bore the risk of loosing his fortune so that he had to receive a profit. Otherwise, workers would have to bear the risk of production:

So you want to let the workers take part in the risk of these economic cycles [of increasing and falling prices for primary products]? [...] Yes, then he [the worker] must risk that at any moment he loses his earnings for an entire year [...]. If anyone wants to participate in the entrepreneurial profit, he must of course take part in the loss of a business as well.⁷⁰³

If workers would receive profits without having to bear losses, the firm would go bankrupt at the slightest difficulty because workers would not set reserves aside. Additionally, factory workers were far better off than others, like peasants and small farmers in rural areas. Especially well-trained workers did not suffer the worst standard of living at all. If the state would subsidize workers, which just accounted for five or ten percent of the working population, with hundreds of millions of thalers—as demanded by Lassalle—the government would have to take these funds away from even poorer people in the rural areas—a highly unjust policy. Moreover, the distinction between exploited workers and exploiting capitalists was wrong. A person might be a worker and a capitalist at the same time or might become a capitalist or worker at any time. There was no caste system like in China. Even more, workers and not only capitalists profited from the capitalist mode of production:

Imagine how a relatively poorly-situated worker lives today [...] and compare all this to how a well-situated worker lived just 300 years ago. Compare how a worker lives in our country and how a very rich and powerful prince lives in certain parts of Asia. If I had the choice of being a Berlin fireworker or an

⁷⁰² Stenographic Reports of the Reichstag of the North German Confederation, March 17th 1869, 9th session, 120, emphasis in original.

⁷⁰³ Stenographic Reports of the Reichstag of the North German Confederation, March 17th 1869, 9th session, 120-121.

Indian prince at the foot of the Himalayas, I would prefer the former.⁷⁰⁴

Braun viewed the policy proposals of Schweitzer as out-dated. Freedom of coalition was supported by most members of parliament, and Braun endorsed a normal working day according to the proposal of the French economist Louis Wolowski. He admitted that the laws regulating the affairs of workers were “flawed”⁷⁰⁵ and needed improvement. However, Schweitzer was free to introduce draft bills that solved these problems. Once again, Braun and Schweitzer clashed against each other on April 29th 1869, when the parliament still debated the trade regulation act. Schweitzer argued for controls of workplace safety by a factory inspector. Braun reasoned that such inspectors interfered into production, so that the state would have to pay for the damage caused by interference. However, the state should not bear the losses of companies. English factory inspectors did not possess the power of interference and Schweitzer could not act, therefore, on the authority of the English system. Braun recapitulated the powers of an inspector according to Schweitzer's proposal and concluded that such a “universal genius”⁷⁰⁶ would be hard to find. Moreover, the proposal was extremely expensive because it installed an inspector in every city of 50,000 inhabitants. The salary of an inspector had to be very high due to his required knowledge and to avoid corruption. If the salary was paid by a tax imposed on the capitalists, the latter had to decrease production and lower the wages of workers. Even with a high salary, Braun believed that the inspectors were open to corruption.⁷⁰⁷ According to Prince-Smith, Braun's speech from March 17th belonged to “to the most outstanding achievements of parliamentary eloquence and repartee” (Prince-Smith 1877, 363). This was the end of discussion between Braun and Schweitzer, but Prince-Smith took the issue up in the *Quarterly Journal* and a newspaper debate followed between him and Schweitzer.

4.3.2 Prince-Smith's Answer *Social Democracy in the Reichstag*

Prince-Smith answered with *Die Sozialdemokratie auf dem Reichstage* (Social Democracy in the Reichstag), which appeared in the first issue of the *Quarterly Journal* from 1869. He went over

⁷⁰⁴ Stenographic Reports of the Reichstag of the North German Confederation, March 17th 1869, 9th session, 121.

⁷⁰⁵ Stenographic Reports of the Reichstag of the North German Confederation, March 17th 1869, 9th session, 122.

⁷⁰⁶ Stenographic Reports of the Reichstag of the North German Confederation, April 29th 1869, 30th session, 681.

⁷⁰⁷ Stenographic Reports of the Reichstag of the North German Confederation, April 29th 1869, 30th session, 681-682. A year later, Braun clashed another time with the socialists in parliament, when Bebel explained that the national principle was reactionary during a debate about the funds for the war against France. Braun criticized Bebel and Liebknecht for their, in his view, inconsistency since they had favored war with Russia and Denmark. Both endangered Germany and only rejected war with France because the country was a republic and the socialists, the associates of Liebknecht and Bebel, were in power; see Stenographic Reports of the Reichstag of the North German Confederation, November 26th 1870, 2nd session, 16-17.

Schweitzer's speech passage by passage. Prince-Smith mainly emphasized the importance of the entrepreneur as a manager of the production process and as a forecaster of future buying prices for primary products. Starting with Schweitzer's distinction between the three sources of income rent, interest and the wage, Prince-Smith contested that a firm's profits stemmed from its capital funds. They originated from the skillful leadership of the entrepreneur since one firm could make profits and another not, although their capital endowment was the same (Prince-Smith 1877, 364-6). Entrepreneurs speculated and made a "daring precalculation" (Prince-Smith 1877, 367) when they bought primary products for production. As Prince-Smith explained: "Certainly business profit is only a fruit of the entrepreneur's and leader's proven insight; its source is purely of a personal nature" (Prince-Smith 1877, 367). He emphasized that the entrepreneurs did not take an unjustified amount of the surplus of production. This surplus stemmed from the fact that an entrepreneur did not only perform physical but intellectual labor; for example, when he discovered price spreads for the same good at two different places, buying cheap and selling dear (Prince-Smith 1877, 370-1). Nonetheless, Prince-Smith did not oppose Schweitzer's labor theory of value in principle, he just corrected Schweitzer's vague definition according to which the value of a good stemmed from the labor embodied in it. Working time could not be the source of value because labor of an artist and of a dogsbody would pay the same then; neither could it be the height of the wage in monetary terms because corn harvested from different types of soil made the same price, although wages paid for its production differed (Prince-Smith 1877, 372). In general, Prince-Smith rejected the view that prices were determined by costs. The entrepreneur calculated according to the expected market price how much of a good and whether he should produce: "Thus, one can rather claim that the cost of a commodity is determined by its market price" (Prince-Smith 1877, 323). Costs posed an absolute minimum threshold below which the entrepreneur did not continue with production (Prince-Smith 1877, 373). Prince-Smith also defended risk-bearing as a justification for entrepreneurial profit. Although risk was part of the cost of production, it was false to assume that entrepreneurial risk was non-existent because the wealth of the capitalist class increased. Prince-Smith wrote: "It [social democracy] might likewise conclude, from the fact that more houses are being built than being burnt, that the danger of fire is gone" (Prince-Smith 1877, 378).

Against Schweitzer's argument that the capitalists' wealth stemmed from medieval exploitation and not past savings, Prince-Smith pointed out that the origin of only a minor part of this wealth could be traced back to the Middle Ages. Most Berlin capitalists were born poor before they became wealthy as entrepreneurs (Prince-Smith 1877, 380-1). A successful entrepreneur did not only need savings but had to "possess ability and willpower, which, however, only exceptionally can be found

among the wage earners” (Prince-Smith 1877, 382). There was no need for the experiment of socializing ownership in the means of production, which would lead—if it failed—to a declining population and child death. The workers were at least able to survive under the present mode of production and might be far worse off under socialism (Prince-Smith 1877, 391-2). The state managers of capital would face no incentive to economize and treat capital funds carefully because they would pursue no own but a general interest in production. They might even enrich themselves at the expense of the public. Hardly any manager would reinvest a surplus but the results of production would be consumed immediately. Workers would not earn a much higher wage if the capitalist received less, assuming that state managers performed their task as well as capitalists, because they already received the major part of production. On an unhampered market, by contrast, wages would steadily rise because the capital stock would grow at a faster rate than the population (Prince-Smith 1877, 392-3). Additionally, state managers would not perform as well as capitalists because they were paid worse. The management of a firm was crucial for its success in production, but it was unclear what mechanism or institution replaced the capitalist under socialism (Prince-Smith 1877, 397-8). In a socialist country, as soon as people arrived the entry age for the state pension system, they would not work at an old age to provide for a better life to their children (Prince-Smith 1877, 394-5). The state would need to care for orphans and widows, which was only possible if human beings became slaves:

A fine business to provisionize the population plentifully, where nobody can work for himself, nobody can spare for himself, everybody would demand a 'sufficient' amount for satisfaction, and only the common interest would have to create the means for production of what is demanded! This is where all communism and socialism fails. [...] According to all experience, people, who had no property in the means of production, no right to independent enterprise, could only be nurtured if they were made slaves. (Prince-Smith 1877, 395)

Prince-Smith's last words sound prophetic when he predicts about the future of the socialist commonwealth:

The abolition of property in capital, by virtue of which capital arose and can continue to exist on its own, would be tantamount to the abolition of capital, tantamount to the abolition of the working masses themselves. If social democrats do not realize this truth, the first attempt will make it clear to them. (Prince-Smith 1877, 399)

After this article, the debate continued in the Berlin newspaper *Sozialdemokrat* (Social democrat) from 1870 to 1871 and Schweitzer and Prince-Smith replied two times. Ultimately, Schweitzer did

not respond to Prince-Smith.⁷⁰⁸

4.3.3 Faucher's Review of *Capital* and the Labor Value Theory

The free traders confronted the socialists another time in 1867 when Faucher wrote a review of the first volume of Marx's *Capital*. The review was not totally dismissing, because Faucher adhered to the labor theory of value as well and saw some worth in Marx's thought. But on a personal level, he called Marx “the aged head of German socialism” and attested him a “bitter mood of mind”.⁷⁰⁹ Possibly referring to the *Abendpost* and the group of The Free, he said that Marx had been particularly productive in the “poisonous and sterile literary bickering”⁷¹⁰ of former times. He criticized that Marx's presentation of the labor theory of value was not as precise as Bastiat's, and believed that Marx plagiarized from Bastiat's value theory. According to Bastiat, the value was determined by the working time that a buyer saved for the production of a good. In Marx's work, the use value was imprecisely defined as “usefulness for human life” and the definition of exchange value was the same as Bastiat's.⁷¹¹ Faucher criticized that employed and not necessary work time was the basis of Marx' definition of exchange value.⁷¹² Marx's distinction between complicated and easy work was also unnecessary, because complicated work needed more training time, so that its higher value could be traced back to working time.⁷¹³ Despite his criticism, Faucher attested “rays of hope”⁷¹⁴ to *Capital* that justified a review. Interestingly, Faucher defended a subjective theory of value in his youth. In his pamphlet *Against Gustav Julius on the Banking Question* (1846), he criticized the journalist Julius for not defending subjective value, writing that no objective measure existed because “the measure of a value is always present only in the imagination of the person measuring the value—all value-determining factors are, as such, imaginary in nature, even though they also may run around in pieces of money” (Faucher 1846, 6).

Faucher was not the only orthodox free trader, who defended Bastiat's theory. Braun and Wirth explained in their book *Usury Laws* that value was determined by labor, usefulness and scarcity. A thing did not possess value that was not considered as useful. The labor employed in production and scarcity increased or decreased the value of a thing (Braun and Wirth 1856, 11). Both then arrived at

⁷⁰⁸ Both replies of Prince-Smith and one reply of Schweitzer are reprinted in Wolff (1880, 355-65).

⁷⁰⁹ *Quarterly Journal* IV/1867, 206.

⁷¹⁰ *Quarterly Journal* IV/1867, 208.

⁷¹¹ *Quarterly Journal* IV/1867, 212.

⁷¹² *Quarterly Journal* IV/1867, 215.

⁷¹³ *Quarterly Journal* IV/1867, 218.

⁷¹⁴ *Quarterly Journal* IV/1867, 216.

Bastiat's theory, writing that value was proportionate to “the sum of effort that is saved by a service for the recipient of a service” (Braun and Wirth 1856, 8). Similarly, Prince-Smith endorsed in the second reply to the socialist Schweitzer a proto-neoclassical theory of price, which drew from a labor theory of value, by saying: “Value of use and costs are the limit-marks of the highest possible and the lowest possible price (value of exchange), within which the actual price is fluctuatingly determined by the respective relationship between purchasing power and supply, or demand and supply” (Wolff 1880, 363). With their take on value, the orthodox free traders were in sharp contrast to the older Historical School around Roscher, who called the labor theory of value an “English view” (Roscher 1864, 200) in his treatise *System*.⁷¹⁵ Adolf Held opposed the theoretical position of the free traders in 1872 by pointing out that Marx's communism could only be effectively attacked by criticizing his value theory: “Marx can only be refuted by saying that there is no simple measure of *value*; the latter is not a quality at all that is evenly inherent in all goods” (Held 1872, 196; emphasis in original). The free traders were powerless against Marx since they made the mistake of not rejecting the labor theory of value “because they threw themselves into Bastiat's arms” (Held 1872, 196). However, not all free traders adhered to the labor value theory. Alexander Meyer argued for a gold currency at the congress by proclaiming: “It is not the degree of work employed on a thing which, as socialism asserts, objectively determines its value, but the subjective judgment of men.”⁷¹⁶ This subjective, aesthetic judgment was the reason why gold had always commanded a higher price in history than silver. Despite their agreement on value theory, Marx was dismissive of Faucher's review. He wrote in a letter to the physician and social democrat Louis Kugelmann, dated July 2nd 1867:

As for my book, I received five copies of the *Elberfelder-Zeitung* yesterday, containing a very benevolent review by Dr Schnake (I know the name from 1848, but do not know him personally). There is a good deal of confusion in his presentation of the matter. On the other hand, I am informed from Berlin that clown Faucher makes merry over my book in the June number of his journal. It is good that the gentlemen at last give vent to their annoyance. (Marx 1867)

Marx had not changed his mind since the 1850s and was still not fond of Faucher. A public debate did not break out but Marx answered the critique of Faucher and others in the second volume of *Capital* (Lietz 1987, 62-3). Marx also disputed that he had plagiarized from Bastiat, when friends asked him in 1869 (Lietz 1987, 63).

⁷¹⁵ See Streissler (1990b, 41-4) who shows that subjective value was the standard theory of the older Historical School.

⁷¹⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 188.

4.4 The Congress and the Welfare State

The congress debated social welfare from 1868 to 1874. As Braun explained, the free traders viewed their proposals on social welfare as part of a greater economic reform.⁷¹⁷ The existing welfare system did not harmonize with the demand for free movement, because social assistance was granted in many states according to one's birthplace and not according to the place where a citizen lived and ran his business. In 1868, the debate started with a resolution of the referent Carnall, who asked for compulsory membership to pension funds, but not to health insurances.⁷¹⁸ Faucher was the second referent and argued against compulsory membership: "The worker should not be prevented from insuring himself if he prefers another opportunity for insurance, or from doing anything else with his money that seems more economically sound to him."⁷¹⁹ Afterwards, Böhmert introduced a resolution against compulsory membership and state interference into health insurances, pension funds, savings banks, death benefit funds and disability funds. The congress passed the proposal of Böhmert.⁷²⁰ After this vote for private charity, the congress did not endorse private charity a second time with such stringency.

4.4.1 Private Charity versus State Welfare (1869)

There were two main groups in the debates on social welfare. Böhmert and the Bremen idealists were, on the one side, in favor of private charity and the pragmatics around Wolff and Meyer supported a poverty tax to finance social redistribution.⁷²¹ Böhmert wanted to end with social welfare and was convinced that private people would help the poor in the absence of public welfare. He explained in his speech that, thanks to the market economy, the German poor were far more rich than the poor from most other countries: "There are peoples and tribes to whom the livelihood of our poor already appears like an enviable luxury, for they are accustomed to settle for the poorest food and clothing in the dirtiest caves and huts."⁷²² Poverty had already declined in both quantitative and qualitative terms in many countries. The more liberty existed in a nation, the lower

⁷¹⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 110.

⁷¹⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 238.

⁷¹⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 239.

⁷²⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 239-240.

⁷²¹ See Hentschel (1975, 174-8) and Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 149-202. See Emminghaus (1870, 11-20) for the variety of public welfare schemes that were in operation in Germany at the end of the 1860s.

⁷²² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 152.

was its level of poverty with time. A nation could only eliminate state social welfare under “full freedom of acquisition, distribution of goods and use”.⁷²³ The causes of pauperism was a too high consumption—for example, due to careless credit-taking—and a too low production—for instance, because of many sick and old people that were unable to work, or people with a lack of motivation for work. Therefore, everybody had to save and assure himself against accidents and illnesses. Charity had to be granted very reluctantly because it caused the impetus to work to disappear. The protestant Böhmert was against charity of the Catholic church because it had contributed to the increase of poverty in the Middle Ages.⁷²⁴ In later times, municipalities, where the poor were born and raised, were forced by the state to pay for the poor. This policy was still followed by most countries, for example, by all North German states except for Prussia. Böhmert was against both state and church welfare by saying:

The duty to poverty, which should have its natural source in the mercy for the suffering of the neighbor, has now become a purely external, pressing burden; we no longer have the pleasure of helping as the most beautiful reward for it, but everywhere just a shouting about the burden of poverty. To enforce by law what belongs to the field of free private activity can only apply to a very low level of education and civilization, to those whose entire moral duty is absorbed in legality. Legally enforced social welfare with its poverty taxes has not only the discomfort that it is *given* reluctantly, but the even greater discomfort that it is received *reluctantly and covetously*, because one considers oneself *entitled* to claim assistance and because the drivers of self-help have been weakened. Once one is accustomed to the support, one continues one's claims out of convenience, even if one's circumstances have become more favorable; one seeks to conceal one's situation to the public administration; one learns to pretend, to simulate.⁷²⁵

Böhmert stated that, according to a city council member from Danzig, some welfare recipients lived better than some workers, who paid their taxes and had families. He believed that every case had to be carefully examined. The person or public authority that gave money to a beggar, who was not really in need, committed a twofold injustice: towards the beggar, who was encouraged in his life style, and towards civic society whose efforts against poverty he sabotaged: “The fundamental denial of all claims, which one cannot examine, must be made a principle.”⁷²⁶ Every adult had to support himself and if he was not able to do so, he had to rely first on his family and finally on civic society. However, forcing citizens to give to the poor was morally wrong:

But the individual needy person has no right to support; he can only claim mercy of his fellow men,

⁷²³ Ibid.

⁷²⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 155.

⁷²⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 158-159, emphasis in original.

⁷²⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 160.

which is directed towards a real communion between the rich and the poor, a communion based on conscience and free love. From the moment when *pressure* to internal efforts is given a try, the feeling for personal aid and the impetus for it inevitably cools down. The free cooperative sense is replaced by a kind of communism, the distribution of part of wealth to the propertyless in the name of law.⁷²⁷

Böhmert's religious beliefs certainly informed his optimistic view of human nature, his advocacy of “free love” and the resulting economic policy. However, as a protestant, he did not want to endorse church charity, which was charity of the Catholic church at that time. Instead, he advocated local associations since assistance could be best provided on a local level. Umbrella organizations might financially support local organizations, which did not possess enough funds. The transition to full private charity had to be gradually over a long time period, while the state continued to subsidize hospitals and orphanages in the meantime.⁷²⁸ Böhmert mentioned the city Elberfeld as a model, where private associations had the responsibility over social welfare and money paid for social assistance had decreased to a third, the population had grown and municipal debt had decreased.⁷²⁹ Thus, private social welfare had to be implemented out of self-interest because it costed much less. Rickert, who had granted public welfare as a civil servant for many years, followed Böhmert and stated that, if anything, social welfare had to be given in closed institutions.⁷³⁰ Private associations took greater care for the use of their funds, whereas no practical limit existed to public institutions. Rickert emphasized that “[v]oluntary social care for the poor is *not impossible*; the forces will find each other and sound economic principles will set in motion.”⁷³¹ Similarly, Emminghaus viewed, like Böhmert, private social welfare as superior to state welfare:

It is not possible that a state organ as such takes care of the poor through paid officials in the same beneficial way as the real interested party, that a state-organized care for the poor is just as efficient as one organized by the interested parties.⁷³²

However, private charity could not immediately replace public welfare and the state had to intervene in cases where private welfare was not enough. Emminghaus disagreed with Böhmert on begging and rejected to fight begging with the state's power because he feared a “police war”.⁷³³ The most liberal free trader was Dorn, who supported Böhmert's resolution and even approved of

⁷²⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 162, emphasis in original.

⁷²⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 163.

⁷²⁹ See Lammers (1870) for more information on Elberfeld. See also Emminghaus (1870, 11-20) for the variety of public welfare schemes that were in operation in Germany at the end of the 1860s.

⁷³⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 180.

⁷³¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 181, emphasis in original.

⁷³² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 186.

⁷³³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 187.

begging by proclaiming “a right to beg”:

I have the innermost conviction *that every human being has a right to beg*. He who begs does not interfere with the legal sphere of another person; he does not force the other person to give. We all *request*, if we want to achieve a purpose through common participation [...]; if someone requests specifically for his gift, *notabene* if it is a *small* gift, that is called '*begging*'. Begging is only the reduction of requesting. I cannot contest the right to beg to anyone; I can only cut the ground from under him by making sure that healthy, economic views are spread, that the majority of the wealthy no longer give alms, no longer support beggary.⁷³⁴

Contrary to Böhmert, Dorn did not want to regulate foundations that increased poverty with their careless alms-giving. Alexander von Dorn, Ritter von Marwalt (Knight of Marwalt), was a regular visitor of the congress from the 1868 to 1885.⁷³⁵ He was one of the most doctrinaire and came close to orthodox *laissez-faire*. Born on February 9th 1838 in Vienna, the publicist, economist and doctor of law visited the Schottengymnasium and voluntarily went to the Italian-Austrian War in 1859. A year later, he became a public official and was the referent of the Austrian ministry of trade in an exposition in Constantinople in 1863. In the following four years, he worked for the same ministry until he changed to journalism in 1868. He became the head of the economics department of the paper *Pester Lloyd* (Lloyd's of Pest) and edited the *Triester Zeitung* (Triest newspaper) since 1872. On August 2nd 1882, he was severely injured in a bomb attack during the opening of an exposition in Triest. Nonetheless, at the end of 1883, he released his own newspaper *Volkswirtschaftliche Wochenschrift* (Economic weekly paper) that defended freedom of trade and opposed state socialism. He founded his own publishing company “Volkswirtschaftlicher Verlag Alexander Dorn” (Economic publishing house Alexander Dorn) in 1889. Dorn wrote *Zur Exportfrage* (On the Export Question, 1864), *Aufgaben der Eisenbahnpolitik* (Tasks of Railway Policy, 1874), *Kriegsmarine und Volkswirtschaft* (Military Navy and National Economy, 1885) and *Der wirthschaftliche Werth des Geschmacks* (The Economic Value of Taste, 1886). At the congress, which he visited every year from 1869 on, Dorn was for free banking for banks of issue in 1871, for private charity in 1869 and he presented one of the most liberal resolutions when the free traders debated the Railway Question in 1873.

Meyer, Wolff, Faucher and Oppenheim did not favor of full private charity. Meyer and Wolff argued for a poverty tax to finance social welfare because, otherwise, entrepreneurs did not take care of the poor. As Meyer explained, in Elberfeld, social welfare by private associations had only

⁷³⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 172, emphasis in original.

⁷³⁵ See *Wiener Kommunal-Kalender und städtisches Jahrbuch* (1916), volume 54, Vienna: Verlag von Gerlach und Riedlich, 246 and *Meyers Großes Konversations-Lexikon* (1903), volume 5, sixth edition, Leipzig: Bibliographisches Institut, 135.

become possible because poverty taxes had been raised and entrepreneurs aimed to avoid them by organizing private charity.⁷³⁶ For the same reasons, Wiss was against private charity and for municipal social welfare. However, he said that poverty had been far worse at the time of the Thirty Years' War. The history of many states proved pauperism to rise when much social assistance was granted. Only increased production was ultimately able to decrease poverty.⁷³⁷ Wolff supported Meyer's resolution; in history, voluntary social welfare had always been welfare of the church. But since Böhmert rejected any involvement of the Catholic church, his proposal for a nation-wide net of private charity organizations was impracticable:

Gentlemen, if it were possible to establish such an organization for this particular purpose of economic life, I would also believe that it would be possible for voluntary activity of the people to render *the state as such* inoperative with all its purposes. We live, however, in states of affairs that are tacitly or consciously based on the assumption that it is impossible to get along with this pure voluntariness, that coercion is or may always be, a necessary requisite of human life.⁷³⁸

Oppenheim sided with Wolff and Meyer and rather preferred to reject all resolutions instead of making a compromise. If the congress followed Böhmert, it had to oppose public schools, conscription and other state interventions as well. People, who wanted to give the smallest amount of power possible to the state, had a conception of man as an automaton, like La Mettrie in his book *L'homme machine*, and a too optimistic view about human nature and the goodwill of people.⁷³⁹ Despite his criticism of Böhmert, Oppenheim proposed a resolution according to which accommodation and caregiving should only be granted in hospitals and workhouses to the sick, the poor and orphans, and social welfare should not become an actionable right to poor people.⁷⁴⁰

The orthodox Faucher did not take a very doctrinaire position on social welfare. As he said, he was not prepared to give a final answer and argued for postponing the topic. He distinguished between three groups: employable poor people that did not want to work; employable poor people that did not find work—for instance, due to an import shortage of cotton; and unemployable poor people—for example, children or invalids. The first group was “in war with human society”.⁷⁴¹ Begging had to be oppressed like in England, especially because it may be used as a pretense to commit robbery at the doorstep. Unemployed poor people had to labor in workhouses, which should

⁷³⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 167.

⁷³⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 169-170.

⁷³⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 173, emphasis in original.

⁷³⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 176.

⁷⁴⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 177.

⁷⁴¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 193.

be productive facilities and not disincentives, so that those poor did not become a burden to society. The goods produced in workhouses had to be sold at the highest price possible on the market.⁷⁴² The second group, the employable people willing to work, had to be supported by the municipalities. The latter had to introduce poverty taxes to finance municipal social welfare. If these taxes superseded, however, the national average height of the poverty tax to a certain degree, the next higher institution had to step in and provide additional funds until the state finally had to finance welfare.⁷⁴³ The third group, the unemployable poor people, had to be supported by their families or municipalities. This group was subject to private law, because somebody was guilty for their need for help; for example, in the case of children, the father. Faucher, nonetheless, emphasized that he was not prepared to give a final answer on how to deal with the second and third group.⁷⁴⁴ In his final intervention, Böhmert was against restricting social welfare to workhouses because the poor would stick there to their kind and their children would let themselves go.⁷⁴⁵ He rejected Wiss's comment, who had argued that manufacturing industries created a proletariat and that entrepreneurs had to take more societal responsibility. Those municipalities with many poor people wished that more entrepreneurs with a business would be in town because poverty was low in cities with industry. The congress postponed a decision by passing the resolution of Faucher and established a commission on social welfare.⁷⁴⁶ However, in the following years, the congress never debated social welfare in general but just talked about single aspects of the topic.

4.4.2 Workhouses (1873)

In 1871 and 1872, the orthodox free traders did not raise their word during the debates on social welfare. In 1871, the congress accepted the resolution of Baumeister, who argued that the donor's will should just be valid for a limited amount of time and the endowment of a charitable foundation should flow to the state after this time period.⁷⁴⁷ In 1872, the Bremen idealists won over the congress, which passed a resolution against erecting compulsory insurances, for example, health insurances.⁷⁴⁸ In 1873, Rickert was the referent like in previous years and recommended workhouses for the unemployed, especially in big cities. Recipients of social welfare had to enter a

⁷⁴² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 194.

⁷⁴³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 194-195.

⁷⁴⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 195.

⁷⁴⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 199-200.

⁷⁴⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 202.

⁷⁴⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 187.

⁷⁴⁸ Stenographic Reports of the Economic Congress, 1872, 65.

workhouse if states or municipalities could not check whether a recipient was truly in need of help and whether he used the received funds appropriately. With some justification, Rickert viewed the discussion as a continuation of the debate on state or private social welfare from 1869. At that time, the congress had agreed that adults, who were able to work, had to make their living on the market or had to go to workhouses and that social welfare should not exceed a subsistence level. The free traders had not discussed what constituted such a level—Rickert opined, however: “The person, who is publicly funded, should not be better off than the one, who is forced to contribute to this subsistence.”⁷⁴⁹ It did not matter for the amount of social welfare granted whether the recipient was formerly a rich or poor man. Rickert, who had allocated social welfare as a public official, also justified workhouses with the difficulties of finding out whether a person was truly in need and able to work—even with a medical examination—because the poor were champions in deceiving the civil servants.⁷⁵⁰ The workhouses had proven to be successful because the number of recipients decreased after their introduction, for example, in Elberfeld and England and Ireland. They were particularly helpful in cities because everyone knew everyone else on the countryside, and it was easy to evaluate whether somebody was truly in need. However, the workhouses should not be, however, coercive institutions where somebody was institutionalized:

When I speak of transferring the poor to poorhouses, it is not my opinion to designate institutions which use the means of the penitentiary. One will have to take care, however, that strict order is kept in the poorhouses; but one will also be able to demand kindness and benevolence towards the inmates. [...] I have in mind *such* institutions, not those prisons where the poor were tormented and where, by transferring them to a workhouse, an act of revenge was to some extent exercised on those that were unable to feed themselves. Of course, there is then no talk of education for action, of a revival of the poor. But if you give the poorhouses an efficient and humane administration, a prudently managed operation, then you will see that they become economic educational institutions.⁷⁵¹

The workhouses were not too expensive. Their cost per capita was higher than for regular social welfare, but overall costs decreased due to the falling number of recipients. Rickert advocated to establish workhouses on the countryside since they could be run at lower costs and many labor opportunities would be available in agriculture. He opposed to place families with six or more children into a workhouse. However, Rickert was indifferent on whether the state or municipalities had to be responsible for social welfare.⁷⁵² The rules, which restricted social welfare to those people

⁷⁴⁹ Stenographic Reports of the Economic Congress, 1873, 184.

⁷⁵⁰ Stenographic Reports of the Economic Congress, 1873, 186.

⁷⁵¹ Stenographic Reports of the Economic Congress, 1873, 188, emphasis in original.

⁷⁵² Stenographic Reports of the Economic Congress, 1873, 193.

living for a certain time in a municipality, had to be abolished or the time period had to be shortened: “The poor person is supported where it is; the place of residence is also its place of social assistance.”⁷⁵³ Such rules produced a great deal of bureaucracy and costs. Eras added that social welfare made citizens lazy, so they demanded more welfare over time. Hence, the public administration had to refrain from paying out small amounts of money.⁷⁵⁴ The labor services of workhouse inmates had to be auctioned on the market and every inmate had to perform an obligatory workload.⁷⁵⁵ Gneist agreed that workhouses had to be established in the big cities. Nonetheless, they destroyed family ties since children could not move with their parents into workhouses. The inmates lost their sense of honor and became lethargic and passive. Gneist contradicted himself because at the end of his speech, he was even against workhouses for a big city like Berlin.⁷⁵⁶ Answering to Gneist, Rickert made it clear that he did not want to send entire families to the workhouse.⁷⁵⁷ The congress passed Rickert's resolution and recommended workhouses for unemployed single persons, whose use of social assistance and need of help could not be checked by a public authority. In small cities or in rural areas, establishing a workhouse was less urgent because the municipality could easier control need of help and use of social assistance.⁷⁵⁸

Faucher did not intervene into the debates but, as seen, he had already supported workhouses at the congress of 1869. He wrote about the debates of 1873 that he viewed, in contrast to Böhmert, “the test of the English workhouse as the only solid foundation of social welfare.”⁷⁵⁹ Faucher also endorsed workhouses in 1863 when he reviewed *Die englische Armenpflege* (The English Social Welfare System) by Gustav Knies.⁷⁶⁰ Faucher called the book “the best work on the subject”⁷⁶¹ and went over the history of social welfare in England. As he noted, England had systematically established workhouses in 1834, although they had sporadically existed before, because the tax burden had increased after the introduction of public welfare in the 18th century. The rationale was to prevent the poor from claiming too much social assistance because the payment became conditioned to the entrance into a workhouse. According to Faucher, the poor had to receive only a

⁷⁵³ Ibid.

⁷⁵⁴ Stenographic Reports of the Economic Congress, 1873, 194-195.

⁷⁵⁵ Stenographic Reports of the Economic Congress, 1873, 197.

⁷⁵⁶ Stenographic Reports of the Economic Congress, 1873, 200.

⁷⁵⁷ Stenographic Reports of the Economic Congress, 1873, 206.

⁷⁵⁸ Stenographic Reports of the Economic Congress, 1873, 207.

⁷⁵⁹ *Quarterly Journal* II/1874, 220-224. As Faucher continued, Rickert came to defend workhouses in 1873 due to travel to England, where he could observe the workhouses in practice.

⁷⁶⁰ *Quarterly Journal* II/1863, 246-255.

⁷⁶¹ *Quarterly Journal* II/1863, 246.

minimum standard of life, but no luxury goods like tobacco or alcohol. It was important that the life of the inmates was of a lower quality than the life of the working population. The occupants had to be separated from each other according to their age and gender. Children should only live with their mother if they were in need of her care.⁷⁶² Nobody should be allowed to visit or leave the workhouse without permission. The work done by inmates had to be physically exhausting work like breaking stones or mauling wood, not easy labor like field work. It had to be carried out by every inmate and should not compete with the private industry, but be directed towards public purposes or needs of the inmates. As Faucher stressed, the workhouses would have the character of prisons and nobody would want to live in them:

Rigorous handling of the developed principles leaves the workers to view workhouses as little else but prisons [...]. Achieving this is, however, an essential requirement for the establishment of workhouses, if they are to be used as a test for the existence of a need for help! Insofar as it is compatible with considerations of humanity, the strongest driving forces must be set in motion in order to induce the institutionalized workers to leave the workhouse as soon as they can, that is, to make their living by their own forces instead of foreign support.⁷⁶³

The workhouses were not in disagreement with “the requirements of humaneness”⁷⁶⁴ because a control of the poor was in the interest of the society's general welfare. Most of the poor got into their precarious situation “due to moral weakness”⁷⁶⁵ and they needed a serious correction to get back on the right track. Even those workers, who were physically unable to work, sometimes entered a workhouse in England, depending on the decision of the municipality. However, Faucher did not explain whether he would send them as well to the workhouse. In 1869, he departed to some degree from his earlier view. He wanted the inmates to perform the most remunerative labor possible, so that products of their labor were sold at the highest price possible on the market. In 1874, the pragmatic Wolff and Meyer lost against the Bremen idealists. The congress passed a resolution in favor of private pension funds.⁷⁶⁶ Once again, Faucher and the orthodox free traders did not intervene into the debate.

⁷⁶² *Quarterly Journal* II/1863, 253.

⁷⁶³ *Quarterly Journal* II/1863, 254.

⁷⁶⁴ *Quarterly Journal* II/1863, 253.

⁷⁶⁵ *Ibid.*

⁷⁶⁶ *Stenographic Reports of the Economic Congress*, 1874, 57.

4.5 Faucher on Business Cycles

In 1868, Faucher developed a quite sophisticated business cycle theory in *Währung und Preise* (Currency and Prices) and elaborated strategies to deal with a recession. As he wrote in the article, there were two possible scenarios that could result from a bank that emitted an unbacked note. Either somebody wanted to expand his cash holdings and demanded the newly-printed banknote. In this case, it was unnecessary to create new paper money because precious metal would flow in from foreign countries to cover the higher demand for cash. Or there was no demand for the note, so that too much money circulated in the domestic country. Faucher established the principle that cash holdings in a currency zone were “an *exactly* given measure which no bank or currency operation can raise or lower” (Faucher 1868b, 142; emphasis in original). If a country would create unbacked paper money on a permanent basis, domestic prices and imports would rise. The liabilities to foreign countries would exceed its outstanding claims. Foreign countries would demand less of the domestic currency and start to ask for precious metals in exchange for their exports (Faucher 1868b, 146). After precious metals left due to an ongoing creation of paper money, prices would not rise uniformly. To elaborate this point, Faucher introduced the concepts of “expansive force” (Faucher 1868b; 147-8) and “compressibility” (Faucher 1868b, 152-3) of the need for a good. The expansive force referred to how fast in time and to what extent the demand for a good increased after an increase in cash holdings. The compressibility meant how fast the demand decreased when cash holdings decreased. Faucher exemplarily mentioned the need for food, clothes and housing. Food had the lowest expansive force, followed by clothes and lastly housing. Crop was the least expansive food, then fruits and vegetables and finally meat (Faucher 1868b, 148). Tobacco and alcohol possessed the highest expansive force of all foods, or in other words, the highest elasticity (Faucher 1868b, 152). The concept of compressibility worked the other way around. Clothes were characterized by the lowest compressibility, followed by housing and food, so that demand for clothes contracted less when cash holdings decreased. This was because consumers were less eager about restricting demand for goods, which served purposes of representation to the outside world (Faucher 1868c, 124). If cash holdings rose, increases in demand and prices could only be permanent if they were based on a real increase or decrease of national wealth under the influence of moral or technological progress or regress. As Faucher continued:

Where we deal with *temporary*, because *artificially* caused, changes in the ability to pay, the new structure of demand and the new relation of prices among each other, as long as they depend on demand, will be incompletely brought about, will stand still halfway through, and will not generate a pure picture of a higher or lower state of civilization, but just a confused attempt to such a one [...]. Especially in the

field of the need for housing, a fragmentary character becomes visible in the change proceeding in the way of life [...] (Faucher 1868c, 122-3; emphasis in original).

An example for such an artificial change was the “paper money economy” (Faucher 1868c, 123). Faucher then turned his direction on the supply side. As long as a country possessed precious metals for trading, total supply followed total demand. But as soon as all precious metals had left, the domestic country had to increase its production or had to consume its capital stock to maintain the former level of consumption (Faucher 1868c, 128). In this situation, total supply was not capable anymore to follow the increased demand: “*Insofar as oversupply offsets the effect of the artificial increase of demand on prices in one place, undersupply increases this effect elsewhere*” (Faucher 1868c, 127; emphasis in original). For some time, domestic production would increase because more capital goods had entered the country due to the higher imports affected by the newly-created paper money (Faucher 1868c, 128-9). There was, however, also a destruction of capital because the newly- imported capital goods were not sufficient to outweigh capital losses, due to an increased demand for “unproductive” needs with a high expansive force. Industries, which produced high expansive force-goods, needed more capital goods to satisfy the increased demand (Faucher 1868c, 131-2). After all precious metals had left the country, total supply was not able to follow total demand so that the purchasing power of money would decrease everytime when new money was emitted into the economy (Faucher 1868c, 132). Industries would expand whose products would be easy to export. Faucher mentioned Russia as example, which had experienced an increased production during the Crimean War from 1853 to 1856 (Faucher 1868c, 131). At that time, the cutting of timber had been expanded to obtain foreign currencies for trade (Faucher 1868c, 133). Faucher (1868c, 134) speaks of “unproductive expenditure” because more timber was cut due to the paper money expansion than during normal times. The capital stock of wood decreased so that the timber production was on a lower level as soon as the increased exports of timber finished, in comparison to the situation before the creation of paper money. As Faucher concluded:

So [...] capital is transferred from one form to another whereby it grows, and then the *growth* is utilized in exchange; only as much had been produced as the work of cutting timber and rafting yielded profit; but then, to a great extent, capital *was sacrificed*; it was bought present abundance, which increases productive as well as unproductive consumption, not only with potential [abundance] but with a certain future shortage. (Faucher 1868c, 138; emphasis in original)

This process continued until the exchange rate developed into a too unfavorable direction for the domestic country, so that foreign countries ended the trade with the domestic country (Faucher 1868c, 145). Production increased in industries that used labor-intensive and short-term production

processes in contrast to capital-intensive and long-term processes, as soon as all precious metals left the country. Entrepreneurs employed primitive technology and home work increased (Faucher 1868c, 164-8). People started to consume less and produced more than before the expansion of the paper money supply (Faucher 1868c, 169). This conclusion seems to agree with the reverse Ricardo effect in the Austrian Business Cycle Theory, the use of more labor-intensive instead of capital-intensive modes of production as the market's reaction to the artificial expansion of the money supply.⁷⁶⁷ Hence, Faucher believed that the excessive issue of unbacked paper money was the cause for the existence of a huge home industry in countries like Russia (Faucher 1868c, 164-5).

Which prices rose during the emission of paper money depended on the expansive force of the respective need. The prices of goods with a low expansive force decreased because the workers moved to industries of high expansive force-goods. According to Faucher, the highest price increases would be in industries where the demand possessed a high expansive force and a high compressibility and in which the supply was characterized by a high expansive force and a low compressibility. One example for such an industry was the construction of houses and streets. The prices would be lowest for industries where the demand had a low expansive force and a low compressibility, and the supply a high expansive force and a low compressibility. Faucher mentioned as examples home work, basic woodwork and basic pottery (Faucher 1868c, 170-1). Since the interest payment on capital goods did not depend on the price of the output and since the wage increased (or decreased) with a increasing (or decreasing) production, the industries that increased their production demanded more labor and the price of their output decreased. This led to a convergence of the wages of laborers and entrepreneurs (Faucher 1868c, 172-3). The entrepreneurs thought of the selling price of their output as higher than it really was, so they demanded more workers and their profits tended to decrease. The wages decreased in those industries where demand was lower, so that the income of the companies increased. People demanded more services of artists, scientists or other intellectual specialists for which the demand possessed a high expansive force and a low compressibility (Faucher 1868c, 175). The wage of public officials decreased because the state had no interest in raising those salaries according to price inflation. This led to increasing corruption because public officials aimed at recouping their losses (Faucher 1868c, 179-80). Thus, Faucher was decidedly against paper money because it would cause a “regress to poverty and barbarism” (Faucher 1868c, 181). He also discussed two possible solutions for a recovery of the economy, namely the maintenance of the paper money so that capital accumulation raised its value to previous levels over a long time period, or the introduction of a parallel hard currency (Faucher 1868c, 192). Faucher favored the parallel currency

⁷⁶⁷ See Huerta de Soto (2006, 368-70) for the Ricardo effect in the Austrian business cycle theory.

(Faucher 1868c, 195). He also advocated a tax on paper money to raise its purchasing power. Over a time period of a year, every holder of notes could exchange his money for a new paper money which had a lower nominal value in accordance with the tax. The old paper money would be stamped and lose its value. If a citizen would hand in his banknotes after the time period of one year, the tax would be twice as high (Faucher 1868c, 203-4). Faucher favored a stamp tax because people, who would hold more cash, would be obliged to pay a higher amount of taxes. In the end, Faucher advocated notes that were fully backed by specie or bills of exchange:

War is not directed against the money in the form of paper as such, which unfolds its fully legitimate and very necessary activity in the redeemable banknote, but against the *legal currency* of the same and the paper issue *without* deposit, without metal deposit or—let us say briefly what we stated in the beginning—without deposit of another medium of exchange, that is, the bill of exchange that is elevated to a legitimate medium of exchange as substance of value by interest payment, commodity deposit and duty of honor. (Faucher 1868c, 213-4)

Thus, because he rejected legal tender laws, Faucher was in favor of competition of several currencies which should be backed by precious metals or bills of exchange. He had not changed his mind since his last article from 1846, when he defended free banking for banks of issue. Some of his statements came close to the Austrian theory of the business cycle, for example, that there will be a boom in the construction sector and his mention of the reverse Ricardo effect.

V. The Rise of the German Empire (1871-79)

The newly-founded German Empire aimed to centralize its banking system and the free traders had to address the question of central banking versus free banking. Faucher also opposed the nationalization of the railway system in the *Quarterly Journal*. Another topic at the congress was a national coin. Prince-Smith wanted to keep silver and gold in circulation, while Braun and Faucher favored the gold standard. In general, the orthodox group became isolated in the free trade movement from 1872 on. This was because of a debate on economic policy with the socialists of chair. Its result was the discredit of the orthodox minimal state in the eyes of the public. With Prince-Smith's last book from October 1873, orthodox free trade finally lost its influence and Bismarck turned to protectionism just a few years later.

5.1 Free Banking versus Central Banking

In the late 1860s, the Banking Question lost importance and the free traders turned their attention to the Coinage Question. Faucher was for joining the Latin Monetary Union and for introducing the gold standard in the German Empire.⁷⁶⁸ However, in 1872, Faucher criticized the newly-introduced Goldmark because its too-small classification stimulated begging and careless spending.⁷⁶⁹ At that time, the so-called Latin Monetary Union existed between Switzerland, Italy, France and Belgium, which harmonized the metal content of the gold coins of these countries. Thus, at the congress, the Bremen group favored an immediate introduction of the gold standard, which should be compatible to the Latin Monetary Union.⁷⁷⁰ Adolph Soetbeer, an economics professor in Göttingen, argued for the gold standard as well, but was for a transition period during which silver coins would be in circulation. Influenced by the bimetalist ideas of the French economist Louis Wolowski, Prince-Smith advocated a double standard that might evolve into a gold standard “after obtaining practical experience”.⁷⁷¹ However, Prince-Smith made it clear that “the *double currency would be a permanent and far preferable* [solution].”⁷⁷² In the end, Prince-Smith defended a minority position

⁷⁶⁸ *Quarterly Journal* I/1870, 149-150.

⁷⁶⁹ *Quarterly Journal* III/1872, 189-190.

⁷⁷⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1867, 189.

⁷⁷¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 191.

⁷⁷² Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 246, emphasis in original.

and Soetbeer's resolution was passed.⁷⁷³ After recommending a gold coin for the newly-founded state, the free traders debated a central bank of issue for the German Empire in 1871, 1872 and 1874. While Faucher did not take sides on the question, Dorn and the Bremen group rejected a central bank and advocated free banking, as the congress had done in the 1860s. Wolff, Meyer and Bamberger were on the central banking side. The congress did not reach a clear standpoint in 1871 and 1872, while it recommended central banking in 1874. However, in the *Quarterly Journal*, Faucher continued to support free banking and to oppose unbacked notes.

5.1.1 The Congress of 1871, 1872, and 1874

In 1871, Eras and Oppenheim introduced a resolution for a central bank of issue and the elimination of all private note-issuing banks. Böhmert, Lammers, Dorn and Julius Gensel made a proposal for free banking if a bank complied with legally-established normative conditions. These conditions had to be the immediate redeemability of notes and the regular publication of business reports.⁷⁷⁴ Böhmert argued that the danger lied in big state banks because the circulating area of their notes was more extensive. Small private banks had to operate more cautiously because their notes were redeemed more often: “It is precisely the *multiplicity* of banks that guards against the dangers of banknotes.”⁷⁷⁵ Thus, he was against concessions and the monopoly on note-issuing by declaring:

Let it be printed on the note that redemption must take place within 24 hours of presentation, otherwise the issuer will be declared bankrupt; then the banks would be careful not to issue too many notes.⁷⁷⁶

Dorn and Hermann Rentzsch endorsed Böhmert's advocacy of fractional reserve free banking in their speeches. Both argued for fractional reserve free banking. The Austrian journalist Dorn said about the note coverage that “the notion of a 'completely covered note' seems to contain a *contradictio in adjecto* [contradiction between parts of an argument]; because it is the nature of banks of issue to emit uncovered notes [...]”⁷⁷⁷ The journalist Eras, on the other side, endorsed central banking for the given historical circumstances, although in the abstract he was for banking

⁷⁷³ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 262. Prince-Smith also spoke about the Coinage Question in the Reichstag, see Stenographic Reports of the German Reichstag, November 13th 1871, 20th session, 251-254.

⁷⁷⁴ For the resolutions, see Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 131.

⁷⁷⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 137, emphasis in original.

⁷⁷⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 137.

⁷⁷⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 149, emphasis in original.

freedom under normative conditions. The Prussian Bank had operated well during the war against France in 1870. Moreover, there would be a “paper money flood”⁷⁷⁸ under free banking and the small man would suffer most. One would hardly find acceptants for the notes of free banks, because their area of circulation would be too small. Wolff, who had defended free banking in 1863, confessed his sympathies for banking freedom, but ultimately demanded a central bank of issue for the German Empire.⁷⁷⁹ The congress remained divided and postponed the decision to the next year.⁷⁸⁰ In 1872, the disagreement continued when Böhmert and his friends reintroduced their resolution for free banking, while Wolff presented a proposal for a German central bank.⁷⁸¹ The slight majority of speakers defended fractional reserve free banking, namely, Gensel, Böhmert, Dorn, Rentzsch, and the bank director Schottler. However, Wolff, Alexander Meyer and the national liberal politician Ludwig Seyffardt supported fractional reserve central banking. But no side presented new arguments and the discussion remained brief. The congress rejected all resolutions and did not reach any decision.⁷⁸²

Two years later, in 1874, the climate of opinion had considerably changed at the congress and in the public. Perhaps this was due to the economic crisis of 1873 or the debate with the socialists of the chair. Another reason might have been the book *System der deutschen Zettelbankgesetzgebung* (The System of the German Legislation on the Banks of Issue, 1872). Its author Adolph Wagner, an authority on banking and a former free banker, therein came to approve of central banking (Smith 1936, 128-9; Schumacher 1908, 23-4). Howsoever, the emphasis in the debate had shifted from free banking to note coverage. As Eras tells, the defenders of free banks of issue amounted to “a vanishingly small group of followers” in the wider German public.⁷⁸³ Hence, at the congress of 1874, nobody made the case for banking freedom. Böhmert and his friends did not reintroduce their resolution for free banking and did not raise their word, although all four men were present. Wolff, Faucher and Meyer ignored the issue and focused on note coverage. Alexander Meyer presented a resolution for a limit or a tax on the unbacked note issue.⁷⁸⁴ He motivated his proposal with “reasons of expediency”⁷⁸⁵ because the debates of 1871 and 1872 had shown that a decision on free

⁷⁷⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 139.

⁷⁷⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 144.

⁷⁸⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 150.

⁷⁸¹ Stenographic Reports of the Economic Congress, 1872, 66-7.

⁷⁸² Stenographic Reports of the Economic Congress, 1872, 83.

⁷⁸³ *Unsere Zeit*, volume 1, issue 1, 167. See also Walcker (1876, 7).

⁷⁸⁴ Stenographic Reports of the Economic Congress, 1874, 109.

⁷⁸⁵ Stenographic Reports of the Economic Congress, 1874, 112.

banking was not in reach. While Wolff and Faucher supported Meyer's resolution, the majority of the speakers argued for fractional reserve central banking by now; among others, the politician Ludwig Seyffardt, the economics professor Adolph Soetbeer and Ludwig Bamberger. A member of parliament, Bamberger was the most extreme on the fractional reserves side. He was one of the main influences in the Reichstag that would lobby for the acceptance of the law for a German central bank in 1875. Bamberger saw free banking with small banks as inherently unstable and opined that "because the *highest possible security for the redemption* of notes must be given, I am for the Reichsbank exclusive."⁷⁸⁶ He reasoned against banking freedom under normative conditions:

The security for the proper fulfillment of the tasks of a bank consists only in the summation of insight, intelligence, and oversight, and especially in the high responsibility inherent in a bank operating under the eyes of the entire nation and the *central government*; you can praise and hail any other security, such as normative conditions, they can be very well thought out in their kind, but the main thing is the *execution, the practice*.⁷⁸⁷

This was even too much for the compromising Wolff. As he denounced, Bamberger proposed a state bank without a ceiling to unbacked notes, without 33 percent reserves for notes, and without a tax on the issue of unbacked notes: "What is such a bank other than a *state bank* [...] [W]ithout ceiling to banknotes, [it] has no other limit to the economy than that which Dr. Bamberger has placed, namely the wisdom of its administration."⁷⁸⁸ Faucher, who had advocated free banks of issue in 1846, did not express any opinion on free banking. Like Meyer, he believed that it was unwise to argue for banking freedom because "we may jeopardize the legal limit."⁷⁸⁹ Faucher warned that unbacked paper money was the same and entailed the same consequences as counterfeited coin, both from a legal and economic perspective:

The issue of unbacked banknotes is *counterfeiting*, but it is historical; it is simply there; let us put an end to it for the future, but let us spare what has come out of the wrong conclusions of yesteryear. This is the meaning of any legislation that sets a limit to banknotes.⁷⁹⁰

However, the uncovered note was just harmful to the economy the first time it was emitted. Hence, it was sufficient to set up a limit to the issue of unbacked notes, to prevent the Prussian Bank from emitting new uncovered notes. Faucher closed his speech by sounding as he defended central banking, saying that "in ten years [...] I believe, it will happen that the state takes back its

⁷⁸⁶ Stenographic Reports of the Economic Congress, 1874, 141, emphasis in original.

⁷⁸⁷ Stenographic Reports of the Economic Congress, 1874, 141, emphasis in original.

⁷⁸⁸ Stenographic Reports of the Economic Congress, 1874, 152, emphasis in original.

⁷⁸⁹ Stenographic Reports of the Economic Congress, 1874, 147.

⁷⁹⁰ Stenographic Reports of the Economic Congress, 1874, 148, emphasis in original.

coin monopoly to itself!”⁷⁹¹ The free traders followed Meyer, Wolff and Faucher, but modified Meyer’s resolution so that it recommended central banking.⁷⁹² Thus, eventually the congress came to recommend a German central bank and revoked its earlier decisions for free banking.

5.1.2 Faucher on Monetary Theory

Although Faucher appeared to make concessions to the central banking side in 1874, his reviews in the *Quarterly Journal* suggest that he continued to endorse free banking. In the 1860s, Michaelis wrote all the reviews on monetary theory, but after he became a government counselor in 1867, Faucher authored them. One review dated to 1871 and discussed the book *Bankfreiheit oder nicht?* (Banking Freedom or not?, 1871) by Leopold Lasker, a Banking School theorist (Smith 1936, 128, 144). Faucher agreed with Lasker that a system of free banks was superior to a system of privileged banks:

Mr. *L. Lasker* sees the best prevention against the dangers of note issue by privileged banks [...] in the abolition of the privilege. According to his conviction, a note issue of all banks, completely liberated in all respects, bears its corrective in itself and at the same time has the advantage of following hard the constantly changing need for medium of exchange with satisfaction, increasing circulation when there is a need for increased circulation and restricting it when less media of circulation are needed. We too share this conviction [...].⁷⁹³

However, he criticized Lasker’s belief that a change in the quantity of money did not cause an increase in prices. As Faucher explained, if there was a need for an additional amount of money and a bank of issue emitted notes, prices did not increase. But insofar as banks emitted notes that did not represent an increase of economic activity, the specie-flow mechanism started its work and precious metals left the country. Banks went bankrupt if they continued to emit notes “to the blessing of all the other people except the creditors.” The resulting bankruptcies freed the market from irredeemable notes and helped to restore an “equilibrium between the need and the circulation.”⁷⁹⁴ As Faucher pointed out:

Crucial is the excess [of the note issue] over the need, and *the increase in prices is the necessary corrective* against it when the legal quota of banknotes is absent. Those who want full freedom for note emission, like Mr *L. Lasker*, should be the least disbelieving of all in the necessary and very

⁷⁹¹ Stenographic Reports of the Economic Congress, 1874, 149.

⁷⁹² Stenographic Reports of the Economic Congress, 1874, 157.

⁷⁹³ *Quarterly Journal* IV/1871, 150, emphasis in original.

⁷⁹⁴ *Quarterly Journal* IV/1871, 152.

precise play of this corrective [...].⁷⁹⁵

Hence, Faucher criticized Lasker for not endorsing a maximum limit for the unbacked notes of privileged banks. The maximum limit was a main point of disagreement between the followers of the Banking School, Wagner and Lasker, and the free trade movement. The latter were critical of the quantity theory of money and rejected a limit, in contrast to the free traders (Schumacher 1908, 13-4). Faucher took Wagner to task on these points in his review of the latter's *The System of the German Legislation on the Banks of Issue*.⁷⁹⁶ Faucher also reviewed the pamphlet *Blicke auf das Bank- und Notenwesen* (Views on Banking and Note-Issuing, 1872) by G. Heinrich Kaemmerer.⁷⁹⁷ The member of the Handelstag was for the full coverage of notes under central banking and for banking freedom. Under central banking, all unbacked notes had to be gradually redeemed and their emission had to be prohibited. Faucher discarded a prohibition although he sympathized with Kaemmerer's proposal. Uncovered notes just harmed the economy when they were emitted for the first time. Banks only had to be forbidden to create new unbacked notes by ceiling their note issue. However, Faucher did not argue for a legal ban of unbacked notes under free banking. Either he or Michaelis wrote in the review of Erwin Nasse's book *The Prussian Bank and the Widening of its Area of Business in Germany*:

There are no more intransigent opponents of such a view [to limit the issue of banknotes in general] than those who implemented that additional resolution [Faucher and Michaelis]. Under banking freedom, they would not have dreamed of such a thing. Banking freedom itself provides for the corrective of an excessive [note] emission [...].⁷⁹⁸

Faucher was also not for outlawing uncovered deposits under free banking, for he said in the House of Representatives in May 1865:

Now one will not believe that any bank, headed by commercial hands for commercial purposes, is in danger, seriously to lose four percent of the money that belongs to other people with whom they discount bills. Four percent, that is, the 25th part, if that is covered by own capital, then there is already a complete cover for the deposit business.⁷⁹⁹

After 1871, Faucher did not advocate free banking anymore, but he continued to condemn unbacked notes in *Die zukünftige Bankgesetzgebung im deutschen Reiche* (The Future Banking

⁷⁹⁵ *Quarterly Journal* IV/1871, 151, emphasis in original.

⁷⁹⁶ *Quarterly Journal* IV/1869, 131.

⁷⁹⁷ *Quarterly Journal* IV/1871, 152-4.

⁷⁹⁸ *Quarterly Journal* IV/1866, 237. The reviewer must be Michaelis or Faucher because he identified himself as one of the editors of the *Quarterly Journal* (page 235). He also expressed views on methodology and the Historical School on page 239 that are typical of Faucher (compare Faucher 1863a).

⁷⁹⁹ Stenographic Reports of the House of Representatives, May 9th 1865, 48th session, 1420.

Legislation in the German Empire, 1875). In the article, he was supportive of the draft of the new banking law for a German central bank, because the bill left deposit banks largely unregulated and limited the uncovered note issue to 300 million Mark (Faucher 1874, 59, 85). But he criticized that the draft allowed banks of issue to pyramid on top of that as many notes as they wished, if they paid a note tax of five percent (Faucher 1874, 87-91). Faucher feared that this tax might not be able to prevent “a flood of bank notes” (Faucher 1874, 89) in times of high demand for capital or increased risk. Thus, like most orthodox free traders, Faucher was a fractional reserve free banker, who wanted to outlaw unbacked notes in a central banking system.

5.2 The Railway Question

In 1873, the congress extensively debated the Railway Question. There was a general consensus on the issue among the free traders. Alexander von Dorn, as well as Gensel and Meyer, introduced a resolution for free competition of railway traffic on a nationalized railway network. While Dorn's resolution argued for “complete liberty of traffic on railways” and “elimination of the traction monopoly of railway entrepreneurs”,⁸⁰⁰ Gensel's and Meyer's resolution was more extensive by assigning maintenance of railway tracks to the state, but railway traffic to private companies. There should only exist one railway track between two geographic points and railways should charge carriage space rates or general cargo rates.⁸⁰¹ The Austrian journalist Dorn explained that he generally agreed with Gensel's resolution. He was against competing railway tracks that belonged to different firms. The competition of various lines had not been a success in practice because only two or three railways would usually compete against each other, which would make price agreements and charge monopoly prices.⁸⁰² The railway tracks had to be nationalized, whereas the railway traffic should be managed by private companies. The railway vehicles should belong to private companies. As Dorn said:

Therefore, it is about the transfer of competition to the railways, that is, the treatment of railways as public roads, on which anyone who owns locomotives and wagons can freely drive—of course, under observation of the relevant procedure of traffic.⁸⁰³

Railway companies had to be able to sue their right to use the railway tracks, if other railway companies refused to transport cargo on the railway network. However, Dorn admitted that competition on the railway network was technically impossible for the moment.⁸⁰⁴ He recommended carriage space rates or general cargo rates because they had been successfully tried out in Alsace-Lorraine.⁸⁰⁵ In 1874, Dorn condensed his arguments into *Aufgaben der Eisenbahnpolitik* (Tasks of Railway Politics). Faucher praised the book as a “stimulating work” in a review.⁸⁰⁶ Meyer took a legal perspective by pointing out that Roman law had already dictated that streets were, like air or water, not the property of anyone. The railways felt under the same legal category.⁸⁰⁷ In economic terms, it was vain whether the state or private firms managed railway

⁸⁰⁰ Stenographic Reports of the Economic Congress, 1873, 61.

⁸⁰¹ Stenographic Reports of the Economic Congress, 1873, 61-62.

⁸⁰² Stenographic Reports of the Economic Congress, 1873, 63, 67.

⁸⁰³ Stenographic Reports of the Economic Congress, 1873, 71.

⁸⁰⁴ Stenographic Reports of the Economic Congress, 1873, 75.

⁸⁰⁵ Stenographic Reports of the Economic Congress, 1873, 68.

⁸⁰⁶ *Quarterly Journal* I/1875, 198-214. In order to prepare for the congress of 1872, Dorn published a series of articles on the Railway Question in the *Triester Zeitung* and distributed these texts at the meeting. See *ibid*, 200.

⁸⁰⁷ Stenographic Reports of the Economic Congress, 1873, 95.

traffic: “Whether a railway is in *private or state ownership* is completely irrelevant for the further treatment. Management of private railways is carried out in exactly the same way as that of state railways.”⁸⁰⁸ However, with great detail Meyer pointed to the difficulties of publically managing railways. The railway division had to determine the rates for each cargo and railway track to maximize the profit of the company or the public administration. A regular businessman estimated prices only for one product.⁸⁰⁹ The railway divisions could ruin the entire industry of a region if they increased rates for a product or railway track.⁸¹⁰ Meyer believed that, even in the best of their knowledge and belief, railway divisions were not capable of solving these problems:

But to fulfill the task which the railroads have set themselves, one would have to be far more than an average man, one would have to be an *extraordinary* person, a demigod, and from this belief, however, the railway directors do not always keep up completely free.⁸¹¹

Nevertheless, he was optimistic that a state, which only maintained the railway network, would bring about low rates and he therefore endorsed free competition of railway companies on a nationalized railway network.⁸¹² Faucher agreed with Gensel's and Meyer's resolution and proposed minor changes. In general, he believed that private railways had made greater progresses and proven to be more successful than state railways, which tended to engage in dangerous experiments; for example, concerning their rates when the Belgian state railway priced foreigners and nationals differently. He opposed Dorn's, Meyer's and Gensel's proposal to discard rates based on the value of the cargo. If those rates would be outlawed, the railway tracks in California would not have been built during the gold bonanza. The currently high rates were caused due to a shortage of railway vehicles. As Michaelis had shown, companies that increased their vehicle fleet in a boom had to lower their rates in a bust in order to evade unused vehicles. The demand for new vehicles was currently so high that consumers could not be served within the next one or two years.⁸¹³ Dorn withdrew his resolution in the end⁸¹⁴ and the free traders accepted Gensel's and Meyer's proposal.⁸¹⁵

One year later, the free traders talked about “the calculation of the costs of railways for maintenance and construction and its relation to each other” and “railway rates”. The second

⁸⁰⁸ Stenographic Reports of the Economic Congress, 1873, 100, emphasis in original.

⁸⁰⁹ Stenographic Reports of the Economic Congress, 1873, 97.

⁸¹⁰ Stenographic Reports of the Economic Congress, 1873, 98.

⁸¹¹ Stenographic Reports of the Economic Congress, 1873, 100, emphasis in original.

⁸¹² Stenographic Reports of the Economic Congress, 1873, 103-104.

⁸¹³ Stenographic Reports of the Economic Congress, 1873, 83.

⁸¹⁴ Stenographic Reports of the Economic Congress, 1873, 94.

⁸¹⁵ Stenographic Reports of the Economic Congress, 1873, 104.

referent Faucher explained that the relationship of fixed to circulating capital was crucial for the construction of lines and the question of state versus private railways. Faucher had discussed the costs of railway construction in the *Quarterly Journal*, what led to a work by professor Wilhelm Launhardt from Hanover.⁸¹⁶ As Faucher told the congress, Launhardt reasoned that state railways were superior to private lines because the state calculated with an eternal rent of amortization for a railway project, while private entrepreneurs calculated with a shorter time horizon. However, Faucher argued that private railways used less fixed capital in England than state railways. Thus, Launhardt's calculations conflicted with experience. Faucher, Rentzsch and Meyer recommended to postpone the topic and the congress followed them.⁸¹⁷ The main debate of the congress was about the rates of railways. The referent Broemel demanded in his resolution that railways had to publish their new rates before they actually changed them. The state should set a maximum limit for rates that could not be exceeded by railway companies. Rates had to be equal to every client and exemptions should be made only for regular transportation and huge quantities of goods.⁸¹⁸ He criticized in his speech that supervisory authorities for railways set maximum limits for prices, what led to overproduction during a boom.⁸¹⁹ Nevertheless, he endorsed maximum limits to railway rates as well, but seemed to have wider limits in mind than the present ones.⁸²⁰

Eras demanded to postpone the topic⁸²¹ while Dorn was against postponing and recommended the resolution of Broemel.⁸²² Wolff was neither for complete freedom nor for state railways because, in the later case, the state would increase prices to extract more tax revenues.⁸²³ However, Wolff supported state expropriation of private railways.⁸²⁴ Wiss argued that every businessman had the right to set the prices as high as he considered them appropriate, and the same was true for railways. It was wrong to oblige railways to set their prices according to their costs.⁸²⁵ When he had lived in the United States, nobody had complained about high railway prices under free competition. Wiss believed that the increased rates in North America were a result of the American protective tariffs that raised prices of fixed and circulating capital for railways. High rates would disappear if the

⁸¹⁶ Stenographic Reports of the Economic Congress, 1874, 76.

⁸¹⁷ Stenographic Reports of the Economic Congress, 1874, 78.

⁸¹⁸ Stenographic Reports of the Economic Congress, 1874, 78-79.

⁸¹⁹ Stenographic Reports of the Economic Congress, 1874, 85.

⁸²⁰ Stenographic Reports of the Economic Congress, 1874, 89.

⁸²¹ Stenographic Reports of the Economic Congress, 1874, 94.

⁸²² Stenographic Reports of the Economic Congress, 1874, 95.

⁸²³ Stenographic Reports of the Economic Congress, 1874, 99.

⁸²⁴ Stenographic Reports of the Economic Congress, 1874, 100.

⁸²⁵ Stenographic Reports of the Economic Congress, 1874, 100-101.

state would be able to expropriate railways and introduce carriage space rates and general cargo rates.⁸²⁶ The congress accepted Broemel's resolution "almost unanimously".⁸²⁷ Prince-Smith could not speak on railways at the congress due to his health, but he rejected state concessions for railways in a meeting of the Economic Society of Berlin on December 20th 1862. If anything, the state should just possess the power of expropriating land to build railway lines. However, such a right had to be regulated by a law.⁸²⁸ Faucher had also condemned state railways at the congress of 1868.⁸²⁹ In sum, in the 1870s, the free traders endorsed expropriation of private railway lines, which should be trafficked by private companies, similar as a public street, whereas maintenance had to be provided by public authorities. Since the latter was, however, technically impossible, the state had to set maximum limits for rates so that railways did not charge increased prices. Most free traders had changed their view in comparison to the 1860s, when they were against state interference into transportation.⁸³⁰

5.2.1 Nationalizing the German Railway System

In the mid 1870s, Bismarck planned to nationalize the German railway network. He was not successful because the liberals were still influential and the federal states, which were the owners of railways, voiced financial concerns over nationalization (Gall 1999, 26). The railways were of great significance since they employed more than 234,000 people in 1873 and an additional 400,000, who constructed new lines. They possessed a huge influence on prices in the mining industry, the chemical industry and other sectors (Gall 1999, 38-9). Most of the Prussian lines were in private hands, but private ownership had decreased from 80 to 56 percent between 1847 and 1871. In the rest of Germany, private entrepreneurs owned 30 percent of all lines in 1860 and 22 percent in 1870 (Gall 1999, 29). The German states were aware of the significance of the railways and used them from the beginning "to influence and direct the political and social development in the sense of the

⁸²⁶ Stenographic Reports of the Economic Congress, 1874, 101. Wiss wrote *Das Gesetz der Bevölkerung und die Eisenbahnen* (The Law of Population and the Railways, 1867), which Faucher reviewed favorably in the *Quarterly Journal*. According to Faucher, the core message of the book was that the population had followed the railway lines in the US between 1790 and 1860, and not vice versa; see *Quarterly Journal* III/1867, 250-257. Faucher also reviewed *Die Reform des Eisenbahntarifwesens im Sinne des Penny-Porto's* (The Reform of the Railway Rate System according to the Penny-Postage) by an anonymous author. He agreed with the conclusion of the work that the length of a railway line and the weight of the transported cargo little influenced the costs of the railway traffic; see *Quarterly Journal* III/1869, 302-313.

⁸²⁷ Stenographic Reports of the Economic Congress, 1874, 105.

⁸²⁸ *Nationalzeitung*, December 30th 1862, no. 606, morning issue, 6.

⁸²⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1868, 243.

⁸³⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 197-198.

respective government” (Gall 1999, 40). Hence, the free traders intensely debated the Railway Question at the congress. In 1876, the pragmatic Meyer argued for a nationalized railway network while Böhmert was against Bismarck's plan. Böhmert could win over the congress and his resolution was passed in parts.⁸³¹ Faucher was against full nationalization in the two-part article *Der Plan einer Erwerbung sämtlicher Eisenbahnen in Deutschland durch das Reich* (The Plan of an Acquisition of all Railways in Germany by the Reich, 1876a). He only supported the nationalization of those lines that were important for military reasons. If the central government would buy all railway lines, the national parliament would degenerate to a local representation of interests and the elections would turn into “lobby elections” (Faucher 1876a, 81). As Faucher noted: “All the noise of favoring one city and region and disregarding another city and region would then reverberate in the Reichstag, after it had previously made itself known in the elections for the Reichstag” (Faucher 1876a, 81). The people would demand expensive modernizations and unified and low rates for the whole country, without taking into account the costs. The public would just look at the total revenues and costs of the national railway, so that those lines that incurred losses would continue to operate (Faucher 1876a, 82). Germany would go morally and financially bankrupt because the central government would be liable to all accidents and damages, and every disaster would be counted against the Reich (Faucher 1876a, 83). Hence, Faucher concluded: “It seems to me the wisest thing to stay with our mixed system [of state and private railways]” (Faucher 1876a, 85). Nevertheless, he allowed for quite some appropriations in all parts of the German Empire for national defense (Faucher 1876a, 85-6). The military had to control important railways before the outbreak of war, because during a conflict it had no time to justify and explain its commands (Faucher 1876b, 116-7).

⁸³¹ Stenographic Reports of the Economic Congress, 1876, 196-197.

5.3 A pre-Methodenstreit: The Debate with the Socialists of the Chair

From 1871, the free traders had an intense newspaper debate with a group of young professors around Gustav von Schmoller. These academics are usually called the Younger Historical School or the socialists of the chair.⁸³² They founded their own congress in 1872, particularly attacked the orthodox doctrine of the night watchman state, and rejected the methodological view of Prince-Smith and Faucher. In what follows, a look is first taken at an article of Faucher in which he elaborated his methodological views and the history of the debate is presented. Faucher's article came close to the methodology of parts of the modern Austrian school hence, Raico intuited quite correctly that “the famous Methodenstreit, which later broke out between Gustav von Schmoller and Carl Menger, seems to have essentially been a continuation of the struggle that the Historical School had previously had against the German Manchester men” (Raico 1999, 58).

5.3.1 Orthodox Free Trade and Economic Methodology

In 1863, Faucher published an article on methodology that started with the words: “Unclear minds—weaklings in the logical domain, who are secretly aware that their weakness in logic makes them incapable of adding new stones to the construction of economic science that really belong to it—have *deliberately*, to make sure to themselves and to others that they are active in the field of economics nonetheless, caused a confusion in the minds of our people over the relation of the *researching* disciplines of history and statistics to the *concluding* [discipline] of economics, to which must be made an end” (Faucher 1863a, 124). These words were addressed at the Historical School and the article became a popular target of criticism, to accuse the free traders of doctrinairism. It was titled *Geschichte, Statistik und Volkswirtschaft* (History, Statistics and Economics) and argued that economic laws could not be disproven by empirical data. As Faucher wrote, economic science did not need experiments or historical facts to check the theoretical validity of its principles. If history or statistics did not agree with an economic law, they either had to be false, poorly worked out or the theory had to be refined (Faucher 1863a, 124-5). No economic law was discarded in the economic thinking process, but the economist might have to expand a theory so that it applied to more specific historical circumstances:

Nothing is overthrown that was logically established earlier, as little as this happens in mathematics. The a, with which was hitherto worked, is only decomposed into m+n, m-n, mxn or m:n, and it is only looked

⁸³² Although the term “socialists of the chair” might suggest otherwise, these economists were a heterogeneous group regarding its views on economic policy and in no way advocates of socialism.

at *what special laws are added to the general* [law], if the composition of the measure is taken into account that was so far treated as simple. (Faucher 1863a, 126; emphasis in original)

The historians and statisticians could just bring to light new phenomena of which the economist was not aware before, they could not demonstrate an economic law to be false (Faucher 1863a, 127). Their task was to ask questions to point the economist's attention to so far unexplained phenomena (Faucher 1863a, 130). Without a doubt, the article was a critique of the methodology of the dominant Historical School. Faucher used to distance himself from “Roscher's sense of economics, which is somewhat different from purely logical and mathematical research [...]”⁸³³ He already stated his critique in his earlier *State and Municipal Budgets* (1863b) and methodological criticism was a standard theme throughout his later writings.⁸³⁴ He made fun of the view of the socialists of the chair that economics was an ethical science: “How foolish is Adam Smith that he laid down his professorship of ethics before he wrote his book!” (Faucher 1869b, 163). Faucher also compared the economic laws to the fundamentals of geometry and gave as examples the law of demand and Pythagoras's theorem (Faucher 1865, 135). In 1871, Faucher noted:

Economics is, indeed, mathematics that works with qualitatively determined measures—with necessity and labor, with value, with supply and demand, with stock, and the like—in the same way mathematics works with quantity in its general form. A peculiarity of economics is that its calculations are certain but never exact. For it does not work with equations, from which exact results follow, but with inequations, from which only follows what is bigger and smaller, but not how big and how small it is. [...] nothing can be proven by it [statistics], it only illustrates the play of immutable laws in history.⁸³⁵

His views resemble Carl Menger and especially the modern Austrian school around Ludwig von Mises and Murray Rothbard. However, Faucher was not against mathematics as a tool of economic theory. He praised Léon Walras's use of algebra when he reviewed *Éléments d'Économie Politique Pure*.⁸³⁶ Apparently Faucher was a gifted mathematician, who solved—as a young school student—

⁸³³ *Quarterly Journal* IV/1865, 240. Roscher disassociated himself from Faucher's views on methodology in his history of German economics, presenting them in a cool and objective manner. At the same time, the German authority on the history of thought attributed to Faucher “unmistakable historical talent” (Roscher 1874b, 1018).

⁸³⁴ Faucher wrote in *State and Municipal Budgets*: “Especially in our own nation, all scientific work in the field of constitutional law suffers from the most unscientific confusion of the real with the necessary development of history. One tries to make acceptable the theory—which one believes to have guessed out of history, but for which one lacks the logical proof, precisely because one is not capable of bringing it about—by portraying history in such a way that it best fits the theory” (Faucher 1863b, 185). See also Faucher's reviews *Quarterly Journal* II/1863, 238-239; *Quarterly Journal* IV/1865, 240-241; and *Quarterly Journal* III/1868, 282-283.

⁸³⁵ *Quarterly Journal* III/1871, 201.

⁸³⁶ *Quarterly Journal* III/1875, 222. Of interest is also the review of the textbook of Hans von Mangoldt, an economics professor in Göttingen and a forerunner of mathematical economics in Germany. Faucher highlighted the appendix with its mathematical elaborations as “[w]orth of attention”; see *Quarterly Journal* III/1871, 205.

the puzzle of a weight system that needed the fewest standard masses.⁸³⁷ He employed algebra in one article in order to calculate the price of railroad tickets⁸³⁸ and described himself as “mathematician by profession”,⁸³⁹ perhaps because he had taken mathematics courses at university. The remaining orthodox free traders were divided on methodology. Prince-Smith committed to a deductive method in his article *Wirtschaft und Staat* (Economy and State, 1869) by stating:

It is not that economic science itself suffers from any inner contradictions; it is characterized, on the contrary, by logical consequence; and there is a perfect agreement among its consistent followers. [...] It does not rely on hypotheses; it rather deduces from the well-known qualities of men and the kingdom of nature; it presents the laws that govern the various activities of men in the unified pursuit of bodily, moral and spiritual satisfaction,—laws that have their firm foundation in the capacity of training of human skill and knowledge, and in the augmentability of the means for developing the external natural forces. The conclusions of this science can be substantiated by practical experiment; and nowhere, where they were put into action, has the promised benefit failed to materialize. (Prince-Smith 1869, 2-3)

Thus, Prince-Smith did not believe that economic laws were mere tautologies, which were void of any empirical content, because he wrote that economics “does not rely on hypotheses; it rather deduces laws” that have a “firm foundation” and “can be sustained by practical experiment”. Braun hardly wrote on economic theory, since most of his works cover issues of cultural history. In his book *Usury Laws* (1856) co-authored by Max Wirth, he developed basic concepts like capital, value or price by using a deductive method. However, the parts on economic theory were likely written by Wirth. At the congress, Braun often used to talk about laws of nature of the economy, which suggests a standpoint close to Prince-Smith and Faucher.⁸⁴⁰ However, in the Reichstag, he distanced himself from a deductive method by saying: “I do not think that one can philosophically construct economic laws *a priori*, but that one must above all ascertain the facts, gather a great chain of facts, and abstract the laws from the material thus collected.”⁸⁴¹ Probably he did not reflect much on methodological issues, because he hardly wrote on economics. Hübner was a statistician and turned his attention to historical work too. However, in *The Banks* (1854), he separated the statistical data from his monetary theory. The statistics were mainly presented in the second volume, while the first volume contained a history of banking and Hübner's monetary theory (Hübner 1854). He seemed to

⁸³⁷ *Königlich privilegierte Berlinische Zeitung von Staats- und gelehrten Sachen*, June 22nd 1878, no. 144, 15.

⁸³⁸ *Deutsches Handelsblatt*, May 28th 1874, no. 22, 260. See also Faucher (1869b, 160-2) for another example of the use of mathematics.

⁸³⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 277.

⁸⁴⁰ See Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1864, 159 and Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 108. See also Braun and Wirth (1854, 83).

⁸⁴¹ Stenographic Reports of the Reichstag of the North German Confederation, October 10th 1867, 17th session, 348, emphasis in original.

approximate a deductive method. In sum, except for Braun, the orthodox free traders either committed to a deductive method or their work was at least compatible to it.⁸⁴²

5.3.2 The Newspaper Polemic until the Meeting in Eisenach (1871-72)

At least on the surface, the struggle between the socialists of the chair and the free traders was not a debate on methodology, but on economic policy. The initial cause were four works that appeared from 1870 on, which criticized the laissez-faire standpoint of the free trade movement and advocated state intervention to solve the Social Question. These were *Zur Geschichte der Kleingewerbe in Deutschland* (On the History of Small Businesses in Germany, 1870) by Gustav von Schmoller, the book *Die Arbeitergilden der Gegenwart* (The Workers' Guilds of the Present Time, 1871b) by Lujo Brentano, the speech *Arbeitsämter* (Unemployment Offices, 1871) by Gustav Schönberg and *Rede über die sociale Frage* (Speech on the Social Question, 1872) by Adolph Wagner. In his speech, Schönberg, who was a former friend of Lassalle, declared the mission of the free traders to be over. They had done an important job when they brought about the abolition of obstacles to commerce and trade (Schönberg 1871, 19). But the radical variant of Manchester liberalism had become more dangerous than socialism. As Schönberg explained in his speech:

For he who—to emphasize just a few fundamental premises of this direction—supports the basic maxims: [...] that the wages of the working class and of individual workers necessarily increase with capital growth and therefore increase of capital, no matter how it is distributed, constitutes the only justified and effective means of wage increase; that the actual distribution in the system of free competition is also just; [...] that in the economic life each individual understands the promotion of his own wellbeing better than others, that the harmony of the colliding interests and general welfare are best and most certainly brought about by the unlimited reign of egoism; that state and municipality, accordingly, just have to exercise the negative functions of securing liberty, the person and property of the individual;—does not even become conscious of the existing evils, has no idea of the existence of a justified social question. (Schönberg 1871, 20)

However, it was probably not the content of these speeches by Wagner and Schönberg that

⁸⁴² Hentschel (1975, 69-70) reasons that Prince-Smith, Michaelis and Braun committed to the historical method. As seen, this is demonstrably wrong for Prince-Smith. The present author also disputes this claim for Michaelis. In *Notes and Deposits*, for example, Michaelis put forward a deductive part (Michaelis 1873b, 322-43) and illustrated his theory with data on the Prussian Bank (Michaelis 1873b, 343-77). In a passage that was critical about the doctrine of harmony, he spoke of the “eternal laws” (Michaelis 1873a, 237) of the economy and described the economic method as deductive (Michaelis 1873a, 237). Faucher (1863a, 125) gave Michaelis's article on railways as an example for research that followed his own methodological views. On the other hand, Böhmert, a student of Roscher, described his method in accordance to the Historical School: “I always sought to act according to the principle that theory and practice should be combined with each other, and I preferred my life to be driven forward by the facts, needs, and demands of everyday life and occupation. It has been my ambition to discover some truths for theory and some pointers to public life from mass phenomena, mass observations and mass experiences” (Böhmert 1900, 43-4; see also Böhmert 1873, 3-4).

caused a harsh reaction of some free traders, because most of them—except for the orthodox group—agreed that the state had to be more than a night watchman state. It was rather the tone of some of the young professors that led to the heated debate. As Alexander Meyer noted later:

At any moment, we are ready for a dispassionate debate on whether state and property should exist. But we demand that one preserves the scientific form. This is violated in those two writings [of Schönberg and Wagner] [...]. Both writings turn to passion instead of the intellect under the borrowed appearance of scientific calm [...].⁸⁴³

On the surface, the differences on economic policy were minor between both groups. Schmoller and his men were liberals, who rejected socialism and called for little state interference in the early 1870s. As the socialist of the chair Adolf Held noted, who wrote quite objective histories of the conflict:

However, very few [socialists of the chair] regard the present distribution of possessions as *unjust* [...] but they, too, believe that the present distribution should not be coercively changed, but only better shaped by voluntary or forced recognition of higher social duties of the wealthy [people]. (Held 1872, 165; emphasis in original)

As he said, the majority of the young professors was against intervening into private property and subjecting firms to state supervision. Adolph Wagner was the greatest interventionist, close to him were Scheel, Schönberg and Samter; on the other side, Schmoller and Brentano were in favor of more economic liberty (Held 1872, 167-8).⁸⁴⁴ Besides the polemic tone of many discussionists on both sides, another reason for the debate was the critique of the “absolute *laissez-faire*” (Schmoller 1872, 2; emphasis in original; see also Held 1877, 165) of the Berlin orthodox group. In his opening speech of the first meeting in Eisenach of the socialists of the chair, Schmoller referred to the Economic Society of Berlin and Prince-Smith, Faucher, Wolff, Eras and Braun as the representatives of a doctrinaire Manchesterism that denied the existence of a Social Question (Schmoller 1872, 6-7). He made it clear that his attack was mainly directed to the orthodox doctrine that endorsed a strict minimal state. Similarly, when the Bremen idealist Emminghaus accused Schönberg of portraying the free traders as too radical,⁸⁴⁵ Schönberg cited Prince-Smith's writings

⁸⁴³ *Deutsches Handelsblatt*, October 31st 1872, no. 44, 383. Similarly, Adolf Held remarked that the socialists of the chair had met such fierce opposition due to “their, often in strong expressions emphasized, aversion to the idolatry of capital” (Held 1872, 165).

⁸⁴⁴ Similarly, Boese (1939, 14-5) distinguishes between a left, centrist and a right faction, of which the right faction was the most economic liberal and to which belonged Gneist, Meitzen and many older professors. Hentschel (1975, 195) writes about the socialists of the chair: “They vigorously rejected state wage regulations and imposed the extremely restrictive provision on all social reform measures that they should not increase production costs.”

⁸⁴⁵ *Bremer Handelsblatt*, January 13th 1872, no. 1057, 14.

on methodological individualism, the doctrine of harmony and justice (Schönberg 1872, 407-14) and presented them as the statements “of an outstanding representative, indeed the true founder of the German free trade school” (Schönberg 1872, 407). Thus, the socialists of the chair attacked the doctrinaire free trade of Faucher and Prince-Smith above all.⁸⁴⁶

Oppenheim was the free trader that first reacted to the speeches of Schönberg and Wagner. On December 7th 1871, he released the article *Manchesterschule und Katheder-Sozialismus* (Manchester School and Socialism of the Chair) and coined the term socialism of the chair.⁸⁴⁷ The journalist polemized against Schönberg by condemning most plans for social reform as “shallow, unpractical and harmful” (Oppenheim 1872, 34). At the same time, he recognized a right of the state to interfere into private property: “The fact that social misery may under certain circumstances justify the state's need to intervene in the sphere of private law and to subordinate the labor contract to its control, is denied by us as little as the state's educational power over its citizens, who are underaged or illiterate and without will” (Oppenheim 1872, 34). Without mentioning any free trader by name, Oppenheim distanced himself from the orthodox doctrine and implicitly referred to the *Abendpost*, when he denounced that form of Manchester liberalism that “wants to turn the state into a stock corporation and offer its great tasks to the minimum demanders” and “denies the moral nature of the state and views it solely as a necessary evil” (Oppenheim 1872, 34-5). Therefore, Oppenheim was not really opposed to the economic policy of most socialists of the chair, but against their attack on the existent social and legal order with their rhetoric, which he considered to be of paramount importance in his conception of the state and society.

On January 11th, Lujo Brentano intervened with *Abstracte und realistische Volkswirthe* (Abstract and Realistic Economists, 1872).⁸⁴⁸ Because no Berlin newspaper wanted to print the article, he submitted the text to the *Hamburgischer Correspondent* (Hamburg Correspondent). This newspaper became “the organ of socialism of the chair” (Brentano 1931, 77) for the next years. By chance Brentano had met Julius Eckardt, the editor of the Hamburg daily paper, a short time before (Brentano 1931, 76). Brentano reasoned that the struggle was a methodological dispute and economic policy was only a minor issue. Adam Smith and the German free traders assumed that all

⁸⁴⁶ The *Hamburgischer Correspondent* repeatedly stated that socialism of the chair was not against freedom of trade, but against the doctrine “that wants to extend the principle of the *laissez-aller* from commerce to all social relations” (no. 88) and “against the absolute validity of *laissez-faire*” (no. 122). See *Hamburgischer Correspondent*, April 13th 1872, no. 88, 1, emphasis in original and *Hamburgischer Correspondent*, May 25th 1872, no. 122, 1, emphasis in original.

⁸⁴⁷ See *Nationalzeitung*, December 7th 1871, No. 573, morning issue, 1-3 or Oppenheim (1872, 33-41). The reply of Schönberg and Oppenheim's response to the reply can be found in *Nationalzeitung*, December 22nd 1871, no. 599, morning issue, 3, 5.

⁸⁴⁸ See Brentano (1871a) or *Hamburgischer Correspondent*, January 11th 1872, no. 9, 2-3.

individuals were equal and only pursued material ends. On these unrealistic premises, the free traders erected an abstract theory of economics that hardly corresponded to reality (Brentano 1871a, 384). Oppenheim responded on January 27th with the article *Was bedeuten Realismus und Abstraction in der Volkswirtschaftslehre?* (What do Realism and Abstraction mean in Economic Science?, 1872).⁸⁴⁹ He argued that one could discard any work of any great thinker by pointing out that his thought was merely a product of his historical time (Oppenheim 1872, 47). Brentano had reasoned that Adam Smith merely defended a liberal economic policy to fight against the ruling mercantile doctrine of his time. Against the argument that economics only took into account the material side of life, Oppenheim wrote that the same accusation could be made against jurisprudence when it only departed from the landowner or the farmer (Oppenheim 1872, 49). This time, Oppenheim spoke of the orthodox Bastiat as “the most significant talent of the free trade school” (Oppenheim 1872, 49) and praised his *Economic Harmonies*. Thus, methodology became an integral part of the debate. Other participants later agreed that the free traders and the socialists of the chair diverged on methodological questions, for example, Schmoller (1890, 5),⁸⁵⁰ Held (1872, 188, 204-5)⁸⁵¹ or Hans von Scheel (1873, 184).

From March 1872, Oppenheim polemicized against Wagner by releasing the article *Volkswirtschaftliche Verirrungen* (Economic Confusions) in the weekly paper *Die Gegenwart*.⁸⁵² The debate ended in early summer when Wagner made an antisemitic attack against Oppenheim. The journalist and politician was seemingly hurt and did not reply (Conrad 1906, 42-5; see also Hentschel 1975, 205-6). Although Oppenheim started the debate and was one of the most active participants, many free traders would join soon after—for example, Lammers, Meyer, Eras or Bamberger—and everyone fought his own battle, since no side had a joint doctrine of economic policy. The orthodox Braun released *Professor Wagner in Berlin und der “Neue Sozial-Demokrat” daselbst* (Professor Wagner in Berlin and the “Neue Sozial-Demokrat” itself) in the *Hannoverscher*

⁸⁴⁹ *Hamburgischer Correspondent*, January 27th 1872, no. 23, 3. One month later, the polemic continued with Brentano's *Die abstracten und die realistischen Volkswirthe noch einmal* (The Abstract and Realistic Economists again); see *Hamburgischer Correspondent*, February 27th 1872, no. 49, 10-11. Oppenheim responded with *Noch ein Wort über Katheder-Socialismus und Gewerkvereine* (One Word again about Socialism of the Chair and Unions); see *Hamburgischer Correspondent*, March 7th 1872, no. 57, 10. Lastly, Brentano answered with *Mein letztes Wort an Herrn Dr. Oppenheim* (My Last Word to Dr. Oppenheim); see *Hamburgischer Correspondent*, March 31st 1872, no. 78, 10. Brentano wrote that he would not answer any future reply of Oppenheim and the *Hamburgischer Correspondent* noted that it would not release any further article of Oppenheim. Thereafter, Oppenheim had to publish in the paper *Die Gegenwart*; for a comment see *Hamburgischer Correspondent*, April 20th 1872, no. 94, 1-2.

⁸⁵⁰ See also *Hamburgischer Correspondent*, January 3rd 1873, no. 3, 4.

⁸⁵¹ In Held's words, the main difference was “that one direction never made a principled opposition to the individualism of the last century” (Held 1872, 190). Held changed his mind in 1877 and wrote that the dispute had not been mainly about methodology since some free traders applied the historical method as well (Held 1877, 164).

⁸⁵² *Die Gegenwart*, volume 1, March 30th 1872, no. 10, 145-147.

Courier (Hanoverian Herald). As Braun wrote with his characteristic concise style, Wagner did not present anything new in his speech: “All reform proposals of Mr. A. Wagner amount to well-known socialist quackery or communist acts of violence and coups d'etat” (Oppenheim 1872, 75). It was not a coincidence that the *Neue Sozial-Demokrat* (The New Social Democrat), the official paper of the socialist General German Workers' Association, brought Wagner into close proximity to socialism. Lassalle, Schweitzer or Marx were at least logically consistent, while Wagner attacked any liberal economic policy and immediately modified his attack with words like “in some circumstances” or “perhaps” (Oppenheim 1872, 76).

In Summer 1872, the dispute stopped with Held's objective article *Ueber den gegenwärtigen Prinzipienstreit in der Nationalökonomie* (On the Current Dispute about Principles in Economic Science, 1872) and Böhmert's book *Der Sozialismus und die Arbeiterfrage* (Socialism and the Worker Question, 1872b). Böhmert's piece was a calmly-written and popular writing that confessed to “consequent free trade” (Böhmert 1872b, 124) and protected the free trade movement against some standard accusations; for example, that the free traders would preach egoism and negate the ethical moment in economic life. Böhmert countered by asking: “Where did Ad. Smith declare wealth to be the 'purpose of life'?” (Böhmert 1872b, 127). As Böhmert elaborated, the Scottish economist had always defended the interests of the workers, because he considered freedom of labor as the best means against poverty (Böhmert 1872, 127). The free traders were not a homogeneous block and Böhmert said that he represented “the views of *a part* of the German free trade party” (Böhmert 1872b, 124; emphasis in original). However, he erroneously wrote that the entire free trade school was far from calling the state expendable and advocating a night watchman state (Böhmert 1872b, 126). As seen, this was true for the Bremen group but not for the orthodox free traders around Prince-Smith. Nevertheless, Böhmert's vision on the tasks of the state was quite restrictive, for he allowed for appropriations, taxation and conscription in few cases: “The state is primarily concerned with security, legal protection and education” (Böhmert 1872b, 53). The ceasefire between free trade and socialism of the chair would end when the young professors met in Eisenach in October 1872.

5.3.3 Faucher and the Economics Chair in Strasbourg

When Germany won the war against France in September 1870, the idea arose to found a German university in Strasbourg, the capital of the French province Alsace that fell to the territory of the Germany Empire. Franz von Roggenbach, a liberal politician from the South German state

Baden, had to contract professors for the new university. There was also an economics chair for which one scholar had to be appointed. Initially, Roggenbach planned to install Gustav Schönberg, who held a chair of economics in Basel. However, the situation would change when Meyer published the article *Die Universitäten und die Volkswirtschaft* (Universities and Economic Science) on December 8th 1871.⁸⁵³ He speculated that something had to be wrong with the distribution of professorships in Prussia, because the sole free trade that had been given a chair was Johann L. Tellkamp in Breslau. Böhmert and Emminghaus had been granted professorships but outside of Prussia. Citing Schönberg's speech, Meyer wrote that the Prussian government could not grant a chair to a man, who preached semi-socialist ideas and attested “good will” to the radicals Marx and Lassalle. It was time that a free trader received a professorship—Meyer proposed the Progress liberals Schulze-Delitzsch and Eugen Richter and the congress attendees Soetbeer and Pfeiffer.⁸⁵⁴ Strangely enough, Oppenheim had attacked Schönberg just one day before Meyer's article came out. Behind the scenes, the free traders apparently started to lobby for the economics chair. Michaelis worked under Bismarck in the Federal Chancellery and his superior, Rudolph von Delbrück, was a supporter of free trade. According to Wittrock, they used their connections for Faucher's appointment in Strasbourg, since Roggenbach wrote in early January 1872 of “Michaelis' Faucher-Oppenheim's intrigue, in which all the sages of the Federal Chancellery let themselves to be involved, the Duke [Bismarck] and Delbrück” (quoted in Wittrock 1939, 154).⁸⁵⁵ Soon after, Faucher said that Karl Braun had delivered him an offer by Roggenbach for the professorship, but he had refused (letter from Wagner to Schönberg dated March 3rd 1872, see Wittrock 1939, 154). At that time, the *Berliner Revue* (Berlin revue) noted in an article about the chair in Strasbourg that Faucher instead of Schönberg would receive the position. The conservative paper stylized the dispute to a decision of the government about economic principles, explaining that the appointment would show “whether the Federal Council [Bundesrath] still stands on the *outdated* position of the Manchester School” (Meyer 1872, 262; emphasis in original). It criticized Faucher's skeptic attitude towards the French war repatriations of five billion thalers and attributed “crudeness of heart” (Meyer 1872, 165) to the “Manchester men”.

⁸⁵³ *Breslauer Zeitung*, December 8th 1871, no. 575, morning issue, 1.

⁸⁵⁴ In later articles, Meyer viewed the Prussian constitutional conflict as the reason why few liberals had been appointed as professors in the 1860s. The *Nationalzeitung* disputed Meyer's claim because there were also few free trade professors outside of Prussia; quoted in *Hamburgischer Correspondent*, June 1st 1872, no. 128, 1.

⁸⁵⁵ Wittrock cites a letter from Roggenbach to Schönberg dated January 5th 1872. The date is plausible because the *Breslauer Zeitung* (Newspaper of Breslau) reported that Roggenbach was in Berlin at that time to organize matters around the new university; see *Breslauer Zeitung*, January 3rd 1872, no. 2, morning issue, 1. Shortly before, the paper had announced that the list of professors for Strasbourg was closed and the decision would be communicated within fourteen days; see *Breslauer Zeitung*, December 28th 1871, no. 605, morning issue, 1. However, the Berlin State Library answered the author by e-mail on January 30th 2019 that it could not locate Schönberg's archives which are, together with the archives of Roggenbach and Wagner, in the library of the Jagiellonian University in Kraków, Poland.

Brentano mentioned the struggle for the chair in Strasbourg in passing as well, when he released the response *My last word to Dr. Oppenheim* on March 31st 1872.⁸⁵⁶ He accused Oppenheim of having attacked Schönberg due to the chair in Strasbourg and noted: “It has even been said that that party [the free traders] advocated the appointment of mister Faucher instead of Schönberg!” Oppenheim distanced himself from these accusations. In a letter to Eras, he wrote on April 28th: “Did I not have to hear from all sides that the dispute over the first principles of economics had only been stirred up by my side to blow away some hopeful professor from the Strasbourg university?” (Eras 1872, i). Oppenheim denied that he wanted to restrict academic liberty and “to bring our opponents out of office” (Eras 1872, iii). However, Wittrock (1939, 155) argues that the free traders only attacked Schönberg to prevent his appointment to Strasbourg, because Schönberg was less interventionist on economic policy than Roesler, Wagner or Scheel. What exactly happened is difficult to estimate because the newspapers just mentioned the fight for the chair in passing (Hentschel 1975, 202). In June 1872, a compromise was reached when Schmoller was chosen for the position in Strasbourg, because he owned the reputation of being more liberal than Schönberg and was more acceptable to the free traders (Wittrock 1939, 157-8). In Breslau, similar events occurred when a new economics professor was to be appointed for the local university (Eras 1872, 31). Once more, the free traders could not install one of their men and Brentano received the position. He wrote in his autobiography that the Breslau newspapers constantly attacked him before his appointment (Brentano 1931, 85-7). However, Faucher's name was apparently not mentioned in the case of the chair in Breslau. Thus, the episode around Breslau and Strasbourg showed that free trade was losing grounds in 1872.

5.3.4 From the Meeting in Eisenach to the End of the Debate (1872-76)

The socialists of the chair met in Eisenach on October 6th and 7th 1872 to debate the Social Question. Schmoller gave the opening speech and Gneist was voted chairman of the meeting. As Schmoller noted, Bamberger, Schulze-Delitzsch and other members of parliament had rejected to appear in Eisenach (Schmoller 1890, 3-4). Schmoller especially pointed to the inequality of the distribution of wealth, which was supposedly increasing (Schmoller 1890, 9-11) and would destroy the existing political institutions without social reform (Schmoller 1890, 12). He advocated a factory act, profit sharing with workers, unions, arbitration courts, public education, and a controlling authority for banks and insurances (Schmoller 1890, 7, 11-2). A speech of Gneist made headlines in the liberal newspapers, which wrote on a conflict among the socialists of the chair. He

⁸⁵⁶ *Hamburgischer Correspondent*, March 31st 1872, no. 78, 10.

defended the liberal cause by opposing public credit and economic intervention. The young professors debated three topics: Brentano gave a presentation on a factory act, Schmoller on strikes and unions and Engels on the Housing Question (Boese 1939, 11). Engels mentioned Faucher's writings on housing approvingly (Roller 1873, 170) and described Faucher as “one of the most radical free traders” who “repeatedly treated [the Housing Question] with great intellectual spirit” (Roller 1873, 181). He did not agree with Faucher's liberal housing policy, although Faucher had supposedly changed his mind and allowed for expropriations (Roller 1873, 192).⁸⁵⁷ After Eisenach, it became obvious that a division ran among the ranks of the free traders. Some free trade papers began to distance themselves from the orthodox free traders. On January 3rd 1873, Schmoller published the article *Nochmals ein Wort über Manchesterthum und Kathedersocialismus* (One Word again on Manchesterism and Socialism of the Chair) in which he reaffirmed insurmountable ideological differences between socialism of the chair and free trade.⁸⁵⁸ Before, some papers like the *Nationalzeitung* and the *Bremer Handelsblatt* had declared that differences were minor, as shown by the meeting in Eisenach.⁸⁵⁹ Schmoller disputed this claim and classified Prince-Smith, Faucher, Braun, Wolff, Eras and Lammers as those free traders that were the most doctrinaire. Michaelis, on the other side, committed to the historical method and had never belonged fully to the radicals. Especially Prince-Smith was the pet issue of Schmoller's attacks:

Prince-Smith is the undisputed leader of the school, perhaps also the most perceptive, at least the most strain, most abstract head of the school, who lacks every organ for real life, for psychological-historical development, who is drowned out by a game with mathematical categories and is entirely lost when he dares to leave the narrow area where one can get along with this one-sided talent and educational background.

Thereafter, the *Bremer Handelsblatt* accused Schmoller of exaggerating the minor differences among the free traders and dividing longtime companions.⁸⁶⁰ Schmoller responded on January 16th by reasoning that the free traders themselves disowned Faucher and Prince-Smith, because the

⁸⁵⁷ The socialists of the chair used to claim that Faucher supported appropriations to fight the housing shortage; see *Hamburgischer Correspondent*, May 17th 1872, no. 116, 1. However, as seen, Faucher stated at the congress that he would endorse appropriations on a municipal level if municipal taxes would be collected in accordance to the benefit principle. He also explained that Roman and Germanic law had allowed for the appropriation of land by private people if somebody made no use of his land; see *Stenographic Reports of the Economic Congress, 1873*, 153-154. Meyer disputed that Faucher allowed for appropriations by the state. He interpreted Faucher as having said that appropriations should only be possible between private persons via the court system; see *Deutsches Handelsblatt*, January 9th 1873, no. 2, 13.

⁸⁵⁸ *Hamburgischer Correspondent*, January 3rd 1873, no. 3, 4.

⁸⁵⁹ See *Bremer Handelsblatt*, October 18th 1872, no. 1097, 348 and for the *Nationalzeitung*, see *Hamburgischer Correspondent*, December 28th 1872, no. 306, 1. The *Bremer Handelsblatt* declared that “we assert that, on the whole, there is no profound fundamental difference between both congresses.”

⁸⁶⁰ *Bremer Handelsblatt*, January 11th 1873, no. 1109, 9-10.

Ostseezeitung noted a “disintergration” of the free trade party and the *Hannoverscher Courier* saw Faucher and Prince-Smith as stickler to principles that were isolated in the movement.⁸⁶¹ As Schmoller observed with satisfaction:

The truth is that the *French* [Faucher] and the *English* leader [Prince-Smith] of the German Manchester school—which, as I have never denied, was still a long way from English Manchesterism and its selfish bourgeois policy—have successively lost credit in their own party, so that they are now abandoned as weirdos [...].⁸⁶²

However, Schmoller acknowledged the practical and scientific contributions of the free traders.⁸⁶³ He admitted that few free traders would currently say that social misery was “necessary evil of nature.” Nevertheless, this claim had been defended by Prince-Smith in the *Jahrbuch der Volkswirtschaftslehre* (Yearbook of Economic Science). This journal, which had been edited by Eras and released from 1867 to 1869, published Prince-Smith's *Volkswirtschaftliche Gerechtigkeit* (Economic Justice, 1867). The article was a popular target of the socialists of the chair and treated the question whether an unequal distribution of wealth was unjust. Prince-Smith argued against a static and for a liberal-dynamic conception of justice:

Justice, however, does not require equality of success but just of treatment. The demand of justice is fulfilled when everyone has the same freedom to obtain the advantages offered by the existence of the national economy, according to his abilities and resources. An institution which, in view of the great inequality of faculties and means, would assure the same success for all and everyone, either would have to restrain the more capable [individual] so that he would achieve as little as the less able [individual], or it would have to steal the surplus from the more accomplished [individual] to give it to the incompetent [individual]; it would therefore have to treat different people very unequally and would be completely unjust. (Prince-Smith 1867, 1)

Given their distinct abilities and means, the fact that people achieved different results rather

⁸⁶¹ *Hamburgischer Correspondent*, January 16th 1873, no. 14, 1-2. The *Hannoverscher Correspondent* wrote on January 4th 1873 that the radical views, which Schmoller attributed to the free trade movement in general, were just held by a minority: “Instead of recognizing that the few sticklers to principles, such as Prince-Smith and Faucher, stand isolated within their party, he stamps these exceptions as representatives of the rule that he and his comrades falsely assert, and declares the real leaders of the party to be people that actually just got lost in it”; see *Hannoverscher Courier*, January 4th 1873, No. 5890, morning issue, 2. Schmoller claimed on January 16th that Braun was the author of this article. However, the *Hannoverscher Courier* disputed Braun's authorship; see *Hannoverscher Courier*, January 17th 1873, No. 5912, morning issue, 2.

⁸⁶² *Hamburgischer Correspondent*, January 16th 1873, no. 14, 1, emphasis in original.

⁸⁶³ Schmoller wrote: “I highly estimate specific detail works of almost every single member of the Manchester party, and I do not underrate the merits of the party as a closed school, which in a sense it has had for the dissemination of economic education; I know well what German political development owes to a man like Braun, what the German worker and artisan class, what the whole social development of Germany owes to a character and friend of the people like Schulze [-Delitzsch].”

argued for the justice of the market (Prince-Smith 1867, 1). The rich provided for a better life of the poor because the latter would be worse off without the capitalists managing production. An abolition of private property in favor of equality would lead to greater poverty. According to Prince-Smith, the radical demand for equality was not driven by solidarity, as extreme egalitarians claimed, but by “the prejudice of blind envy” (Prince-Smith 1867, 2). He introduced a distinction between coercion by nature and coercion by humans. The first could not be unjust, for example, if a man starved because he was not able to make a living on the market; only coercion by humans might be unjust, for instance if a man starved due to a food tax. Justice was only a valid meaningful concept if it was applied to human interaction.

Schmoller was especially upset about Prince-Smith's explanation of poverty. In the latter's view, material inequality had its roots in the behavior of one's ancestors. Some persons saved and consumed less and were able to provide a fortune to their children, while others did not save and leave anything: “Today's poor people should not accuse their contemporaries of injustice, but their forefathers of neglect of duty” (Prince-Smith 1867, 4). Schmoller countered that factors like education, tradition or the church might influence individual success to the same or even greater extent: “[H]e acts as if every millionaire or his ancestors were virtuous heroes, every poor man or his ancestors were or had been lazy, bad people, as if everyone were individually and exclusively responsible for his abilities.”⁸⁶⁴ However, Prince-Smith did not deny in the article that other factors might influence the individual outcome on the market (Prince-Smith 1867, 4). He made his typical consequentialist argument for the free market, by explaining that capitalists would not save and invest without receiving an income that was higher than the income of a regular worker. Measures to lower or abolish capital profits would only satisfy feelings of envy and would hurt the workers, because wages would rise with an increasing capital stock (Prince-Smith 1867, 5-6). If the workers wanted to have a profit share, it would only be just if they would also bear the losses. Furthermore, in a system of profit sharing, workers had to wait for more time for their wage because the capitalist's function was to advance wage payments before the final product was sold (Prince-Smith 1867, 6). The profits depended on the ability of the capitalist and a higher income for an able entrepreneur was just (Prince-Smith 1867, 7).

Prince-Smith did not defend himself against the accusations of Schmoller and the socialists of the chair. He had been of poor health at the congress of 1872 and was only present at the pre-meeting before the first day of discussion.⁸⁶⁵ At the congress, all free traders only mentioned the

⁸⁶⁴ *Hamburgischer Correspondent*, January 16th 1873, no. 14, 1.

⁸⁶⁵ See Stenographic Reports of the Economic Congress, 1872, 5-6; *Hamburgischer Correspondent*, August 29th 1872, no. 204, 1-2; and *Hamburgischer Correspondent*, August 30th 1872, no. 205, 1-2. Perhaps Prince-Smith's poor health

young professors implicitly and in passing. In general, as Held noted in 1874, Prince-Smith, Faucher and Michaelis had not spoken about the conflict in public.⁸⁶⁶ Faucher seemed to prefer to ignore the dispute. He did not review one of the numerous pamphlets or publish any article on the debate in the *Quarterly Journal*.⁸⁶⁷ Just one time, Faucher commented on the meeting in Eisenach around January 1873. Faucher's tone was rather defensive. He noted that Brentano, Schmoller, Roesler or Schönberg had never visited the congress. Wagner had only appeared one time and had been received benevolently.⁸⁶⁸ The congress had not invited the professors because it never invited anyone, except for the first meeting of 1858. The public should not believe that the congress wanted to make money by inviting well-known academics. The absence of the professors over all these years was incomprehensible, given that the assembly had shaped politics to a great degree. Faucher viewed it as even more odd that Schmoller and his group had uninvited “the men of the Manchester school”⁸⁶⁹ to their meeting. Some attendees of the congress, like Seyffardt, were invited but Faucher said that he was unaware of the names of the invited. The professors should not hold academic chairs if they did not want to be confronted with criticism. They complained about the dominance of the so-called Manchester school, but the free traders just dominated because the professors did not visit the congress.⁸⁷⁰ In the review, Faucher just commented on the tone and the events of the debate itself, but did not voice any opinion on economic policy. Nevertheless, it is unlikely that he had changed his mind since he had written in 1870 that the state only had to be responsible for “the protection of law and borders and, if necessary, also for the *expansion* of borders” (Faucher 1870b, 157; emphasis in original).

Therefore, the orthodox group became increasingly isolated in the movement (Hentschel 1975, 18-9, 219). Lammers, Meyer and Oppenheim attacked some orthodox or idealistic standpoints in their writings without mentioning the names of any free trader (Hentschel 1972, 200). Eras, who had been a disciple of Prince-Smith and argued for a strict minimal state in his book *Der Zwangsstaat* (The Coercive State, 1868), renegaded from “absolute laissez-faire” and called his earlier writing a “sin of youth”.⁸⁷¹ He agreed with the speeches of Gneist, Neumann and Engel at the meeting of the Verein für Socialpolitik and wanted to restrict his attacks to the more

was connected to the death of his wife Auguste, who had died “gently after a long illness” on March 25th 1871; see *Nationalzeitung*, March 26th 1871, no. 146, morning issue, 11.

⁸⁶⁶ *Die Gegenwart*, volume 5, January 3rd 1874, no. 1, 3.

⁸⁶⁷ This would not change until Eduard Wiss would take over the editorship of the *Quarterly Journal* in 1877.

⁸⁶⁸ *Quarterly Journal* II/1872, 196.

⁸⁶⁹ *Quarterly Journal* II/1872, 197.

⁸⁷⁰ *Quarterly Journal* II/1872, 198-199.

⁸⁷¹ *Die Gegenwart*, volume 5, January 10th 1874, no. 2, 29-30.

interventionist Scheel, Brentano and Wagner. Eras claimed that Oppenheim, Meyer and the orthodox Braun shared his point of view. In October 1873, Prince-Smith broke with some of his earlier positions in his last work *The State and National Economy*. Schmoller dismissed the pamphlet as “well meant” in his review and recalled that “Prince Smith had his time and his merits” but “[t]hey are not in the field of culture or legal and social history.”⁸⁷² After Prince-Smith's last work, the *Bremer Handelsblatt* saw a cooperation between both groups within reach.⁸⁷³ The increasing isolation of the orthodox free traders also came to light at the congress of 1873, when Faucher was silent during the entire debate on his longtime favorite topic, the Housing Question. Only after the socialist of the chair Gneist had intervened with a very liberal speech, Faucher raised his word to admit that he had wanted to introduce a resolution that just the private market could solve the housing shortage, but “I was afraid of defending the rotten and defeated Manchester position for fear of the meeting in Eisenach.”⁸⁷⁴ Faucher demanded from the president of the meeting in Eisenach to introduce such a resolution, what Gneist rejected.⁸⁷⁵ Shortly after, the socialists of the chair met in Eisenach on October 16th and 17th 1873 to discuss a factory act (referent Friedrich Julius Neumann), a stock company act (Adolph Wagner) and arbitration courts (Max Hirsch). The Verein für Socialpolitik was founded on October 17th, which continued to exist to this day, and Gneist was named its president (Boese 1939, 17-8).

Prince-Smith deceased in February 1874 and orthodox free trade began to dissolve. Many free traders came to believe that it was time to unite with the socialists of the chair. Braun had already invited the professors to the congress of 1873, but just Gneist had appeared. It took until October 1875 for a convergence to occur after a debate between Schmoller and Treitschke (see Conrad 1936, 49-55). The Verein für Socialpolitik proposed that each association held its meetings in a two-year rhythm and sent a delegation to the assembly of the other group. The free traders agreed to this proposal in Spring 1876 and the first joint meeting happened at the Economic Congress in 1876. The socialists of the chair helped to secure a vote against protective tariffs at the meeting, in face of the rising protectionist movement. As Held wrote: “In cases of doubt, our sympathies are naturally on the side of trade freedom” (Held 1877, 175). This arrangement was canceled by the free traders in the 1880s when Bismarck broke with freedom of trade. Thus, in sum, methodology was an essential aspect of the conflict with the socialists of the chair. The debate can be interpreted as a pre-Methodenstreit more than a decade before Carl Menger released his *Investigations*. Above all,

⁸⁷² *Literarisches Centralblatt*, August 22nd 1874, no. 34, 1125-1126. The review is signed with “G. Sch.”.

⁸⁷³ *Bremer Handelsblatt*, October 18th 1873, no. 1149, 344.

⁸⁷⁴ Stenographic Reports of the Economic Congress, 1873, 149.

⁸⁷⁵ Stenographic Reports of the Economic Congress, 1873, 155.

Schmoller and his group attacked the orthodox and utilitarian doctrine that rejected the historical method. This is indicated by the fact that the Bremen group around Böhmert, which followed the historical method and adopted a Christian Protestant instead of a utilitarian view, was fought with less harshness. Gneist even edited the paper *Concordia* together with Böhmert from 1872 on. As a result, the orthodox doctrine of the strict minimal state became discredited in the eyes of the public. As Held observed, opposition to absolute laissez-faire had become a given after 1873: “The liberal newspapers are now furious to declare that they have never wanted an absolute laissez faire” (Held 1877, 166). Manchester liberalism was to become a smear word and a stigma in Germany.

5.4 Unions, Trade Policy and Education at the Congress (1865-72)

The socialists of the chair often used to criticize the opposition to unions of Faucher and Oppenheim. They were also critical of Faucher's rejection of arbitration courts. As a reader's letter to *Concordia* argued, Faucher contradicted himself if he was for voluntary association and against unions, which freely evolved on the market. The author polemicized that the reason for this standpoint of “the people of the Faucherite school” was: “They want the atomization of society [...]. To them, the state only represents part of the expenses of society while to us, in contrast to the unorganized society dominated by the mere brutal egoism of the individual, it represents a moral principle [...].”⁸⁷⁶ However, Faucher was not driven by an urge to atomize society into millions of isolated particles but, as he testified, by his experiences with the arbitration courts and unions in England. The author of the reader's letter also touched upon a second issue that the congress debated in 1872: school fees. He claimed that members of this Faucherite school were against feeless elementary schools. This was insofar true as Wolff was against feeless elementary schools at the congress of 1872; however, Oppenheim supported them. Despite these issues, the congress also debated trade policy in 1871.

5.4.1 Strikes, Arbitration Courts and Unions

At the congress, the free traders discussed strikes in 1865 and arbitration courts in 1871. The resolution of 1865 approved of coalition freedom and the possibility to strike for workers, but workers or employers should not receive any special privilege by the state.⁸⁷⁷ Schulze-Delitzsch, the referent of the commission, condemned the use of violence during a strike, what had to be punished according to the penal law. He was against forbidding strikes:

Individuals are not denied, at least in most legislations, to terminate their employment contract whenever they want, neither the employer or the worker. But what is permitted to the individual is to be a crime when several people, who have the same interest, unite together.⁸⁷⁸

Even if one would argue that one needed a preventive system against riots of workers, one would still be in the wrong because “there is no right and no liberty that cannot be abused, and to prevent the possibility of abuse by preventive measures means repealing law and liberty.”⁸⁷⁹ In England,

⁸⁷⁶ *Concordia*, July 18th 1872, no. 29, 229.

⁸⁷⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 219.

⁸⁷⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 220.

⁸⁷⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 221.

strikes had become more peaceful since they were not forbidden anymore. From an economic point of view, the employers raised the wages more fastly in good economic times if freedom of coalition existed for workers. A prohibition of strikes increased disorder and generated a mentality of disobedience and the demotivation for work. Although it was true that strikes lowered the production and consumption, a prohibition would cause an even greater moral damage since the workers would become demotivated. The Worker Question could only be solved if labor was completely free of regulations.⁸⁸⁰ Schulze-Delitzsch received a lot of applause for his speech. On the other side, the businessman Nold was not against coalition freedom but disliked that everyone spoke of the rights of the workers but not of their duties. He had been personally told of great difficulties with workers by several liberal and diligent employers. Many craftsmen earned more than a public official, so that their life circumstances were not as bad as many suggested.⁸⁸¹ Moreover, the Nürnberg workers' association did not condemn skipping work while being on assembling.

The free traders were careful to not criticize the workers and unions. Sonnemann pointed out that all strikes in Germany during the last months had been quiet. He reasoned against Nold that the employers should comply with their duties as well, which consisted in financially supporting the unions.⁸⁸² Wolff, on the other side, criticized both Nold and Sonnemann and advocated profit sharing. The employers and workers had to be guided by self-interest “because mutual egoism only gives the correct basis for economic coexistence”.⁸⁸³ Nold and Sonnemann seemed to falsely believe that the relations between the workers and employers were not in harmony under a system of complete liberty. Wolff thought that the unions and the workers' movement would bring about a progress from the daily wage to the piece wage. He also advocated profit sharing between workers and employers, since the interest of both would be in greater harmony, what would exert a pacifying effect on society as a whole: “Only when the fusion of interests is accomplished by the introduction of another wage system in all our economic institutions will we have the full guarantee of social peace.”⁸⁸⁴ The congress passed the resolution presented by Schulze-Delitzsch unanimously.⁸⁸⁵

After the first vote for unions and strikes, the topic came up again in 1871 when the congress debated arbitration courts. Eras, Oppenheim and Kusserow recommended these courts to prevent

⁸⁸⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 222.

⁸⁸¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 224.

⁸⁸² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 225.

⁸⁸³ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 226.

⁸⁸⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 227.

⁸⁸⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1865, 227-228.

strikes in a resolution that was accepted by the congress.⁸⁸⁶ The referent Kusserow said that the Prussian law allowed for arbitration courts but it was hardly made use of this possibility. So far every attempt had failed because arbitration courts disposed of little decisive power. He presented several cases from England, where the arbitration courts had supposedly worked with great success. The decision of the arbitration courts should be non-binding and the courts should consist of an equal number of workers and employers who had to be active in the industry, for which they negotiated. Oppenheim endorsed arbitration courts as well by stating: “These [“comparative committees”] should not be viewed as arbitration tribunals with public authority installed from above, but as organs of self-government.”⁸⁸⁷ However, he criticized Kusserow's positive depiction of labor unions and condemned them as a “spawn of modern socialism”.⁸⁸⁸ On the other side, Wolff and Faucher opposed arbitration courts. Faucher said that they had not been successful in England, contrary to Kusserow's account. The labor contracts had to be unregulated so that they could conciliate the workers and employers and. The workers should also learn to moderate their wage claims.⁸⁸⁹ The arbitration courts might be used to impose increased wages on competitors, because a group of employers wanted to put its competitors out of business. The judges of arbitration courts were not capable of determining the height of the wage. Faucher said:

We have nothing to do between the employee and the employer; we have to ensure that the employer is enabled to save more capital and that wages increase as a result of the increased wealth of capital that makes up the demand for work. We have to worry about the national wealth, about the fertility of human labor, not about the private quarrels between foolish people.⁸⁹⁰

Böhmert opposed the harsh words of Oppenheim against labor unions. Workers had the same right to associate like employers if they wished.⁸⁹¹ The congress should refrain from depicting the labor unions as a social-democratic error, since they filled a gap and enabled negotiations between the workers and employers.⁸⁹² However, in *Socialism and the Worker Question*, Böhmert believed that the wages and the social situation of workers had mostly improved without the help of unions and strikes in Germany and he feared that both might fuel conflicts between the entrepreneurs and workers (Böhmert 1872b, 66). Oppenheim argued against Faucher that arbitration courts could not

⁸⁸⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 153.

⁸⁸⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 154-155

⁸⁸⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 162.

⁸⁸⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 164.

⁸⁹⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 165.

⁸⁹¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 166.

⁸⁹² Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 167.

enforce the increased wages because their decisions were voluntary. He attacked Faucher by asking him whether he would also oppose these courts when they would recommend lower wages. Oppenheim supported strikes if the workers initiated them and not the politicians, as the latter was often the case in England.⁸⁹³ Wolff defended his “friend” Faucher against Oppenheim. Faucher had experienced the arbitration courts in England and believed, therefore, that they tended to disrupt the societal peace.⁸⁹⁴ Wolff agreed with Faucher by pointing out that a minority of the workers had joined the socialist movement so far. If the congress accepted Kusserow's resolution for arbitration courts, the workers might start to believe that the wages could be increased other than by the modifying the wage contract.⁸⁹⁵

Faucher told about his experiences with the English arbitration court system when he reviewed the book *Die Gewerbegerichte und das gewerbliche Schiedsgerichtswesen in ihrer geschichtlichen Entwicklung und ihren gegenwärtigen Stande* (Commercial Courts and Commercial Arbitration in their Historical Development and their Present State) by Gustav Eberty.⁸⁹⁶ The author recommended the arbitration court system of Anthony John Mundella, who proposed courts that consisted of ten representatives of employers and ten of workers. They were voted by their respective communities and negotiated wage disputes. Faucher was against this arbitration process but did not want to prohibit it legally.⁸⁹⁷ He feared that the union leaders were bribed by the entrepreneurs with unprofitable businesses to engage in strikes, so that less successful entrepreneurs would not fail with their companies. Since the leaders would work full time for the union, they would easily become disconnected from the reality of workers. Faucher explained that he had been able to observe in England how a firm made use of Mundella's system to put pressure on its competitors.⁸⁹⁸ If the firm would not follow, its competitors would hire the workers of the firm at a higher wage while producing on stock, so that the firm had to leave the market. Later, these firms lowered wages by using unions and Mundella's system to explain to workers, that they were not able to pay a high wages due to the great stock of produced goods. Therefore, big companies might force small companies to leave the market under Mundella's system. Faucher closed that free enterprise and unregulated labor were the best guarantee for increasing wages.⁸⁹⁹ However, Faucher seemed to

⁸⁹³ Ibid.

⁸⁹⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 168-169.

⁸⁹⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 169.

⁸⁹⁶ *Quarterly Journal* III/1869, 297-302.

⁸⁹⁷ *Quarterly Journal* III/1869, 300.

⁸⁹⁸ *Quarterly Journal* III/1869, 301.

⁸⁹⁹ *Quarterly Journal* III/1869, 302.

overlook that as long as the market entry would remain free, other firms would likely step in and force unfair competitors, which produced on stock and paid increased wages, out of business. In the following issue of the *Quarterly Journal*, Faucher reviewed *Die Gewerkvereine in England* (Unions in England) by the Duke of Paris.⁹⁰⁰ Faucher told about the supposed crimes of a union from Sheffield, which was blamed for killing its critics, and accused the workers of voting for criminal and corrupt union leaders. The English unions aimed to restrict the working time and the quantity of goods produced to push for higher piece wages. As Faucher explained: “*The war of the lazy and the unskilled against the industrious and the skillful was declared, [...] which continues until today and forms the main content of the union system.*”⁹⁰¹ Faucher discarded unions:

Unions are much less a conspiracy against the masters, than a conspiracy *against the liberty of the workers*, based on the pardonable ignorance of them and nourished by the vices of love of power and envy in the breasts of those, who are the last in the workshop [workplace] but the first with the mouth in the ale house. The vast majority of English workers [...] are *slaves*, not of the employers, but of their *own* guild.⁹⁰²

Hence, Faucher expected little good from unions and rejected the dualism that supposedly existed between the workers and entrepreneurs. Everyone could become an entrepreneur in these times, although only a minority of workers were capable of doing so. The union leaders just made use of a diffuse feeling of the workers of being exploited by the entrepreneurs. Contrary to the claims of the Duke of Paris, the unions did not serve as a basis for a new form of industrial organization.⁹⁰³ However, in 1871, the congress was not convinced of Faucher's and Wolff's arguments and passed the resolution of Eras, Oppenheim and Kusserow that favored arbitration courts.⁹⁰⁴

5.4.2 International Trade Policy

In 1871 and 1872, the free traders discussed the “further development of international trade

⁹⁰⁰ *Quarterly Journal* IV/1869, 97-118.

⁹⁰¹ *Quarterly Journal* IV/1869, 106, emphasis in original.

⁹⁰² *Quarterly Journal* IV/1869, 109, emphasis in original. The *Bremer Handelsblatt* cited this passage and commented that Faucher's conclusion contained much truth, but the paper did not discard the unions entirely since they spread liberalism and nurtured a sense of solidarity among the workers; see *Bremer Handelsblatt*, July 29th 1871, no. 1033, 259. Lujó Brentano doubted Faucher's report that the English unions tried to hinder that the workers earned more under a piece wage system than a specific sum per week, because he had found no evidence for it in the government reports (Brentano 1872, 81).

⁹⁰³ *Quarterly Journal* IV/1869, 117-118.

⁹⁰⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 170.

policy” and a “reform of the tariff system”. In 1871, the referent Eras demanded in his resolution the extension of the successful system of trade treaties to other states. If a state broke a treaty, other countries should continue to follow the agreement. The tariffs had to be directed towards weight of a good instead of its price.⁹⁰⁵ Faucher submitted a resolution according to which the states should continue to lower their tariffs regardless of whether the domestic industries would supposedly suffer. In his speech, Faucher considered direct and indirect taxes to be of equal value: “*Consumption taxes*, which have often been subject to unjustified attacks under the name of 'indirect taxes', have as good a footing as taxes on wealth or income.”⁹⁰⁶ The European states agreed that consumption taxes should not be imposed on those needs that were vital for life. Additionally, if taxed, consumption of a good should not only be burdened with a domestic tax but with a tariff as well. Above all, tobacco and alcohol were most suited for a consumption tax. The problem of direct taxes like a property or income tax was that both terms were difficult to define and tax evasion was huge.⁹⁰⁷ A consumption tax could not be evaded as easily. Moreover, if they were not vital for life, consumption taxes were “a *voluntary service*”⁹⁰⁸ because a citizen could evade them by consuming other goods. However, contrary to Henschel's (1975, 187) claim, Faucher did not demand to convert all tariffs into consumption taxes so that international division of labor was not interrupted. He just pointed to the advantages of consumption taxes and disadvantages of tariffs without advocating the entire elimination of tariffs. He did not recommend a tariff on value or weight, for he said: “for some articles, value tariffs may be beneficial, for other weight duties”.⁹⁰⁹ Soetbeer introduced an additional resolution according to which no trade treaty should exist between those countries that already implemented “correct principles”⁹¹⁰ of free trade. He opposed a trade treaty between Germany and England because England had already implemented trade freedom. Wolff was in general against trade treaties. They might evoke the impression that reciprocity was necessary for a successful trade policy, but it was even advantageous for a country to eliminate unilaterally its tariff system.⁹¹¹ Nevertheless, he would welcome a trade treaty between Germany and England because the trade policy of both countries still possessed some flaws.⁹¹² Dorn favored the resolution of Eras because it stated with greater exactness the views held by the members of the congress. Like

⁹⁰⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 178-179.

⁹⁰⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 185, emphasis in original.

⁹⁰⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 185-186.

⁹⁰⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 187, emphasis in original.

⁹⁰⁹ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 190.

⁹¹⁰ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 194.

⁹¹¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 195.

⁹¹² Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 196-197.

Faucher, he did not recommend a tariff on value or weight because the decision should be left to public officials.⁹¹³ Dorn introduced an additional resolution that the German government should initiate trade negotiations with other countries.⁹¹⁴ Faucher argued that Soetbeer's resolution was only valid for Bremen and Hamburg, since those were the only states with a “correct” trade policy.⁹¹⁵ The free traders passed Faucher's resolution and the additional resolutions of Dorn and Soetbeer.⁹¹⁶

In 1872, the referent Ehlers demanded in his resolution that the tariff reforms of the Zollverein had to be continued by the German Empire. Every protective tariff should be eliminated so that only a few financial tariffs would remain. Especially the iron tariff and the export tariff on lumpen had to be abolished. Rickert introduced an additional resolution that recommended the abolition of tariffs on chemicals.⁹¹⁷ In his speech, Ehlers reasoned that the congress had to state clearly that his program was not realized by the last tariff reform from 1870. He viewed the tariff on iron as “the worst [tariff]”.⁹¹⁸ Nevertheless, he did not want to eliminate every tariff on iron products immediately. Rickert took Ehlers to charge for his lack of consistency. He admitted that a part of the industry might be harmed by an elimination of iron product tariffs, but the Northern states would profit since they could import iron at a lower price.⁹¹⁹ In the end, the congress accepted a modified and more liberal resolution of Ehlers.⁹²⁰ At this point, German free trade was at its peak and the free traders would openly admit that the industries would suffer from an abolition of protective tariffs. However, the demands of the resolutions were congruent to earlier decisions and contained nothing new.

5.4.3 School Fees

The free traders debated school fees two times. In 1871, Wolff introduced a resolution according to which public schooling should not be feeless. Otherwise, church and state might gain power over the school system and endanger societal peace. However, the congress did not discuss or vote due to

⁹¹³ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 198-199.

⁹¹⁴ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 194.

⁹¹⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 201.

⁹¹⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* II/1871, 203.

⁹¹⁷ Stenographic Reports of the Economic Congress, 1872, 11.

⁹¹⁸ Stenographic Reports of the Economic Congress, 1872, 12.

⁹¹⁹ Stenographic Reports of the Economic Congress, 1872, 13.

⁹²⁰ Stenographic Reports of the Economic Congress, 1872, 17.

a lack of time.⁹²¹ Wolff reintroduced the same resolution one year later. Oppenheim also presented a resolution according to which fees for public elementary schools did not conflict with economic principles.⁹²² Wolff was not against public school fees in principle. The municipality or the state should pay the fees if a family could not afford schooling, because the state imposed compulsory education on the parents. The school teachers were often poor and starved because of their small salary. If fees were introduced, the quality of education would rise. Wolff argued against public elementary schooling:

It is also impossible to make public school lessons 'free of charge'; the requirement of gratuitousness can mean nothing else in this case than that costs of public schooling should be borne by *others*, rather than by those who enjoyed it for themselves or for their own.⁹²³

Those who demanded feeless elementary schools had to advocate feeless universities and other higher institutions of education as well, since the low and middle classes favored non-chargeable elementary schools because they aimed at a higher education for their children. It was not so important that the poor enjoyed feeless access to education, since they had more important things to do in light of the wide-spread pauperism.⁹²⁴ Oppenheim, on the other side, viewed school fees as a head tax on children because the parents lost the working power of the child besides the fee, due to compulsory education. Moreover, the coercive collection of fees might undermine the reputation of school education in the low classes.⁹²⁵ He did not recommend fees under all circumstances, but they should not be outlawed for municipalities. If school fees would account for the entire costs of a school, the public schools would not be able to compete with the private schools and the rich would send their children to private institutions. Only the low classes would visit public elementary schools, which would become “poverty schools”.⁹²⁶ The quality of public education would further decrease and a two-class society would arise. Such a development was already taking place in the big cities. However, the state had to charge fees in the case of higher institutions of learning because they were not subject to compulsory education.⁹²⁷

Aiming at a compromise, Böhmert wanted to leave the decision on school fees in the municipalities. According to his resolution, the state should not forbid municipalities to charge fees.

⁹²¹ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 191.

⁹²² Stenographic Reports of the Economic Congress, 1872, 17.

⁹²³ Stenographic Reports of the Economic Congress, 1872, 19, emphasis in original.

⁹²⁴ Stenographic Reports of the Economic Congress, 1872, 20-21.

⁹²⁵ Stenographic Reports of the Economic Congress, 1872, 23.

⁹²⁶ Stenographic Reports of the Economic Congress, 1872, 28.

⁹²⁷ Stenographic Reports of the Economic Congress, 1872, 29.

If the parents were able to finance private schools or pay fees, the state should not intervene and provide free schooling.⁹²⁸ Böhmert viewed fees as highly useful. If every worker would solely pay one or two thaler per year for his child, the revenues would be so great that Prussia could hire many new teachers. Fees might be necessary in rural regions to attract good teachers. In rural towns, rich parents might establish schools for their children and for the children of the poor.⁹²⁹ Besides these three positions, Winter and Hundt von Hafften endorsed Oppenheim by presenting a resolution for the introduction of free elementary schools in Germany.⁹³⁰ Winter, the mayor of Danzig, believed that municipalities should tax according to the individual ability to pay, and not according to the benefit principle. He essentially was against the views expressed by the orthodox free traders and Michaelis, Meyer and Wolff in the 1860s. Wolff defended his resolution and the benefit principle against Winter by saying:

If one removes this [benefit] principle and demands state interference for all cultural questions, one consequently arrives at communism. [...] If we demand that the state looks for the fostering of arts and sciences from public funds, he [Wolff] would not know what to say to the workers, who demand that the state should build them apartments, indeed where all this should end at all.⁹³¹

In the meantime, Oppenheim had recognized that the debate had turned into his favor. Now he supported Winter's resolution for free elementary schools in Germany. He warned the congress that those who negated “the moral postulates of the state” on education would give a dangerous weapon into the hands of the socialists of the chair.⁹³² In the end, the congress followed Winter and Oppenheim and rejected school fees for elementary schools.⁹³³ Faucher did not intervene into the debate but was probably on Wolff's side. In 1866, he reviewed a book that was in favor of compulsory education for Sunday schools. He argued that elementary schools were less capable of teaching small children reading, writing and calculating, than the family or the neighborhood.⁹³⁴ Except for writing, children could learn these abilities in their family or their neighborhood without visiting an elementary school:

Anyone who sees the word 'shoemaker' [Schuhmacher] over a shoemaker's store twenty times a day knows exactly what it means, and likewise he knows the word 'tailor' [Schneider] above the tailor shop;

⁹²⁸ Stenographic Reports of the Economic Congress, 1872, 30.

⁹²⁹ Stenographic Reports of the Economic Congress, 1872, 31-32.

⁹³⁰ Stenographic Reports of the Economic Congress, 1872, 32.

⁹³¹ Stenographic Reports of the Economic Congress, 1872, 86.

⁹³² Stenographic Reports of the Economic Congress, 1872, 88-89.

⁹³³ Stenographic Reports of the Economic Congress, 1872, 89.

⁹³⁴ *Quarterly Journal* III/1866, 206-215.

from both he derives the literal values of Sch and r and so on, until he really reads. In ancient Egypt, with its inscribed walls in all places, absolutely *every* man could read according to the testimony of the Greeks, despite the difficulty of the writing system.⁹³⁵

The multiplication up to 100 was an even easier task to learn because it only had to be memorized by heart. Just in the case of writing, the elementary school could teach something but pupils used to forgot how to write anyways if they did not practice handwriting in their daily life. Regarding calculating, the unschooled Asians and Russians used to calculate far better than the Europeans peoples. For Europe it was true “that the great masses of people understand the worst how to calculate at that place, where school attendance is the highest, namely, in Germany.”⁹³⁶ The German pupils were behind the English, less schooled children with respect to logic and language. In Berlin, the place with the best schools and teachers around the world, pupils committed the greatest number of grammatical errors. Thus, from Faucher's arguments, it seemed to follow a rejection of public education. However, because public elementary schools were a political fact for the moment, Faucher recommended to spend more funds on education. But he was against compulsory education for Sunday schools or continuation schools. Faucher's *laissez-faire* on education also came to light when he reviewed a book with excerpts of Wilhelm von Humboldt's writings on political economy, which included parts of *Ideen zu einem Versuch, die Grenzen der Wirksamkeit des Staates zu bestimmen* (The Sphere and Duties of Government, 1856 [1792]).⁹³⁷ Faucher described the young Humboldt as a “conscious opponent of state artistry”,⁹³⁸ whose eighty-year-old work agreed to a great degree with the worldview of the *Quarterly Journal*. Once more, Faucher seemed to oppose compulsory education altogether. At length he cited a passage where Humboldt was against state interference into education if the form of government was a monarchy. Faucher closed by asking: “Would it not be good for the time being to think again of these mild concerns against public education?”⁹³⁹

a. Orthodox Free Trade and the Kulturkampf

The free traders turned their attention to education due to the onset of the “Kulturkampf” (fight of culture). This term refers to a series of anti-catholic measures from 1871, which Bismarck introduced to limit the power of the Catholic church in Germany. Most National liberals and

⁹³⁵ *Quarterly Journal* III/1866, 207, emphasis in original.

⁹³⁶ *Quarterly Journal* III/1866, 208.

⁹³⁷ *Quarterly Journal* II/1870, 197-203.

⁹³⁸ *Quarterly Journal* II/1870, 199.

⁹³⁹ *Quarterly Journal* II/1870, 203.

Progress liberals supported these measures, even a principled liberal like Eugen Richter endorsed the secularization of schools (Raico 1999, 31). The liberals sided with Bismarck because they viewed the church as reactionary and economic interventionist. Bismarck pursued power political interests with his anti-Catholic policy because he hoped to break the resistance of the Centre Party and the South German Catholics to the centralization of Germany. The government passed various laws that targeted, above all, the educational system by obligating priests to visit state universities and submitting religious schools to state supervision. Jesuits were persecuted and the priests were forbidden to voice their opinion on political matters (Raico 1999, 32). By 1876, all Prussian bishops were either in jail or in exile. Ironically, the Catholics reacted by defending liberal values. The leader of the Centre Party, Ludwig Windthorst, said in the Reichstag in 1878:

Gentlemen, we hear the doctrines *of the omnipotent state* in many places: The state should order all conditions of life of the people, except for it there is nothing. [...] If we want to successfully fight social democracy, then we must first give up this doctrine *of the omnipotent state*, then we have to recognize first and foremost that there are *rights and institutions* that have a basis other than that of the state, we must recognize that there are rights that are older than the state, that the state is not the *sole* right-generating [institution], that—on the contrary—it [the state] is only a matter *of protecting the given rights, not of modeling them according to arbitrariness and expediency*.⁹⁴⁰

On the other side, the liberals Eduard Lasker, Rudolf Virchow and the congress attendee Bamberger supported the Kulturkampf (Raico 1999, 34-7). What was the position of the orthodox free traders? Prince-Smith, a member of the Anglican church,⁹⁴¹ did not comment on the Kulturkampf or the Catholic church. He was probably a religious man since the parts of a work were found in his estate with the title *The Laws of Production and Distribution of Wealth, considered as Illustrations of Divine Providence* (Wolff 1880, 233). Faucher was an atheist at a young age, who endorsed Stirner's atheist philosophy. In later years, he made random pejorative comments about Catholicism in his reviews. In 1869, he detected a cosmopolitan trait in the current day and age since the last world fair of 1851 and viewed the Catholic church as opposed to this Zeitgeist. He called ecclesiastical Catholicism “that pompous but completely hollow heir of the communists of antiquity, fraternized over the Roman Empire [...]”⁹⁴² Faucher commented in another review from 1870 about the social and economic legislation of the Old testament:

A no more insignificant part of the Protestant, a much greater one of the Roman-Catholic, and a quite

⁹⁴⁰ Stenographic Reports of the German Reichstag, May 24th 1878, 55th session, 1529, emphasis in original.

⁹⁴¹ *Kitzinger Anzeiger*, October 25th 1871, no. 254, 1. The paper lists Prince-Smith as a member of the “episcopal church”.

⁹⁴² *Quarterly Journal* II/1869, 213.

overwhelming part of the Greek-Catholic clergy, do things entirely under the hand and pursue dreams for the future that are directed to nothing less than the reestablishment of the ecclesiastical supremacy over secular power and the subjugation of the society liberated by enterprise and labor, *with the help of the communists*.⁹⁴³

However, Faucher thought that the church would not be successful in its pursuit for secular power. If the worldly governments had not intervened against the church yet, it was because they feared religious wars or revolutions.⁹⁴⁴ Thus, Faucher associated the Catholic church with economic interventionism or even communism and seemed to prefer Protestantism. Similarly, the Catholic-born Braun viewed Canon law as an obstacle to liberal economic reforms and as harmful to the present day (Braun 1866, 18-9). It aimed at establishing a theocracy and depicted poverty as a natural phenomenon without a cure (Braun 1866, 20-1). He criticized the Austrophile bishop Ketteler, a Catholic leader in the Kulturkampf, because the priest rejected Schulze-Delitzsch's cooperative idea and wanted to put cooperatives under the church's command. The bishop had even met and cooperated with Lassalle, who had praised Ketteler's social policy in a speech from 1864. Braun believed that Lassalle had united with the conservatives to fight the liberals (Braun 1869, 5-7). In his talk on the Vagabond Question from 1883, Braun criticized a parliamentary speech of the leader of the Centre Party Windthorst, who argued against free movement and defended overpopulation theories and marriage restrictions. Braun rejected Windthorst's thesis that the Kulturkampf caused the increase of vagabonds, pointing to statistics on the Vatican that showed a high number of vagabonds in areas where the Catholic church reigned absolutely (Braun 1883, 24). Although Braun appreciated that Windthorst discarded socialism, he was unsatisfied with his opposition to liberalism:

Either one must be a supporter of economic liberty or a supporter of socialism. At the same time fighting economic liberty and also the socialist coercive state, that will not be carried out with success in the long run. (Braun 1883, 25)

Braun's biographers disagree on whether he was a believer. Geisthardt (1955, 555) states, contrary to Dernburg (1910, 459), that Braun turned away from Catholicism in his later years. Curiously, from July to December 1847, Braun wrote for the Catholic *Rhein- und Moselzeitung* (Newspaper from Rhine and Mosel) where he displayed anti-liberal and pro-Catholic views (Toelle 1914, 36-7, 103). Grandpierre refers to Braun's collaboration with the ultramontane paper as "enigmatic" (Grandpierre 1923, 14). Braun polemized against the suppression of the Catholic

⁹⁴³ *Quarterly Journal* III/1869, 149, emphasis in original.

⁹⁴⁴ *Quarterly Journal* III/1869, 149-150.

church, against free enterprise, free movement and was for protective tariffs and guilds. He warned against the “nihilism of the Young-German-Jewish elements” and remarked that Gullible Fritz should not always stare hopefully at the “outwardly blazing, but inwardly rotten state of England” (Grandpierre 1923, 16). At that time, England was the model country for the German liberals and Braun would later praise the nation as well. He would marry his daughter to a Jew and speak against antisemitism. Nonetheless, in the *Rhein -und Moselzeitung*, Braun condemned liberalism and advocated the exact opposite of his later convictions. Seelig discards the view of Grandpierre (1923, 15), who thinks that these articles were not in conflict with Braun's earlier publications. Seelig (1980, 11-3) believes that the 25-year-old Braun had not found his political worldview yet. However, given Braun's background—he was born and bred in the conservative countryside—he might have received a reactionary mindset from his Catholic family. His brother wrote poems that glorified the ruling nobility and his father expressed conservative views as well (Grandpierre 1923, 4-5). In 1855, Braun came into conflict with the Catholic church for the first time. He made a pact with the reactionary government during the upper Rhenish church conflict. The church opposed to surrender the rights, which it had been granted in the revolution of 1848. Many liberals viewed the pact with discomfort because the church argued for liberal demands such as press freedom and municipal autonomy (Seelig 1980, 36-7; Grandpierre 1923, 39-40).

At the congress, the Catholic church was not mentioned but most free traders were distanced from Catholicism. Most attendees came from the Northern or Central areas of Germany that were mainly Protestant. In 1871, Oppenheim and Hundt von Hafften said that begging had grown in Catholic countries because of their high number of charitable foundations.⁹⁴⁵ Böhmert, the son of a Protestant priest that had thought about becoming a priest in his youth, thereafter defended the Catholic church by stating: “The economic congress may not present the tasks of the church as overcome, but rather seek to draw it into the service of society.”⁹⁴⁶ However, the Protestant Böhmert also disassociated himself from the Catholic church, of course. In 1869, Wolff reasoned against Böhmert's advocacy of a nation-wide net of charity organizations that only the Catholic church had historically been able to provide for such a level of private welfare.⁹⁴⁷ But Böhmert refrained from endorsing charity of the Catholic church.⁹⁴⁸ Thus, Faucher and Braun were distanced from Catholicism whose representatives flirted with socialism in their view, while Prince-Smith did not take a position on Catholicism.

⁹⁴⁵ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 176.

⁹⁴⁶ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1871, 179.

⁹⁴⁷ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 173.

⁹⁴⁸ Stenographic Reports of the Economic Congress, *Quarterly Journal* III/1869, 200-201.

5.5 Prince-Smith and *The State and National Economy* (1873)

The book *Der Staat und der Volkshaushalt* (The State and National Economy, 1873) came out in the middle of the Kulturkampf and the debate with the socialists of the chair. It was Prince-Smith's last work, in which he made a partial turn to conservative-aristocratic ideas. He rejected his earlier argument that the rulers were the main factor that drove nations to war, and disarmament:

We do not want to waste any words on those who speak of brotherhood among the peoples and, claiming that every people is only reluctantly driven into the wars provoked by the government, call for universal disarmament as the best guarantee of peace. He who blindly opposes everything that reality presents to him, and is deaf to everything that contemporary history screams into his ears, will certainly be inaccessible to our ideas. (Prince-Smith 1877, 161)

Even the Germans, the most peaceful people, wanted to go to war against Luxembourg a short time ago. Prince-Smith explained the willingness to engage in war with the “sense of state” of each citizen:

Through this sense of state, the weak individual feels at one with a strong community, a state that develops an authoritative power and enforces respect in the eyes of the world. He thereby saves himself from the overwhelming feeling of his powerlessness in isolation, in the face of the surging throng of life. In the consciousness of nationality, weak persons gain self-esteem; the low ones see themselves shining with brilliance. (Prince-Smith 1877, 162)

Prince-Smith welcomed this sense of state because it enabled people to bear more hardships (Prince-Smith 1877, 163).⁹⁴⁹ Ultimately, the security of a state ultimately rested on its resilience to other states. Physical violence continued to be present in any society and culture was nothing else than a mask. The state should not be fraternal to other states:

A state cannot and must not feel brotherly. It exists as 'power', and the essence of power in general is to bow to the will of others under its will, to prioritize its benefit to that of all others, as far as it can venture to do so without harmful consequences for itself. The state as embodied power is, in its very nature, the embodied selfishness towards other states; therefore considerations of gratitude, friendship, nobleness, and such sentiments can never determine foreign policy. (Prince-Smith 1877, 164)

Political questions had priority over economic issues because the first were matters of life and death, whereas an advantage was given up in the economic sphere that could be recovered later (Prince-Smith 1877, 165). As Prince-Smith clarified, he aimed at preventing war and did not want

⁹⁴⁹ Prince-Smith wrote: “And this state sense is all the more zealously conserved as it contributes significantly to our happiness; for it confers a strengthened sense of self, which, in itself giving a happy mood, helps us to overcome some deprivations more easily and enables us to endure much adversity more easily” (Prince-Smith 1877, 163).

to advocate it, but he could not see “how war could be eliminated from the world order in the long run” (Prince-Smith 1877, 166). Without war, maldevelopments could not be corrected and people would be coward and cruel. He noted in a Darwinian way: “Anywhere else in the world order, struggle is the corrective which, by eliminating all what went wrong, ensures gradual perfection. We cannot imagine how this corrective could be replaced or relinquished in the life of the state” (Prince-Smith 1877, 167). Prince-Smith saw a constitutional monarchy as unsteady because it rested on the constraint of power by parliaments and the crown, although power always tended to exercise itself as far as possible (Prince-Smith 1877, 170). He opposed the bicameral system of England, but supported it for Germany because the individual states could prevent or hamper policies with which they disagreed (Prince-Smith 1877, 173). The budget power had to remain a privilege of the parliaments to raise the people's interests for the state's activities, what was the greatest advantage of constitutionalism (Prince-Smith 1877, 174).

Having probably the Prussian constitutional conflict in mind, the parliament should not have the power to cancel financial resources of the government (Prince-Smith 1877, 175). The ministers had to be fully responsible for their misconduct, especially for a breach of the constitution. They had to be put on a non-military trial, except if the crown had ordered them because the monarch could not be sued (Prince-Smith 1877, 176). Prince-Smith defended the standpoint of the royalist Old liberals, who had cooperated with the conservative government in the Prussian constitutional conflict. He disputed that a republic was superior to a constitutional monarchy. This had to be proven by history. He rather believed the contrary, pointing towards the failed republics in South America, and remarked that monarchies historically emerged after republics: “History, on the other hand, teaches that the republican government or any other more formless one was the former mode of government, but had to give way to monarchy as soon as the state's means of power were united in a secure hand for their most effective exercise” (Prince-Smith 1877, 177). A monarchy was the higher stage of culture and France “sank to this lesser stadium because it lacked the degree of culture necessary for a monarchical-parliamentary constitution” (Prince-Smith 1877, 178). The reason for Prince-Smith's support of war and monarchy was the rising socialist movement in Germany. As he wrote, a good king stimulated economic progress in a nation and prevented a parliamentary takeover of power, so that the low and uneducated classes would not gain power and destroy the bases of culture:

The obvious advantage of a well-organized monarchy for the country lies not only in the heightened effect of power unified in one hand, but it is the same that arises from the administration of a permanent owner, who does not think about the present but the sustainable yield and a feasible increase in culture,

compared with the over-exploitation of a number of temporary tenants, who replace each other in short-term periods of time. (Prince-Smith 1877, 179-80)⁹⁵⁰

Prince-Smith was against ministers chosen by a president, who united a majority of parliamentarians behind him. The ministers had to be elected by the king and promote the draft bills of the monarch with their speeches in parliament (Prince-Smith 1877, 180). He opposed the common right to vote because uneducated classes might receive the impression of being able to dictate the policy (Prince-Smith 1877, 182). The politicians were reluctant to oppose the will of the people because they wanted to be reelected (Prince-Smith 1877, 183). If the people would get their way, society would drift away from the current monarchic and liberal political system that constituted the basis of culture, what would signify a cultural decay (Prince-Smith 1877, 184). Prince-Smith gave a cut of the military budget and a tax on business profits as examples for such a drift away (Prince-Smith 1877, 185) and explained:

We resolutely stand for the preservation of our existing state and economic foundations, because we are convinced that we cannot build and develop culture on any arbitrary basis, but that the existing [foundations], emerged in the struggle of history, are the conditions of higher culture in general, so that, if we wanted to undermine them, no other [foundations] could be found; rather, a decay of culture, which has already occurred in the world, would have to take place. (Prince-Smith 1877, 184)⁹⁵¹

Prince-Smith feared a worker revolution, whose socialist policies would lead to decreasing wages and a capital outflow by migration. He still supported a free market economy but it was on shaky grounds as long as it had eliminated poverty for just a small number of people (Prince-Smith 1877, 185). Social inequality raised the probability of a revolution by the people, who did not want to wait for economic improvements provided by the market. He believed that the masses were ignorant and did not know what was best for them (Prince-Smith 1877, 186). If the people would abolish the present social order, thinking they had nothing to lose, many could die of starvation (Prince-Smith 1877, 187). Thus, Prince-Smith opposed democracy and the common right to vote:

The 'democratic principle' has its formula in the sentence: 'It is best for the good of the country that the state government, together with legislation, is governed by the most numerous, ignorant classes of the population.' When and where would this have come true? (Prince-Smith 1877, 188)

⁹⁵⁰ The argument of a lower time preference of monarchs was also advanced in favor of monarchy by modern libertarians; see chapter two of Hans-Hermann Hoppe's *Democracy* (Hoppe 2002) and Lealand Yeager's article *A Libertarian Case for Monarchy* (Yeager 2011, 377). See also Kuehnelt-Leddihn (2003).

⁹⁵¹ Faucher shared such cultural pessimism. In 1870, he approvingly quoted the following statement in a review: “[W]e live in an *epigone age*, in a time of dwindling originality and productiveness. [...] The main focus of our [German] cultural development is still fifty to sixty years behind us [in the period from 1760 to 1820].” See *Quarterly Journal* II/1870, 197-198, emphasis in original.

Given the non-education and ignorance of the lower classes, popular sovereignty was impossible for the present moment (Prince-Smith 1877, 189). For North America, popular sovereignty just worked because its territorial sovereignty was not endangered by any strong neighbor state (Prince-Smith 1877, 190). The present election system was not sufficient to prevent the usurpation of power by uneducated classes. Prince-Smith favored to raise the voting age to thirty or forty years and warned against granting voting rights to too many citizens. On the other side, the right to vote should not be restricted too heavily because special interests might gain too much power over the state (Prince-Smith 1877, 191-2). Ultimately, it would only harm the lower classes if the state would give them voting rights (Prince-Smith 1877, 193). The right to vote had to be granted to the most capable and not the most wealthy:

And the evil lies not in the fact that all are allowed to vote, but in the fact that so few have the overview of the connection between our state and economic relations, and therefore the political maturity, to be able to exercise the powers of a voter without causing any damage. (Prince-Smith 1877, 194)

The masses had to receive a good education rapidly so that they did not fall prey to false ideologies and started a revolution (Prince-Smith 1877, 194-5). However, Prince-Smith admitted with a disillusioning attitude that “the receptiveness for the unfounded doctrines of socialism, communism, or for state independence, has not been diminished in any people by such popular school education as has hitherto been given” (Prince-Smith 1877, 195). He did not answer how elementary education had to be changed so that the people would lose the interest for a revolution, and concluded pessimistically: “Whether one will be able to make the people see reason, is unfortunately very uncertain” (Prince-Smith 1877, 196). Prince-Smith protected the media from criticism. The press was not the core problem when it diffused false ideas, because these ideas would not be received positively if the people would think coherently (Prince-Smith 1877, 197-8).

The critics made little notice of *The State and National Economy* when it came out in October 1873. As Wolff (1880, 370) reported, Prince-Smith anticipated a great success and an intense debate, because he was seen as the head of the free trade movement in his function as the president of the executive committee, and because of the dispute with the socialists of the chair. He expected the press to go for his work in the correspondence with his publisher Julius Springer. However, Adolf Held was one of the few who reviewed the work. The professor from Bonn stated that he had “read [it] with the greatest satisfaction” because it developed “the connection between the state and the economy [...] according to the method prescribed by the historical school.”⁹⁵² Similarly, the *Bremer Handelsblatt* spoke of a “small inspirational work” that made concessions to the sense of

⁹⁵² *Die Gegenwart*, volume 5, January 3rd 1874, no. 1, 3-6.

state, “which may even go too far for one or the other of the socialists of the chair.”⁹⁵³ As the paper noted, Prince-Smith endorsed a principled liberal view on economic policy, but did not present himself as a democratic but as a conservative-aristocratic Prussian patriot. Two interpretations have been advanced in relation to Prince-Smith's last work. Schmoller claimed in his review that it was intended as a response to the accusations of unpatriotic behavior by the socialists of the chair. Modern critics, on the other hand, saw a definite break between Prince-Smith's last work and his earlier writings. Both interpretations are wrong. Schmoller reasoned that “the accusations against the Manchester school that it was unpatriotic, that it did not give to the state what belonged to the state, offended him deeply; he wanted to prove that this was not the case; that is the purpose of the small writing [...]” However, Prince-Smith already warned of the dangers of the rising socialist movement years before he authored *The State and National Economy*. In a letter to Eras dated September 27th 1867, he wrote that the wealthy classes would not recognize the dangers of socialism before fifty socialists would sit in the parliament: “The bourgeois only come to an understanding when a knife is held to their throats.”⁹⁵⁴ Prince-Smith complained that the businessmen and publicists understood little of economics and underestimated the socialist danger. He did not blame the common right to vote for this gloomy development, but “the ignorance of the mass”. Three years later, Prince-Smith sent the letter *Die wirthschaftlichen Ursachen des Verfalls von Frankreich* (The Economic Causes of the Decay of France) to the *Bremer Handelsblatt*.⁹⁵⁵ He restated his belief that the rise of the socialists in France posed a great danger to the societal peace and the economic order. Due to its illiteracy on economics, the French middle class “watched quietly and silently while a rout on the streets decided about the form of state by wild shouts [...]. The citizenry [...] submitted to the dreadful fear of mass rule, which obviously seeks to reorganize the social foundations.” Thus, Schmoller's view that Prince-Smith wanted to discharge the free traders from the accusation of unpatriotic behavior cannot explain the letters that Prince-Smith authored long before. Evidently, Prince-Smith was deeply concerned about the rising socialist movement, what was the main motivation for his last book.

The second thesis is advanced by some modern authors, who assert a definite break between

⁹⁵³ *Bremer Handelsblatt*, October 18th 1873, no. 1149, 344. The review published in the *Nationalzeitung* was also positive and agreed with Prince-Smith's warning that socialism spread among the working class. The reviewer Julius von Kirchmann did not talk of a transformation of Prince-Smith, but doubted that Prince-Smith's advice to educate workers would prevent the diffusion of socialist ideas among them; see *Nationalzeitung*, November 5th 1873, no. 515, morning issue, 1-2. The *Norddeutsche allgemeine Zeitung* (North German general newspaper) just noted that the name of the author justified to read the brochure; see *Norddeutsche allgemeine Zeitung*, October 24th 1873, no. 248, 2.

⁹⁵⁴ *Die Gegenwart*, volume 5, May 30th 1874, no. 22, 339. The letter is cited from an article by Eras titled “Fragments of Letters by Prince-Smith“, which contained parts of various letters that Prince-Smith had sent to Eras.

⁹⁵⁵ *Bremer Handelsblatt*, October 1st 1870, no. 990, 355-356.

Prince-Smith's last work and his earlier writings. Ralph Raico titled his chapter on the last book "Prince-Smith as an advocate of the power state" (Raico 1999, 77) and concluded that "[i]t was indeed a historical tragedy, not least because the political philosophy [of Prince-Smith] ended by siding with the authoritarian state due to historical constraints" (Raico 1999, 86). Volker Hentschel (1975, 155) believes that Prince-Smith wrote a work "in which he emphasized the predominance of the state and politics so emphatically that after that his identification as a 'Manchester man' had lost all historical legitimacy." However, Prince-Smith did not discard any of his earlier economic views, he continued to support laissez-faire in the economic sphere (Prince-Smith 1877, 185-6). His turn consisted in the fact that he did not believe anymore in a pacifistic world as the end result of free trade, and no longer argued for disarmament. However, regarding the common right to vote, Prince-Smith had already defended quite aristocratic views in 1846, stating that "to the greatest proprietors [...] must be transferred the major part of legislation, for they have both the strongest impulse and the greatest power to carry out the generally useful" (Prince-Smith 1879, 259).⁹⁵⁶ Moreover, Prince-Smith had always argued for a constitutional hereditary monarchy. He did not call for violence against socialists in his last work, as Raico (1999, 83-4) admits.⁹⁵⁷ He endorsed a strict minimal state that was only responsible for the production of security, but from aristocratic and monarchistic lenses. Accordingly, other liberals arrived at similar conclusions in the 1870s, like the professor of law Boris Chicherin. The most significant Russian liberal of the 19th century wrote that "[a]t the sight of this communist movement, the sincere liberal has no choice but to support absolutism" (Leontovitsch 1957, 142).⁹⁵⁸ Hence, the last book of Prince-Smith should rather be seen as an "emergency makeshift" but not as a definite break with his earlier views. Less than half a year after its release, Prince-Smith died in Berlin on February 3rd 1874, aged 65. As Hentschel (1975, 117) notes, his death was not a break in the history of the German free trade movement. However, being the first orthodox free trader who died, doctrinaire views were seldomly heard at the congress afterwards. Faucher attended the meeting of 1875 but did not raise his word.

⁹⁵⁶ In 1873, Prince-Smith defended a meritocratic conception of voting rights, for he wanted to give them to the most capable and not the most wealthy men.

⁹⁵⁷ Four years earlier, Prince-Smith (1877, 363) rejected state force against socialists in his critique of socialism *Social Democracy in the Reichstag*: "Restricting free speech of social democrats would mean admitting that one cannot oppose them with arguments but only with violence. Only when they themselves should resort to violence, they should be confronted with the legal means of state power."

⁹⁵⁸ Similarly, in face of Bolshevik communism in Russia, even Ludwig von Mises supported fascism in his work *Liberalism* from 1927 by writing: "It cannot be denied that Fascism and similar movements aiming at the establishment of dictatorships are full of the best intentions and that their intervention has, for the moment, saved European civilization. The merit that Fascism has thereby won for itself will live on eternally in history. But though its policy has brought salvation for the moment, it is not of the kind which could promise continued success. Fascism was an emergency makeshift. To view it as something more would be a fatal error" (Mises 2002, 51).

5.6 The End of German Free Trade

While the free traders still debated the socialists of the chair and Prince-Smith released his last book, a new opponent arose at the beginning of 1873. The protectionists started to agitate against further decreases of tariffs. On May 5th 1873, a resolution was introduced in the Reichstag, supported by Prince-Smith and Bamberger, that demanded for the elimination of iron tariffs for January 1st 1874. The government presented a resolution on June 16th that was against iron tariffs as well. However, the protectionists raised enough support to postpone an abolition to January 1st 1877. Only tariffs on crude iron would be abolished from October 1st 1873 (Hentschel 1975, 231). Bamberger immediately realized that a postponement to 1877 was not a success, saying that he had “the strongest doubt as to whether we will not repeal the law.”⁹⁵⁹ The compromise in the parliament was seen as a defeat of the free traders, even by pro-free-trade newspapers (Hentschel 1975, 232). However, the free traders ignored these bad omens and the orthodox Braun seemed to be optimistic at the congress of 1873 that the government would eliminate iron tariffs in 1877.⁹⁶⁰ On May 25th 1870, Prince-Smith and the free traders had founded a “Vereinigung der deutschen Freihändler” (Association of German Free Traders), but the Berlin organization had not organized any events or activities apart from its founding meeting.⁹⁶¹ Its president Prince-Smith preferred to found an association that defended “free trade in the most radical sense”, as he wrote in a letter to Eras on June 25th 1870, but he did not want to cancel his support. He feared that otherwise no foundation would be established.⁹⁶² Once more, the free traders lacked a healthy intellectual radicalism since they had become a part of the government in 1867. On the other side, the protectionists were not afraid to articulate their demands. From 1873, the iron and steel manufacturers started to found local associations and Hermann Rentzsch, the former editor of the *Concise Dictionary* and regular attendee of the congress, became the general secretary of the umbrella organization in January 1875 (Hentschel 1975, 232). However, the free traders seemed to wake up after the Austrian free traders lost against the protectionists at their congress and after the Swedish parliament introduced protective tariffs. The *Ostseezeitung* was the first free trade publication to warn of a protectionist resurgence. On June 16th 1875, it asked for resistance because nothing was more wrong “as if we

⁹⁵⁹ Stenographic Reports of the German Reichstag, June 24th 1873, 60th session, 1392.

⁹⁶⁰ Stenographic Reports of the Economic Congress, 1873, 14.

⁹⁶¹ *Deutscher Economist*, May 11th 1872, no. 7, 106 and Wolff (1880, 367-9).

⁹⁶² *Die Gegenwart*, volume 5, May 30th 1874, no. 22, 340. In another letter to Eras from July 6th, Prince-Smith feared that his name might be associated with the moderate demands of the new association: “For example, it would be very fatal for me if one believed that the program I wrote for the association should be considered as my free trade creed.” See *ibid.*

solely wanted to rely [...] on our good right that was authenticated to us by federal legislation” (quoted in Hentschel 1975, 232).

The doubts of the *Ostseezeitung* were indeed justified because at the congress of 1875, the free traders lost the vote on trade policy with 62 against 58 votes. Eras and Braun presented a resolution for the continuation with the present liberal trade policy. On the other side, the journalist F. Stöpel from Frankfurt am Main made a proposal against tariff reductions and justified it with the economic recession after 1873. However, the orthodox Braun sided with the protectionists and torpedoed his own resolution, by expressing his understanding if the industry needed a “little pause of rest”.⁹⁶³ As he said, although the Reichstag would hardly change its decision to abolish the iron tariffs in 1877, the congress should not pass a verdict on the issue.⁹⁶⁴ Faucher did not say a single word at the congress of 1875, but published a harsh article in the *Quarterly Journal*. It was incomprehensible why Braun and Eras had presented “such an unsubstantial and, for the protectionists, [...] such a *provoking* resolution” (Faucher 1875a, 82; emphasis in original). He even dismissed the entire congress of 1875, which, in contrast to the previous meetings, had “contributed but nothing to the popular enlightenment on the important questions of economic legislation” (Faucher 1875a, 81). He continued:

On the contrary, there is a danger that in a field where everything has been clear for a long time, namely trade policy, it has just caused new confusion. In addition, it has taken on two economic legislation issues [insurance law and the income tax], for which the time for a final decision has not come yet. (Faucher 1875a, 81)

Against Stöpel, Faucher reasoned that the French war repatriation of five billion thalers was responsible for the current economic recession, and not the liberal trade policy. Protective tariffs were nothing else than “*robbery* of the people by individual private persons” (Faucher 1875a, 93; emphasis in original) and the congress would have done better if it had recommended new trade treaties with foreign countries (Faucher 1875a, 96). Nevertheless, Faucher was optimistic about the state of trade freedom in foreign nations and about the future of free trade (Faucher 1975, 88-90). It would be a fatal signal in view of the growing free trade movement in Europe if Germany, which was closely monitored by other states, would turn to a protectionist course (Faucher 1875a, 91). After the congress, the iron and steel producers continued to organize themselves and to agitate for protective tariffs, while the free traders just declared to found newspapers or associations. On

⁹⁶³ Stenographic Reports of the Economic Congress, 1875, 203.

⁹⁶⁴ Oppenheim wrote in a letter to Eduard Lasker, dated to November 10th 1875, that the congress “has *incurably made a fool* of itself, partly due to Braunerite imprudence [Etourderien], and I consider this tool as unusable for the future” (Wentzcke 1967, 138; emphasis in original).

November 13th 1875, the *Ostseezeitung* had to admit that “the recent free trade agitation that had mildly started [...] already seems to have come to a standstill again. Here and there another meeting, now and then a brochure, but the necessary concentration of forces is missing” (quoted in Hentschel 1975, 240). However, the throne speech, which Delbrück read at the opening of the parliament on October 27th, and Bismarck's parliamentary speech on November 22nd endorsed freedom of trade. Bismarck favored few financial tariffs and spoke against protective tariffs. Nonetheless, Faucher correctly observed in the article *Die handelspolitische Grenzzollfrage vor dem deutschen Reichstage* (The Trade-Political Border Tariff Question in front of the German Reichstag) that free trade fought a rearguard battle: “But we are weak, we must not be under any illusions on that” (Faucher 1875b, 76). As he noted in December 1875, many free traders did not know anything about free trade and just joined the movement because the liberal trade policy had been “victorious” (Faucher 1875b, 76). Nevertheless, he was optimistic that free trade would reign soon in all parts of Europe. He even rejected the income tax and recommended consumption taxes, as he had done before 1866, by writing:

There should be no additional inward duties which raise one particular class of citizens above the other. Nothing should be subject to border customs, what is also not subject to the corresponding excise duty if produced domestically. We free traders want the consumption tax [...]. We do not want to know anything about taxation of the so-called income, as a permanent source of revenue, be it for the community, the state or the Reich. (Faucher 1875b, 84-5)

While the iron and steel producers founded a umbrella organization in December 1875, the free traders remained passive and focused on the fight against the project of a national railway (Hentschel 1975, 242). By summer 1876, the umbrella organization already demanded a reintroduction of tariffs on crude iron. Moreover, the liberal Delbrück, who had been responsible for Bismarck's trade policy, was removed as president of the Reichskanzleramt in 1876. In retrospect, Braun (1882, 226-8) viewed Delbrück's dismissal and a change of Bismarck's attitude, who wanted fixed state revenues—contrary to the free traders—that did not need approval by parliament, as the two major points that marked Bismarck's turn. The free trade papers took the new developments with a great portion of pessimism. As the *Ostseezeitung* noted, Delbrück's dismissal opens up “a most unpleasant perspective into a fluctuating and uncertain future at best” (quoted in Hentschel 1975, 243). From September 25th to 28th 1876, the congress debated trade treaties and iron tariffs. This time, the socialists of the chair helped to secure a vote against the protectionists. The congress recommended to sign new trade treaties, for example, with Russia and North America,⁹⁶⁵ and explained that a change of the legislation, which would mandate an abolition of all iron tariffs for

⁹⁶⁵ Stenographic Reports of the Economic Congress, 1876, 78.

1877, was unfeasible.⁹⁶⁶ On February 22nd 1876, a new opponent of the free traders arose with the “Vereinigung der Steuer- und Wirtschaftsreformer” (Association of the Reformers of Taxes and Economy). The association was dominated by East Elbian landowners, who had supported freedom of trade so far. However, in February 1877, the association presented its program that recommended a unified tariff on the value of all goods (Hentschel 1975, 250-1).

More and more, the free traders lost grounds. Due to the dispute with the socialists of the chair, they did not meet in 1877 and a small group visited the meeting of the socialists of the chair in Eisenach. In the next year, Bismarck announced on the edges of a state conference on April 5th 1878 that he supported tariffs on iron, grains, cattle and petroleum. This was an important turn and the free traders hardly reacted to it. In May 1878, they decided to leave the Handelstag at the conference of the representatives of the Sea cities. But not all cities left the Handelstag, whose secretary had been the protectionist Rentzsch since 1876 instead of the free trader Meyer. As Hentschel commented: “While those interested in protective tariffs did not miss an opportunity to enforce their claims, the free trade operated its business with incomprehensible carelessness” (Hentschel 1975, 273). In September 1878, even Eras, the former disciple of Prince-Smith, sided with the protectionists at the congress by introducing a resolution for a reversion of the recent tariff decreases.⁹⁶⁷ Wolff supported the preservation of the present trade treaties and was against any tariffs on agricultural products.⁹⁶⁸ Once again, the free traders did not decide anything and remained passive. The assembly had lost its most consequent members; the Bremen free traders like Böhmert and Emminghaus did not visit the meeting of 1878 and, as Braun noted in his obituary,⁹⁶⁹ Faucher had died on Whitmonday in Rome. In the following year, when the Reichstag began to assemble, even William I seemed to endorse protective tariffs in his throne speech by proclaiming:

I consider it my duty to act so that [...] our tariff legislation comes closer to the established principles on which the prosperity of the Zollverein has been based for almost half a century, and of which essential parts have been set aside by our trade policy since 1865.⁹⁷⁰

The free traders lost all hope after these remarks and saw every liberal reform since German unification on shaky grounds (Hentschel 1975, 272). Free trade lost another battle when the socialists of the chair met in Frankfurt in April 1879. Just eight visitors from the last congress of 1878 appeared at the meeting, and Gensel gave a presentation in support of freedom of trade. The

⁹⁶⁶ Stenographic Reports of the Economic Congress, 1876, 102-103.

⁹⁶⁷ Stenographic Reports of the Economic Congress, 1878, 142.

⁹⁶⁸ Ibid.

⁹⁶⁹ Stenographic Reports of the Economic Congress, 1878, 34-35.

⁹⁷⁰ Stenographic Reports of the German Reichstag, February 12th 1879, opening session, 2.

second referent Schmoller presented the question of tariffs or trade freedom as a relative one, whose answer depended on the historical circumstances. For the present situation, Schmoller evaluated the prospects of a protectionist reform optimistically. The time of free trade had come to an end and the assembly should recommend a moderate protectionist reform. The Verein für Socialpolitik followed Schmoller's proposals on the second day and rejected Gensel's free trade resolution with 82 to 63 votes (Boese 1939, 38-40; Hentschel 1975, 273). Shortly after, on July 10th 1879, the Reichstag passed a protectionist tariff against the resistance of Bamberger and Braun with 217 to 117 votes. The political free trader Bamberger had foreseen during the parliamentary debate that Bismarck would not stop with protective tariffs. Because the chancellor arrived at the conclusion that the state could intervene into the economy in an omniscient manner, "he will also feel obliged and encouraged to take a step in respect to the division of wealth, the division of income and property in a socialist sense."⁹⁷¹ A few years later, Bismarck would indeed establish a welfare state in Germany. The Economic Congress continued to meet until 1885, but the later gatherings were just "epigonism" (Hentschel 1975, 275).

⁹⁷¹ Stenographic Reports of the German Reichstag, May 3rd 1879, 37th session, 956.

Conclusion

It was hardly seen so far that the free traders exerted a great political influence on the process of German unification and on the legislation from 1867 to 1875 (Hentschel 1975, 283; Roscher 1874b, 1016). This is also true for the orthodox free traders, who met with the political elites in Prince-Smith's house and early sought a compromise with Bismarck in the constitutional conflict. It is also false to depict the free traders as apologists of a shallow materialism, hedonism or of anti-social profit-seeking (Hentschel 1975, 284), including the orthodox free traders. Prince-Smith, Faucher and their friends cared as much about the poor as the social reformers, but they viewed profit-seeking and capital accumulation as the only cure to the pressing social ills, and socialism as a death sentence for the working class. Another wide-spread error is to assume that the German economy and the working class suffered from free trade. As Heinrich von Treitschke wrote in the year of Prince-Smith's death, in 1874:

The transformation of our national economy has given to the working class a great increase of wages, without parallel in German history. Therewith they secured, as aforesaid the English working classes, the possibility of permanently improving their standard of life, and of approximating more nearly to the habits of the middle classes. (quoted in Dawson 1904, 31-2)⁹⁷²

In what follows, a look is taken at the the history of orthodox free trade after 1879. A brief summary points out the main results of this work and the errors of the orthodox free traders are presented. These are their centralism, the missing intellectual radicalism and their lack of a solid scientific foundation for *laissez-faire*.

i) Orthodox Free Trade after 1879

Bismarck triumphed over the free traders in 1866 and 1879 and they would not recover from their last defeat. After 1879, orthodox free trade was gone at the congress. Faucher, Hübner and Prince-Smith were not alive anymore, Braun just moderated the debates and did not speak on economics, and Dorn intervened few times.⁹⁷³ Michaelis, who had been ideologically and personally close to the orthodox group, did not attend the meetings. He became the president of the

⁹⁷² See Raico (1999, 1-5) and Hayek (1954) for a refutation of the view that the industrialization and free markets led to mass impoverishment in the 19th century, which was not overcome before the introduction of the modern welfare state. See Reichel (1994) for an empirical work against the thesis of worker pauperization, rising income inequality and an increasing number of economic crises in Germany from 1840 to 1880.

⁹⁷³ Although Dorn was present in each meeting after 1879—in 1880, 1881, 1882, 1883 and 1885—he hardly spoke on economics. He raised his word one time in 1880 and two times in 1885, when he was second referent on the topic of trade policy.

Economic Society of Berlin after he lost power in 1880, but was forced to resign (Braun 1891b, 144). Even such principled free traders like Böhmert and Emminghaus did not visit the congress but turned their attention to charity, like fighting alcoholism or pauperism. The congress perished in 1885 when Braun forgot to reunite the executive committee at the end of the meeting, to prepare a future gathering. Nobody felt responsible to point out Braun's mistake. In these last years, Braun disassociated himself from the strict minimal state. In his book *Von Friedrich dem Großen bis zum Fürsten Bismarck* (From Frederick the Great to Duke Bismarck, 1882), he pointed out how Bismarck's turn on economic policy conflicted with traditional Prussian liberalism, which dated back to Frederick III and the Stein-Hardenberg reforms. Although he based himself on Bastiat's *The State* (2007 [1848]) and Humboldt's *The Sphere and Duties of Government* (1856 [1792]), he rejected the night watchman state whose only task was the production of security. The state might intervene into the economy in special cases where the benefit of a political measure was proven (Braun 1882, 308-9; see also Congress 1882, 12). Braun expressed his surprise that Bismarck changed his opinion with 65 years, because the chancellor had always been a free trader since 1847 (Braun 1882, 315-6).⁹⁷⁴ Nonetheless, although Bismarck was his political enemy since 1878 (Grandpierre 1923, 140), he was optimistic that Bismarck would return to his old liberal policy.

Despite of his dissociation from doctrinaire free trade, Braun continued to give liberal speeches in public. In 1883, he talked about the Vagabond Question at the Economic Society of Berlin. Like Faucher, he supported work houses for vagabonds and unemployed people that were physically able to work (Braun 1883, 15-7). He was also against public welfare by saying: "I for my part believe that one cannot nationalize the practice of charity, philanthropy, humanity, morality, true Christianity [...] because otherwise it ceases to exist. In this respect as well, I confess to *laissez-faire*" (Braun 1883, 17). However, Braun supported the plan to found German colonies. On February 27nd 1886, he gave a speech about colonization and slavery at the Economic Society of Berlin. On the one hand, he advised against the introduction of slavery, which was abolished in England since 1807: "I do not believe that Germany could take the responsibility for restoring those horrible conditions and reversing one of the greatest cultural advances of the present" (Braun 1886, 14). He favored the English colonization of North America over the Spanish and Portuguese one in Latin America, because the English had used less coercion. In many cases, they had bought land from the North American Indians. Braun believed that the rise of a German colonization movement was due to a regress to the doctrines of socialism and mercantilism. Nevertheless, Braun was not principally against the German colonization of foreign countries. It was impracticable to limit

⁹⁷⁴ However, Braun had already been alarmed that Bismarck could side with interventionists when the chancellor had commissioned a protectionist book in 1867, that was written by Eugen Döhning (Braun 1869, 8-11).

oneself to the colonization of unused land or to the acquisition of populated areas. Few territories existed that were unpopulated and attractive and buying land was quite often impossible, because no clearly defined property rights existed in many places, especially in Africa (Braun 1886, 36-7). Braun did not rule out the colonization by force, although he preferred buying land and advised against “that [colonial] policy which was directed at commercial and colonial monopolies, at financial exploitation, at the survival and suppression of colonies and their natives, and at the acquisition and expansion by force of arms” (Braun 1886, 38). Hence, in light of his later years, Braun's classification as an orthodox free trader must be questioned.

ii) Main Results

To sum it up, the German free trade movement was established by Prince-Smith and Faucher in the 1840s. Prince-Smith worked as a gymnasium teacher for English and French in the East Prussian town Elbing. He started to publish his first articles on economics and freedom of trade in 1835, in the local paper *Elbinger Anzeigen*. In 1846, he moved to Berlin and became a friend of the young Faucher. The latter published the individualist anarchist newspaper *Abendpost* in 1850, for which Prince-Smith contributed articles. The *Abendpost* was the only organ of radical free trade and Max Stirner's philosophy of egoism in Germany until that time. Its distinctive characteristic was the combination of Stirnerite thought with anarchist ideas and laissez-faire economics. The journalist Heinrich Beta described the doctrine of the *Abendpost* as follows:

[The *Abendpost*] did not demand anything more than complete freedom of supply and demand, for production and utilization of all needs and consumption goods, for example in relation to the state itself and its means of coercion for self-preservation, so that only he pays for the ‘state’ who needs it, according to performance and counter-performance, and only he contributes to the military budget who owes something for performed soldier services in accordance with the market price. One ought to be able to buy state, soldiers etc., for instance from companies which already provide us with gas, water and coal, etc. (Beta 1863, 268)

Beta and Wilhelm Lipke continued this early German individualist anarchist tradition when the *Abendpost* perished in July 1850. Beta wrote the individualist anarchist tract *Germany's Downfall and Rise by America* (1851) and Lipke gave the anarchist speech *Tempus Omnia Revelat* in the Berlin free trade association on February 10th 1851. Hermann Maron also released the pamphlet *My Free Trade* in 1847 where he came close to defending the Stirnerite egoist anarchism of Faucher. The investigations on this individualist anarchist tradition are important for the reading of Max Stirner's work, because the free traders were the only followers of the philosopher before the

1880. After this anarchist intermezzo, years of silence followed from 1853 to 1857. Faucher wrote for the free trade paper *Morning Star* in London and was the private secretary of Richard Cobden, while Prince-Smith was not politically or intellectually active. However, when some German liberals began to found the Economic Congress in 1857, the orthodox free traders took up their earlier agitation for free trade. Although they were not instrumental in the foundation process of the congress, they soon assumed a leading role. Braun headed the debates as the president and Prince-Smith shaped the resolutions for freedom of trade with Wolff and Michaelis.

From 1860, the “apostle for free trade” Faucher visited the congress and started a tour throughout Germany to preach free trade to the public. In May 1962, the Economic Society of South West Germany reported at its general meeting that Faucher had given 120 speeches in thirty cities in South West Germany.⁹⁷⁵ At the congress, the topic that dominated the debates from 1861 to 1863 was the Franco-Prussian trade treaty and a reform of the Zollverein constitution. The Berlin free traders, including Prince-Smith and Faucher, and the Bremen idealistic group held different views about the treaty. The Bremen group attempted to use the trade agreement as leverage to push for a reform of the Zollverein constitution, while the orthodox and pragmatics wanted to ratify the treaty unconditionally. The Bremen group could win over the congress in 1862, while the Berliners around Prince-Smith and Faucher won in 1863. However, this conflict illustrated a crucial characteristic of the orthodox free traders: because they were convinced of the ultimate and imminent victory of free trade against protectionism and economic interventionism, they were ready to make any political pact that would bring about more economic freedom in the short run, and they neglected constitutional questions and questions of political power. As Ralph Raico notes: “It is as if the fact, that many of them were early linked to anarchism, left them with a lasting aversion to political conflict” (Raico 1999, 74). Therefore, Faucher and the pragmatic Michaelis were one of the first members of the Progress Party that advocated a compromise with Bismarck in the Prussian constitutional conflict. After the won Danish war in October 1864, Faucher said in the Prussian House of Representatives:

Why should both the crown and the people not have a desire to reconcile, and why should we not seek this reconciliation by means of compromise? What is compromise in political life? Compromise, that is the victory of patriotism over egoism, [movement] compromise is the victory of humbleness over vanity, [listen, listen!] and we in Prussia are patriotic and humble people and hope our government is too.⁹⁷⁶

In 1866, when Prussia won the war against Austria, Prince-Smith and Faucher were in the

⁹⁷⁵ *Bremer Handelsblatt*, May 10th 1862, no. 552, 156.

⁹⁷⁶ Stenographic Reports of the House of Representatives, March 15th 1865, 21st session, 504.

forefront in making a compromise with Bismarck. At the congress, the orthodox free traders opposed debt detention, lotteries and patents from 1863 to 1865. They advocated the night watchman state and wanted to apply the benefit principle to taxation, in particular to municipal taxes. On the other side, the Bremen free traders favored the ability to pay as the measure for taxation. Neither side could win over the congress. The orthodox free traders also argued for fractional reserve free banking. However, in contrast to the Banking School theorists Adolph Wagner and Leopold Lasker, the orthodox free traders wanted to outlaw unbacked notes in a central banking system. The period from 1863 to 1865 were the laissez-faire years of the congress and its attendees formed “a fairly closed free-trade phalanx” (Böhmert 1872b, 138). However, the movement began to disintegrate after 1866 and the Indemnity Bill, about which Ludwig von Mises says that it resulted in the “full success for the King and in a complete defeat for liberalism” (Mises 2010, 27). Although the free traders could implement many economic reforms in the time of the North German Confederation from 1867 to 1871, the pragmatic group and the Bremen idealists increasingly clashed at the congress, while the orthodox group became evermore silent. As the congress attendee Alexander Meyer commented, these conflicts “made much of the debates unfruitful.”⁹⁷⁷ Prince-Smith and Braun also debated the leader of the social democrats Schweitzer, whereas Faucher quite generously reviewed Marx's *Capital*. While the orthodox group had done little to confront Lassalle in the early 1860s, they began to take the socialists more seriously. Additionally, Faucher started a campaign for a housing reform and his attempts culminated in a letter to Bismarck dated April 30th 1870. He asked for help to set up a private venture that would construct entire city districts, by saying that his speeches in Berlin had shown:

[...] that the prospect of owning a home and a garden is a means of traction to which socialist and political doggedness, like fog and storm, give way. If action is taken now, not only the housing reform but the political health of the big cities is secured, and it will be credited to whom helps.⁹⁷⁸

Ultimately, Bismarck did not answer the letter and Faucher failed to improve the living conditions of the poor. In the 1870s, the congress addressed the issue of free banking versus central banking a second time because of the plans to found a German central bank. The orthodox free traders did not raise their word in the debates and the Bremen idealist Böhmert had to defend free banking. Regarding a national coin, Faucher favored a gold currency for the new empire, while Prince-Smith endorsed a double standard. Faucher also opposed the plan to nationalize all German railways. In general, the orthodox group became isolated among the free traders from 1872 on. This

⁹⁷⁷ *Deutsches Handelsblatt*, October 31st 1872, no. 44, 382.

⁹⁷⁸ Otto-von-Bismarck-Stiftung, Bismarck-Archiv, B 41/9, front sheet 84.

was due to the debate with the socialists of the chair that was caused by a polemic newspaper article by Heinrich B. Openheim. In public, the orthodox free traders did not dare to speak up for the strict minimal state, which they defended since the 1840s. The doctrine of the night watchman state became discredited as a result. A crucial aspect of this debate was economic methodology, where Faucher stated in his work *History, Statistics, and Economics* (1863a) that economic theories could not be disproven but merely illustrated by historical or statistical data. Faucher's views approximate those of Carl Menger and especially those of modern members of the Austrian school. However, after the change in public opinion and the economic crisis of 1873, Bismarck turned to protectionism in 1879 and orthodox free trade vanished in Germany.

iii) The Errors of Orthodox Free Trade

Faucher and his friends committed three errors: they were too unradical, too centralistic, and too unscientific. They were not radical enough because they made a fatal political pact in 1866 and did not hold up their views in 1871, when the climate of opinion began to change. They pursued the Hayekian aristocratic strategy of convincing the elites first, which then spread liberal ideas in the wider public, instead of the Rothbardian populist approach of direct mass persuasion.⁹⁷⁹ Hentschel therefore misses the point when he views a lack of intellectual attractiveness as the cause of the demise of liberalism in 1879:

When the interested public turned away from it [free trade], it turned out that the idea alone did not have enough integrating power to form and hold together a vibrant organization against the mighty protectionists, and not enough radiance and power of persuasion to keep public opinion awake and resilient. (Hentschel 1975, 275)

Certainly, free trade had not been unconvincing or unattractive—if so, how had it assumed supremacy over public opinion in the 1860s in the first place? The issue was rather that German free trade never possessed such a firm mass foundation like in England. It had been introduced from above by the Prussian political elites, which pursued German hegemony over Austria. As Schunke points out:

The free traders only had influence as long as the Prussian state reacted to their thoughts and supported

⁹⁷⁹ An exception is the “apostle for free trade” Faucher. Rothbard argues for the populist model as follows: “[T]he problem is not just intellectual error [of the intellectual elites]. The problem is that the intellectual elites benefit from the current system; in a crucial sense, they are part of the ruling class. The process of Hayekian conversion assumes that everyone, or at least all intellectuals, are interested solely in the truth, and that economic self-interest never gets in the way. Anyone at all acquainted with intellectuals or academics should be disabused of this notion, and fast. [...] Hence the importance, for libertarians or for minimal government conservatives, of having a one-two punch in their armor: not simply of spreading correct ideas, but also of exposing the corrupt ruling elites and how they benefit from the existing system, more specifically how they are ripping us off” (Rothbard 1992, 7-8; emphasis in original).

them. [...] Thereby the free traders became defenders of the Prussian policy, which secured its commercial independence by the contract with Hanover in 1851 and by the trade agreement with Austria in 1853 [...]. Every step that Prussia took to free trade in the meantime was a step away from Austria, raised the economic barrier, prepared the final battle for hegemony in Germany. (Schunke 1916, 84-5; see also Mayer 1927, 47-9)

Accordingly, free trade had its breakthrough after 1849, when Prussia changed to a liberal trade policy, and its decline corresponded to the establishment of Prussian hegemony after 1866 and especially after 1870. Once a central state was founded, the Prussian elites lost interest in a further alliance with the free traders. The only promising strategy would have been resistance to Bismarck in 1866 and to the socialists of the chair in 1871 because “*only* radical [...] ideas can possibly stir the emotions of the dull and indolent masses” (Hoppe 2002, 94; emphasis in original). But the orthodox free traders missed the historical opportunity that was given to them. They focused on alliances with the political elites instead of diffusing their ideas among the general public. They ignored constitutional questions and just focused on the economic issues in the parliament. This political naivité and lack of “uncompromising intellectual radicalism” (Bagus 2009) contributed to a great degree to the erosion of free trade.⁹⁸⁰

Another deficiency was the centralistic attitude of the orthodox free traders. They discarded *Kleinstaaterei* with the smear word of “particularism” and believed, as Braun noted, that “economic liberty cannot be realized otherwise than in and with political unity.”⁹⁸¹ Especially Karl Braun was in the forefront of this campaign against small states because a great number of his books are directed against *Kleinstaaterei*. Only Wilhelm Lipke had it right when he recognized that a German central state would signify a “regress” (Lipke 1851, 15). However, it would have been difficult to introduce the welfare state and tariffs under *Kleinstaaterei* because the productive people would have left the anti-liberal states to flee the rising tax burden (see Bagus and Marquart 2017). Lastly, the orthodox free traders lacked a scientific foundation. Although Faucher released a scientific journal, many articles of the orthodox group rather possessed a popular scientific character and failed to go into great analytical depth. Schüller's critique is partially correct when he writes: “The liberal economists of this period [from the 1850s to the 1870s] did not engage independently on the scientific field. They used classical economics, often superficially, for purely political purposes, and formulated the Smithian doctrines in a one-sided chrematistic sense” (Schüller 1899, 79). For example, Faucher's methodological critique remained perfunctory and the historical method was not

⁹⁸⁰ According to Eugen Richter, Bismarck later admitted in the Reichstag that he would have made significant compromises to the liberals in 1866 to establish a German central state (Richter 1892, 189-90).

⁹⁸¹ Stenographic Reports of the Economic Congress, 1882, 26.

sustainably attacked until the release of Carl Menger's *Investigations* more than two decades later. Prince-Smith's writings were of a popular-scientific character, and Braun hardly wrote on economics. A notable exception is Hübner's study *The Banks*. The sole free trader, who authored an economic treatise, was Max Wirth. Nonetheless, this is not to say that Faucher and his friends did not contribute to contemporary economics. Faucher's research on housing was praised by Wilhelm Roscher (1874b, 1015) and his work on business cycles deserves recognition. However, the orthodox free traders turned their attention day-to-day politics and neglected the theoretical, more fundamental questions. Prince-Smith planned to write a treatise in the 1840s (Wolff 1880, 233-4) but never finished such a work despite his financial independence. This lack of a scientific basis proved to be fatal in the debate with the socialists of the chair. It was for Carl Menger and his disciples in Austria to develop a more consistent scientific foundation for doctrinaire laissez-faire.

Appendix

A. Carl Menger and the German Free Trade Movement⁹⁸²

The free traders united in Vienna in 1873 because of the world fair that was taking place in the capital of the Habsburg empire. At that time, Carl Menger already worked as an assistant professor at the University of Vienna. Two years ago, he had published his dissertation *Principles of Economics*. In 1876, he would start to give lectures on economic policy to the crown prince Rudolf of Austria. In the following, Menger's writings on economic policy are examined, his relationship to the free traders and his reception by the German free trade movement. A look at this relationship might help to gain a deeper understanding of Menger's position on economic policy.

1. Menger on Economic Policy

Carl Menger was extremely reluctant to express his political views. Brigitte Hamann, the biographer of crown prince Rudolf, noted: “Menger refrained from criticism of the court and the society very carefully” (quoted in Kiichiro 2011, 19). The professor expressed his opinion only in journalistic writings before 1875, of which a great part is not identified because they were published anonymously.⁹⁸³ Menger did not write on economic policy due to of the tripartition of economics in the German-speaking world. Since its establishment as an academic discipline, German economics was divided into economic theory, economic policy and public finance. Traditionally, since the early half of the 19th century, there were two economic chairs at a university and the professor that taught economic theory—as Menger did—would not teach economic policy (Streissler 1990a, 107-8). Menger's family background is also not enlightening concerning his political views. His elderly brother Max was a liberal member of parliament, while his younger brother Anton was a socialist professor of law at the University of Vienna. Menger's statements regarding currency reform from the 1890s are not very relevant since he just gave practical advice, for example, on the best rate of conversion of the old currency into the new (Streissler 1990a, 108). Therefore, three sources remain about Menger's position on economic policy: The lectures from 1876 and 1877 given to the crown prince Rudolf of Austria, henceforth called the Rudolf Lectures, the lectures on public finance that

⁹⁸² This paper was prepared for the Second Madrid Conference of Austrian Economics in November 2018.

⁹⁸³ For Menger's journalistic activity, see Yagi (2011, 18-22).

Menger delivered at the university of Vienna around 1888, the Vienna Lectures, and a newspaper article from 1891 about the standpoint of classical economics and in particular of Adam Smith on economic policy, henceforth called the Smith Article.

1.1 The Rudolf Lectures

When Menger started to give the lectures in early 1876, he had studied economics for roughly eight years—since September 1867—and it took another three and a half years until he became full professor at the University of Vienna. Two points are astonishing concerning the Rudolf Lectures, which comprise 123 pages of typescript and are contained in 14 notebooks: Menger's heavy reliance on Adam Smith and his orthodox classical liberal position on economic policy. Erich Streissler, the first to receive a transcript of the lectures, argued: “[T]he Rudolf Notebooks show Menger to have been a classical liberal of the purest water with a much smaller agenda for the state in mind than even Adam Smith” (Streissler 1994, 14). According to him, the “main textbook” of the lectures was Karl Heinrich Rau's *Grundsätze der Volkswirtschaftslehre* (Principles of Economics) from 1826, but “the whole framework” and most arguments and examples were taken from Smith's *Wealth of Nations* (Streissler 1994, 6). Because Menger referred to Rau only when Smith briefly touched upon a topic, Streissler comments: “It is almost as if Menger checked at every step whether what he taught was mentioned in his 'bible', the *Wealth of Nations*” (Streissler 1994, 8; emphasis in original).⁹⁸⁴ Both Smith's and Rau's book were quite ancient at the time of the lectures—50 and 100 years respectively. Menger probably used them to guard against criticism (Streissler 1994, 9) because when he relied on his own in two lectures about the Austrian paper currency, he heavily edited both notebooks. Proof that Menger drew from both authors also comes from the fact that the crown prince—a very intelligent 18 year old boy—sometimes reproduced the same unusual words that Smith and Rau used in their works, although Rudolf did not seem to possess any economic treatises (Streissler 1994, 12).

Menger made several times a stricter argument for laissez-faire than Adam Smith in the *Wealth of Nations*. Menger did not mention Smith's advocacy of antimonopolist strictures and of government managing the post. He omitted that Smith favored economic interventionism to protect the nation against foreign aggressors, although Rudolf was a trained member of the Austrian army and its prospective supreme commander (Streissler 1994, 14). Since Menger always spoke of what the state should do instead of what the state should not do, these omissions are—according to

⁹⁸⁴ Elsewhere, Streissler comments that “the Austrian crown prince was taught pure Adam Smith” and: “It is evident from the lectures that Menger had fully absorbed Smith's line of thought, which argues that he had studied Smith closely long before he gave the lectures at short notice to the crown prince” (Streissler 1990a, 111).

Streissler (1994, 15)—meaningful. But even if the omissions do not have meaning, they suggest that Menger fully endorsed Adam Smith's position on economic policy (Streissler 1990b, 112). The course was not a standard course of 1876, because Adam Smith was rather out-dated in Austria since the anti-liberal Metternich era. There is no evidence that Menger was charged with teaching Smith by the Empress Elisabeth or Count Joseph Latour, who was responsible for Rudolf's education. Even if so, both would not have been intellectually capable to control the content of Menger's classes. That Menger was charged to teach Smith would also not explain why Menger made a more doctrinaire case for *laissez-faire* than Smith (Streissler 1990b, 111). Another interpretation of the lectures is that Menger changed his mind on economic policy in his later years. However, Menger never went away from the opinions of his youth and never gave any concrete examples in subsequent publications, where he favored more government intervention (Streissler 1990b, 112). Thus, Streissler arrives at the conclusion that the Rudolf Lectures are an accurate reflection of Menger's position on economic policy (Streissler 1990b, 112).⁹⁸⁵ Streissler's case indeed seems to be a strong one, and the lectures and subsequent publications suggest, as will be shown, that Menger at least fully endorsed Smith or was maybe more *laissez-faire*. In the Rudolf Lectures, Menger explained that the state had to intervene only in “abnormal situations” of certain positive or negative externalities. Rudolf wrote:

[T]here are instances in the life of a state when the economic performance of individuals or of groups of citizens runs up against obstacles that require the government's powers to remove them, since individual resources would not possibly be enough. We deal with abnormal situations here, since only these justify government interference; in everyday economic life we shall always have to denounce such actions as harmful. [...] For the most part, these are such powerful phenomena that they require special laws, which, of course, only the state can pass, or involve such high costs—because of the size of the obstacle—that government support becomes indispensable. (Streissler and Streissler 1994, 115)

Streissler comments on the above passage that the Rudolf Lectures are “probably one of the most extreme statements of the principles of *laissez-faire* ever put to paper in the academic literature of economics” (Streissler 1994, 17; emphasis in original). However, when does Menger allow for intervention of the state? Menger first advanced a two stages theory, arguing that “uncivilized”

⁹⁸⁵ Some authors contested Streissler's interpretation of the Rudolf Lectures. Ralph Raico writes: “It seems, however, that Streissler exaggerates the probative value of the notebooks” (Raico 2012, 38). Basing himself on the Smith Article from 1891, Israel Kirzner (1990) similarly viewed Menger as more interventionist. Both do not provide evidence that disproves Streissler's interpretation. Raico merely points out that Böhm-Bawerk introduced a progressive income tax in Austria and leaned more towards interventionism in his youth. Ikeda (2010, 3) writes that Menger's liberalism “is still an open question, even among scholars deeply involved with the study of the Austrian School in general and Menger in particular.” He agrees with Streissler's interpretation that Menger had a smaller agenda for the state in mind than Adam Smith and continues: “The problem now is the exact extent and flavor of Menger's liberalism. A more detailed characterization of his politico-economic ideology is needed” (Ikeda 2010, 18). According to Ikeda (2010, 18), two recent authors, Wilke (2008) and Rosner (2008), follow Streissler's interpretation too.

peoples still needed more government interference but, when an economy developed and prospered, “the state can greatly harm the citizens' interests by interfering to much” (Streissler and Streissler 1994, 109-11). The notebooks then list twelve cases of intervention, which are a cattle plague, phylloxera, bark-beetle, deforestation, limitation to working hours per day, prohibition of child labor, building of roads, canals, schools, provision of prime breeding animals for poor farmers and commercial treaties. In case of a phylloxera or bark-beetle, Menger explained that resources of individual farmers were too small to fight these ills, but the state could easily prohibit import of wines or, in the case of bark-beetle, establish a quarantine by cutting the infested timber and reimbursing forest-owners (Streissler and Streissler 1994, 116). Menger also wanted the state to protect forests in regard to deforestation:

Quite often a forest owner in the mountains who is temporarily short of money will want to clear his high-lying forests; this can easily cause irreparable damage, since the rainfall will then run off in torrents and wash out the humus layer; floods in springtime, droughts in summer, and other kinds of damage to agriculture in the plains result from such deforestation of the mountain sides and tend to worsen over time. The Southern Tyrol, Istria, Dalmatia are sad object lessons of the blind greed of individuals and thoughtless negligence of former governments (Streissler and Streissler 1994, 131).

As Rudolf wrote, a poor forest-owner cut timber although it was disadvantageous for the community, concluding: “Protecting forests is among the major duties of the state which, by virtue of their importance, justify government intervention in individual economic activity” (Streissler and Streissler 1994, 133). Another “abnormal” case that justified intervention were labor conditions. This problem had not only become important due to the industrial revolution and the resulting migration of workers to the cities, but also because of the increasing dissemination of communist ideas among the working class, explained Menger. The spread of such ideologies could be prevented by good working conditions and a limitation of daily working hours:

The factory owners may influence decisively even the physical development of the working class; and for this very reason, the state must pay close attention to life in the factories in order to prevent workers from degenerating physically as a result of their being overworked. Therefore, factory owners are not allowed to let their labourers more than a certain maximum [in the margin: 15 hours], even if workers were willing to submit to such disastrous treatment, pressed either by necessity or induced by a higher wage; the government prohibits, for example, a 15-hour day in factories since the worker's physical strength and health suffer if he spends that number of hours daily at hard labour, thereby having his mental faculties blunted completely and sinking to the state of a machine. (Streissler and Streisler 1994, 127-9)

Menger wanted to limit working time to 15 hours per day. This meant effectively that a person would have nine hours of rest, a very modest intervention into labor markets. Ikeda startled

observes that “this concept must be acceptable for almost all capitalists” (Ikeda 2010, 9). By contrast, the Ten Hour Act from 1847 had long before established a ten hour limitation in Great Britain. Menger did not argue for safety regulations at the workplace or controls by a factory inspectors. He also favored a prohibition of child labor:

An even more disastrous feature of factory life is the employment of young children; this impairs the physical and intellectual development of whole generations of workers, for hard labour at a tender age undermines a person's health permanently and impedes vigorous growth; in addition, regular attendance at school becomes impossible and, apart from the lack of formal education, continued association with often depraved older workers also leads to utter corruption. (Streissler and Streissler 1994, 129)

Regarding positive externalities, the state had to establish schools, agricultural and vocational training institutions and build canals, roads and railways. But Menger only spoke of establishing or building such institutions and not running them (Streissler 1994, 121-123):

Important roads, railways and canals that improve the general well-being by improving traffic and communication are special examples of this kind of enterprise and lasting evidence of the concern of the state for the well-being of its parts and thereby its own power; at the same time, they are/constitute major prerequisites for the prosperity of a modern state. The building of schools, too, is a suitable field for government to prove its concern with the success of its citizens' economic efforts. (Streissler and Streissler 1994, 121)

In contrast to Smith, Menger did not mention bridges and harbors. Another case for intervention were commercial treaties, as Menger explained to Rudolf: “[S]everal states must negotiate their interests just like individual persons; commercial treaties are signed which promote individual trade interests and thereby cause a state to prosper in one of the most essential areas” (Streissler and Streissler 1994, 117). The state should not restrict imports by means of such treaties, but facilitate exports (Streissler and Streissler 1994, 116). He did not mention tariffs, in contrast to Adam Smith, who favored some import duties. Besides these twelve cases of intervention, Menger argued for free trade when he presented price theory. In case of a local famine, tariffs were unnecessary because railways rapidly brought food from unaffected areas. Even for a nation-wide famine, Menger thought of state interference as unnecessary because “the economy can help itself” (Streissler and Streissler 1994, 187):

If grain is not available in the country in sufficient quantities and famine ensues, exporting this already insufficient grain is rendered impossible by very high prices, of course. Conversely, because of the high grain prices a country hit by famine will import grain from neighbouring countries. In addition, all private enterprise will, on their own, stop distilling brandy or at least reduce this business to a minimum so that

the grain can preferably be used for baking bread rather than being used up in distilleries. (Streissler and Streissler 1994, 187).

Moreover, citizens started to economize food when prices rose and a prohibition therefore was pointless (Streissler and Streissler 1994, 188-90). Menger was against rescuing industries that perished due to technological progress. With respect to the disappearing handicraft industry, government had to give “advice” (Streissler 1994, 89) to handicraft workers but, apart from that, refrain from interference. Small producers had to join their efforts in cooperatives and approximate the production mode of larger businesses, to slow down the transformation process (Streissler and Streissler 1994, 89). Generally, however, large-scale industry was beneficial to society because it supplied consumers with a greater quantity of a good at a lower price. In the two lectures on the Austrian currency, Menger criticized the irredeemability of Austrian banknotes against silver, and legal tender laws that forced citizens to accept these unbacked notes (Streissler and Streissler 1994, 135-7). The “main cause” (Streissler and Streissler 1994, 142) of the devaluation of the Austrian notes was the over-abundance of state notes issued by the national bank. Government had to lower the quantity of issued notes from 350 million to 100 million florins (Streissler and Streissler 1994, 142). Such a reform could be implemented only by the state and not the Austrian national bank (Streissler and Streissler 1994, 146). The supply of notes had to be kept fixed at 100 million florins, so that the state could not borrow from the Austrian national bank (Streissler and Streissler 1994, 148). Menger viewed the state as a moral institution and private people as discouraged, lack-lustre and full of sluggishness (Streissler 1994, 18). But he did not derive a case for government action from this fact, because interference led people to unlearn self-reliance. He advanced two lines of argument against state interference. He emphasized differing individual preferences, which the state was unable to comply with because it could just impose a single policy, and pointed out that state action always entailed undesirable consequences and should be only undertaken if its grounds for justification were very strong (Streissler 1994, 19). Thus, depicting Menger as an advocate of social reform seems very difficult in view of the Rudolf Lectures. Menger was probably a follower or even admirer of Adam Smith, given the fact that he had 20 editions of the *Wealth of Nations* in his library⁹⁸⁶ and called Smith “the great founder of our science” (Menger 1985, 49).

⁹⁸⁶ Menger possessed 20 editions of the *Wealth of Nations* of which eleven were English editions, six were German editions and three were in French. These 20 editions overtop for example Say’s *Traité* and *Cours* (each 7 times), Ricardo’s *Principles* (5), Rau’s *Grundsätze* (3) or Condillac’s *Le commerce* (2). The most-quoted book of Menger’s *Principles*, the first volume of Roscher’s *System*, is represented with 12 editions although 25 German editions came out until Menger’s death and there were also English and French translations.

1.2 The Vienna Lectures

These lectures were about public finance and Menger hardly touched upon economic policy. He presented the history of ideas on public finance and the history of the Austrian tax system, defined basic terms and concepts of the field and elaborated on the most economic way to collect taxes. Regarding the history of thought, Menger started with Jean Bodin in the year 1577 and went down to German authors of his time. He praised the Austrians Justi and Sonnenfels that stood for an enlightened absolutism, opposed capital taxation and favored general principles that had to guide tax collection (Mizobata 1993, 32). Menger wrote on the English classical economists Adam Smith, David Ricardo, John Stuart Mill, Jean-Baptiste Say—a “disciple of Smith” (Mizobata 1993, 33)—and John Ramsay McCulloch. He then continued with the German authors, explaining: “In Germany, public finance was already well-developed even before Smith” (Mizobata 1993, 33). He mentioned Soden, Lotz, Jakob, Malchus, Umpfenbach, Stein, Bergius, Pfeiffer, Rau and Wagner. Menger highlighted Rau's work as “the best and clearly most recommendable work” (Mizobata 1993, 34). It was reworked by Wagner whereby it received “another character” since Rau was a “free trader” and Wagner a socialist (Mizobata 1993, 34). Regarding the difference between state and private economy, a state should not engage in spending or taxation that was immoral, for example, taxing the lottery (Mizobata 1993, 35). Due to the limitation of state resources, it was false to determine spending first and set taxation accordingly. The minister of finance had to bring spending and taxation into an equilibrium. The benefits generated by public spending had to be as high as the costs created by taxation, otherwise the state should not interfere into the economy (Mizobata 1993, 36). Government should administer existing state property but not create new state property: “Nowhere, these days, there is talk of an obligation of the state to establish private enterprises” (Mizobata 1993, 43). Menger emphasized that government was not the most capable to manage private enterprise. Civil servants were rarely unselfish, diligent and, being jurists, they were usually less knowledgeable than private entrepreneurs. They lacked the autonomy of a private person because, even if they were competent, they were always under somebody's control:

The greatest effort, enjoyment of life, health is needed to found and preserve a firm. To found a brewery or a cloth mill is far more difficult than a law office. [...] [A] lawyer does not want to establish a cloth mill and a brewer not a law office, if he is smart. (Mizobata 1993, 44-5)

A private person had greater interest in the success of his business because he enjoyed, contrary to the civil servant, its benefits. As Menger said: “There are very diligent civil servants, but the diligence of a private person can be seldomly found among civil servants” (Mizobata 1993, 45). The higher a civil servant stood in a bureaucracy, the less knowledgeable he was. A quality check of

the work was more complicated and costly for civil servants than for employees in private enterprises. Most suited to public management were telegraphs, railways, domains, the post, forestry and mining. Thus, public property should not be administered by civil servants “because diligence of a civil servant is low” (Mizobata 1993, 47). These declarations were a strong condemnation of the public sector and praise of entrepreneurship and private enterprise, given the fact that Menger's students were law students of which many were to become civil servants.

Menger allowed for some exceptions of state intervention. One case was a public need that might not be fulfilled by private firms, but on which a state heavily depended. Menger gave armaments as example that might be partially provided by private firms, like Krupp in Germany. Nevertheless, the state had to be independent of private arms manufacturers by establishing own companies, because they might not deliver armament in wartime. Another example were printing houses, on which government may depend during a revolution when it had to publish new laws (Mizobata 1993, 45). As in the Rudolf Lectures, Menger argued that government might “bring into being” schools for agriculture, vocational training centers and railways. He did not speak of running these businesses. During the first years, private people incurred too many losses and many potentially beneficial railway lines were not built without government. Menger rejected the supposed view of the “free traders” (Mizobata 1993, 46) that wanted to build railways only if a private entrepreneur was willing to undertake the project (Mizobata 1993, 47). He also pointed out that the state had a military interest in railways and that, because cartels formed, they had not become less expensive when being managed by private entrepreneurs (Mizobata 1993, 61-2). Regarding the forestry, Menger made the same argument for state protection as in the Rudolf Lectures (Mizobata 1993, 47). Because it would be a burden for the poor, Menger opposed a head tax (Mizobata 1993, 50-1). He favored a progressive income tax with a tax exempt amount that equaled the minimum standard of life, since a rich person felt a higher tax rate less than a poor man:

With increase in income, one feels less sacrifice, even if the loss is the same amount. For this reason, we must not tax with the same proportion; but with increase in income, the percent rate must be also increased. This means that the percent rate must be progressive, as it is the case for the income tax and the tobacco monopoly in Austria [...]. (Mizobata 1993, 52)

In the Rudolf Lectures, Menger had also proposed a progressive income tax with a tax exempt amount for basic needs of life. In 1888, Menger opposed the pay-to-benefit principle because the state had obligations towards its citizens. For example, children of the poor had to be able to visit a school: “If one says that only those people who can pay the money can send their children to school, it is opposed to the essence of the state. There are many people in the country who cannot

pay this tax“ (Mizobata 1993, 52). Moreover, it was impossible to estimate the benefits that a person received from public spending, and hence the corresponding tax (Mizobata 1993, 52). Minting the coinage was a task of the state but Menger rejected debasement of the coinage (Mizobata 1993, 52). Because they paralyzed the labor energy of the people, government should only issue lottery tickets in times of crisis (Mizobata 1993, 54). In general, Menger was in accordance with the Rudolf Lectures when he spoke on economic policy in the Vienna Lecture. Solely at the end, he seemed to favor a business tax (Mizobata 1993, 78-9) and explained that the liberal party was against an income tax and for indirect taxes because it defended the interests of big capital (Mizobata 1993, 78). Thus, the Vienna Lectures must be viewed as a continuation of the Rudolf Lectures regarding economic policy.

1.3 The Smith Article

Like the Vienna Lectures, the newspaper article from 1891 can also be seen in line with the Rudolf Lectures. It was titled *Die Social-Theorien der classischen National-Oekonomie und die moderne Wirthschaftspolitik* (The Social Theories of Classical Economics and Modern Economic Policy) and was released by the Viennese paper *Neue Freie Presse* (New Free Press), for which the free trader Max Wirth worked as an editor. Essentially, it was an attack against two beliefs spread by defenders of social reform in Germany and Austria. The central message reads as: “In no way classical economics is inferior to the new socio-political school in its pro-laborer tendency; it is far superior to the latter regarding the insight into the causes of the, more or less, satisfying state of the propertyless classes“ (Menger 1891, 241). The socialists of the chair made a victory over “the imbalances of the Manchester doctrine” (Menger 1891, 223) but not over the classical economic doctrine and their proposals for reform. Adam Smith allowed for many exceptions of state intervention into markets and—contrary to the usual claims of social reformers—Smith was not a defender of pure laissez-faire. In a passage that was subsequently often cited as evidence for his supposed interventionism, Menger wrote:

In all cases of conflict of interest between the rich and the poor, A. Smith stands *without exception* on the side of the latter. I use the phrase ‘without exception’ very carefully. There are no places in A. Smith’s work where he represents the interest of the rich and powerful against the poor and weak. While A. Smith quite positively recognizes the free initiative of individualism in economic matters, he forcefully opposes in all the cases state intervention where the matter relates to the abolition of laws, and the application thereof, that suppress the poor and weak for the sake of the rich and powerful. (Menger 1891, 223; emphasis in original)

As seen, Menger merely expressed in this passage that Smith was not always on the side of the rich. He does not endorse a social policy by government. Menger continued in stating that Smith was against mercantile industrial policy, for free movement and generally for state interference when he expected an improvement of the workers' fate (Menger 1891, 223). Smith favored wage fixing and the obligation for master craftsmen to pay their apprentices with money instead of goods. He went as far as to denounce capital profits as a deduction from the wage and land rents as earnings realized without any productive effort (Menger 1891, 224). Smith allowed for corn tariffs, exports tariffs and tariffs for certain industries (Menger 1891, 230). Although he recognized the harmful effects of protective tariffs, he was not an advocate of doctrinaire free trade: “[H]e is so far away from endorsing full free trade that he explains the same as absurd as the realization of a utopia“ (Menger 1891, 231). Menger wrote that according to Smith, the state had to build canals, harbors and roads and Say, Malthus and Ricardo advanced similar points of view (Menger 1891, 231-2). As Menger pointed out:

It is not true, indeed it is a forgery of history, to say that A. Smith was a dogmatic advocate of the ‘laissez faire, laissez aller’ principle and that he expected economic salvation of society from the completely free play of individual interests. In various parts of his work, he admits that the efforts and interests of individuals and entire social classes stand in direct opposition to public interests, and not only does he not reject state interference in these cases, but presents it as a dictate of humanity and of concern for the public good. (Menger 1891, 230; emphasis in original)

Smith's standpoint was more interventionist than the position of many social reformers and, at least in some aspects, came close to socialist authors like Louis Blanc, Ferdinand Lassalle and Karl Marx, as Menger wrote:

When it comes to the protection of the poor and weak, the basic standpoint of A. Smith is in part more progressive than the one of modern 'social policy makers'. His opinions, found in particular passages of his work, are similar to those of modern socialists. In particular parts of his works, his views come close to those of modern socialists. It is well-known that Louis *Blanc*, Ferdinand *Lassalle*, and Karl *Marx* incessantly quote the theories of Smith and his pupils, but not those of their enemies. (Menger 1891, 225; emphasis in original).

Thus, Menger made the same point as several other prominent economists, that Smith was not an advocate of pure laissez-faire⁹⁸⁷ and that Smith was, therefore, at least as “pro-laborer” as the social reformers. Menger continued to present quotes from works of Smith's disciples, namely, Say, Ricardo and Malthus, who allowed for social policy for the benefit of the working class too (Menger 1891, 25-9) and concluded: “These are the 'anti-laborer doctrinaires', the men whose

⁹⁸⁷ Compare Viner (1927) and Rothbard (1995a, 463-9).

doctrines are decried and dismissed as capitalist and antipeople, against whom our modern 'social policy makers' rally“ (Menger 1891, 29). He attributed a “lack of unbiasedness and love of truth” (Menger 1891, 229) to those intellectuals that dismissed classical economics as laissez-faire. The socialists of the chair won their case partially against the “representatives of capitalist Manchesterism—the socio-political caricature of classicism” (Menger 1891, 232). But they did not win against Smith and classical economics. The last product of classical economics was to be found in John Stuart Mill and Sismondi and not in Cobden, Bright, Bastiat, Prince-Smith or Schulze-Delitzsch. Menger's classification of Sismondi and Mill might suggest he came ideologically close to these thinkers. However, in his lectures on economic theory of the academic year 1892/93, Menger identified Sismondi and John Stuart Mill as forerunners of the socialists of the chair (Seager 1893, 256).⁹⁸⁸ In the second part of the article, Menger did not see a difference between social reformers and classical economists on the question of state intervention or private markets. The classical economists allowed for state intervention too, but government had to remove all market barriers first that worsened the workers' situation. In contrast, the social reformers wanted to begin immediately with social reform (Menger 1891, 235). However, abolition of the privileges of the rich and noble had improved the social situation of workers more than social reforms, and workers recognized this fact:

The services that 'classical economics' rendered to the suffering classes are not inferior to those of the new socio-political schools. The supposedly merely 'negative program' of Smith and his disciples is more appreciated by representatives of these classes than the 'positive program' of the new social policy makers. (Menger 1891, 238)

Besides the point that classical economists were at least as pro-laborer as social reformers, Menger's second main argument was that classical economists possessed, in contrast to social reformers, a correct understanding on how to improve the workers' social situation. Improvement could mainly be expected “from the continuing accumulation of capital and the entrepreneurial spirit of those who have command over it” (Menger 1891, 239). In a passage that almost sounded like Prince-Smith, Menger stated:

It is true that the distribution of income between capital and labor is a problem of the highest importance and that every measure to increase workers' distribution in the result of production must be welcomed as a delightful improvement of society, if it does not lead to the problem of the existence of industries. But it seems also certain that the considerable increase in wages is only a result of accumulation and the

⁹⁸⁸ Seager (1893, 256; emphasis in original) wrote: “Especially interesting to the foreign student is his characterization of the historical school and of *Kathedersozialismus*, the forerunners of which last he finds in Simonde de Sismondi and J. S. Mill.”

productive use of capital. The employment of more workers with the same or higher wages goes hand in hand with the prosperity of productive industries and capital accumulation. Those, who, one-sided enough, only have the best possible distribution of the product among entrepreneurs and workers in mind, overlook that the resulting benefits for the working-class, as great as their importance by itself is, are minor compared to those benefits that result from the accumulation and productive use of capital. (Menger 1891, 239-40)

The “impetus to capitalize” is a benevolent force and should be not criticized by those that do not criticize squander, for example, when a mortgage was used for consumption purposes (Menger 1891, 241). Almost like a free trader, Menger pointed out that classical economics was “free of hatred against capital and entrepreneurship borrowed from the doctrinaire and socialist agitation of the new socio-political doctrines”. He continued that classical economics “never loses sight of the fact that an unequally distributed wealth of capital is less harmful for the working class than a shortage of capital” (Menger 1891, 241). The doctrines of social reform had already brought about a decline of thriftiness and personal diligence, which were most capable of improving the workers' fate (Menger 1891, 244). In the doctrines of the social reformers, a notorious self-interest degenerated into a nationalist and collectivist “class egoism” (Menger 1891, 245). However, Menger carefully distanced himself from Manchester liberalism, calling “the cartels of industrialists” the “embodiments of the harshest, most collectivist Manchesterism” (Menger 1891, 243). Both Manchester liberals and social reformers held a doctrinaire view (Menger 1891, 245). Thus, Menger hardly took any concrete position concerning economic policy in the article. If all, he leaned rather towards economic liberalism by emphasizing the importance of capital accumulation as a solution to the Social Question. There is no disagreement with the Rudolf Lectures since Menger did not give any concrete case of intervention that contradicted his classes from 1876. Streissler, who argues for the compatibility of the Smith Article and the Rudolf Lectures (Streissler 1994, 13-4), also points out that Menger did not mention the Austrian social security system that was introduced just a few years before (Streissler 1994, 13).

2. Menger on German Free Trade

Given Menger's strong liberalism, the question arises what Menger thought about the German free traders and the congress. There are two sources where Menger talked about German free trade. In 1873, he wrote *Der Zwiespalt unter den deutschen Volkswirthen* (The conflict between the German Economists) about the debate with the socialists of the chair. The two-part article was published in the *Wiener Abendpost* (Viennese Evening Post), a supplement of the *Wiener Zeitung* (Viennese

Newspaper). Menger had worked for this government newspaper as a first assistant and then as an administrator until January 1875 (Yagi 2011, 20). Menger also commented on Manchester liberalism in the *Methodenstreit*, when Gustav von Schmoller accused him of being a supporter of the Manchester school. Lastly, there are references to the German free traders in the *Principles* and their books can be found in the Menger Library.

2.1 The Article *The Conflict between the German Economists* (1873)

Menger attempted at revealing the core issue of the debate between free traders and socialists of the chair in the article.⁹⁸⁹ The congress had become important for Vienna because at its meeting of 1872, it had decided to reunite at the coming Viennese World's fair.⁹⁹⁰ Therefore, it took place in Vienna in August 1873, eight months after Menger had published *The Conflict between the German Economists*, and his elderly brother Max participated in the meetings.⁹⁹¹ Menger refrained from taking sides in the article but merely described both points of view “in an unbiased way”, as he wrote. At its core, he believed the dispute to be a methodological fight, with the free traders following Ricardo's method and the socialists of the chair Say's. Ricardo wanted to erect “an coherent system based on a uniform principle”⁹⁹² and did not focus much on verifying his theories with empirical facts. Say rather focused on contrasting all parts of a theory to empirical reality and discarded those parts that conflicted with experience. The result was that followers of Say pursued Friedrich List's moderate free trade doctrine, whereas the free traders wanted to implement more consistently their principles. Another difference was the free traders' focus on the individual and its utility gains from isolated exchanges. Trade was always beneficial to both parties in their view, otherwise it would not take place. The socialists of the chair reasoned that an individual gain did not always coincide with a social gain in utility. Menger gave exports of crops from a poor to a rich nation as an example, when a bad harvest occurred in both countries. The article was written in the subjunctive, which made it clear that Menger was paraphrasing the views of both groups.

In the second part, Menger stated that the congress was ruled by the free traders so that the socialists of the chair did not visit its meetings. After a polemic in a German newspaper, the latter had the idea to found an own congress and met last year in Eisenach. Menger contrasted the economic policy of both parties against each other. The free traders believed in the doctrine of harmony and favored a state that provided legal certainty and otherwise refrained from intervening

⁹⁸⁹ See *Wiener Abendpost*, January 2nd 1873, no. 1, 5 and *Wiener Abendpost*, January 3rd 1873, no. 2, 13-14.

⁹⁹⁰ Stenographic Reports of the Economic Congress, 1872, 9-10.

⁹⁹¹ Stenographic Reports of the Economic Congress, 1873, 217.

⁹⁹² See *Wiener Abendpost*, January 2nd 1873, no. 1, 5.

into private markets. Increasing national and individual wealth was solely possible by promoting economic liberty in their view. The distribution of capital was not unjust and reflected differences in ability of individuals and their ancestors. The socialists of the chair, in contrast, were open to state intervention because economic liberty proved to be insufficient in solving the pressing social situation of workers. They did not favor socialism but moderate interventions, for example, factory acts that mandated controls by factory inspectors, public education or controlling authorities for insurances and banks. Menger wrote about the free traders' position:

The German free traders expect the highest public welfare, which the entirety of the people is able to achieve under the given circumstances, from the full elimination of all state barriers to individual action on the field of economy, and the elimination of all essentially monopolistic obstacles to the free movement of the individual. They are not indifferent towards the inequality of property ownership of single members of society and the harsh consequences, which the same leads to in single cases, but they consider them as inevitable social ills that can only be aggravated by state interventions but never be permanently removed. They see the only true and fruitful way out in self-help.⁹⁹³

When he described the position on economic policy of the free traders, Menger rather presented the orthodox view because, as seen, many free traders allowed for more government interference and did not favor “the full elimination of all state barriers to individual action”. Menger also went away with two prejudices. He defended the socialists of the chair against the blame of adhering to socialism, and the free traders against the accusation of not advocating or not caring for the interests of the poor: “As one can see from this juxtaposition, the German free traders cannot be blamed for indifference towards the fate of the working class and a one-sided consideration of the interests of capital.”⁹⁹⁴ Menger regretted that the controversy had assumed “a fierce character”⁹⁹⁵ but was optimistic that it would bring about scientific progress, because the debate had already produced several excellent monographs. Menger cited works by the free traders Böhmert (*Socialism and the Labor Question*, 1872b), Oppenheim (*Socialism of the Chair*, 1872) and Eras (*The Process Bebel-Liebkecht and Official Economic Science*, 1872), calling Böhmert's book “moderate” and the latter two “fierce pamphlet[s]”. He also referred to writings of the socialists of the chair Scheel, Wagner and Schönberg. He recognized that the conflict was not just scientific, but about the future economic policy of Germany. Therefore, Menger remained “unbiased” by refraining from taking sides. Interestingly, contrary to some later statements of his, he knew that the free traders were laborer-friendly in the sense that they aimed for an improvement of the social situation of workers

⁹⁹³ *Wiener Abendpost*, January 3rd 1873, no. 2, 14.

⁹⁹⁴ *Ibid.*

⁹⁹⁵ *Ibid.*

with their liberal policy, and not cold-hearted apologists of capitalism and big industry.⁹⁹⁶ He probably discarded Manchester liberalism in later publications to flee from the accusation and stigma of belonging to the Manchester school.

2.2 Menger on Manchester Liberalism

About ten years later, Menger had to deal with the stigma of being called a Manchester liberal. After his *Investigations* had come out, Gustav von Schmoller attacked Menger for his book and accused him of being a follower of the Manchester School. Menger responded with *The Errors of Historicism in German Economics* (1884) and the result was the famous Methodenstreit. He rejected Schmoller's accusation as “plucked out of the air” (Menger 1884, 83) and expressed his sympathy with Schmoller's intentions to fight against social grievances and for the well-being of the working class, writing:

[N]othing could be further from my line of thought than service in the interest of capitalism. No allegation of Schmoller is more untruthful, no accusation is more frivolous than I being a supporter of the Manchester party, unless the aspiration for determination of the laws of the economy could justify the above accusation, or reference to the necessity of serious attention for the present achievements of civilization regarding all economic reforms—an idea that could only arise, however, in a very dissolute character. (Menger 1884, 83)

He did not support the endeavors of Manchester liberalism in economic science, Menger continued, but “combats” (Menger 1884, 84) them in a proper way. What seems to be a very clear disassociation from the Manchester school, appears in a very different light when one reads a footnote that Menger added one page prior:

To be a follower of the so-called Manchester school is not a dishonor; it means adhering to a line of scientific convictions of whom the one, that the free play of individual interests is most beneficial to public welfare, can be described as the most important. To Schmoller intellectually far superior social philosophers, led by the most noble love of truth, were committed to the above principle and its resulting maxims for economic policy. As said, to be called a follower of the so-called Manchester school is nothing what encompasses the smallest blame in itself. The situation is different when it comes out of the mouth of such a one-sided party man of the so-called socio-political school of thought, as Schmoller is. Manchesterism [Manchesterthum] is a stigma out of his mouth, with which he wants to brand every dissenter, a defamatory word that he throws on his enemies—whenever he lacks in arguments. (Menger 1884, 82)

Menger seemed to fear the stigma that was attached to the label “Manchester liberal”. He

⁹⁹⁶ See the debate with Schmoller in 1884 (Menger 1884, 83) and the Smith Article in 1891 (Menger 1891, 232).

explained that far superior social philosophers to Schmoller followed the doctrine of harmony, probably having Adam Smith and the classical economists in mind. He repeated that “to be called a follower of the so-called Manchester school is nothing what encompasses the smallest blame in itself”. Given the disgrace to which Manchester liberalism had already fallen in 1884, Menger's statement was not a common declaration at that time. Hence, Menger's disassociation from Manchester liberalism seems to be “somewhat forced” (Streissler 1994, 24). It is no coincidence that Schmoller accused Menger of Manchester liberalism, because the debate with the free traders in the early 1870s had had, as seen, an important methodological component. Especially Faucher had frequently criticized the historical method in the *Quarterly Journal*. However, Menger saw himself much more in line with classical economics than Manchester liberalism. As Campagnolo (2009, 75-6) reports, Menger refers to Bastiat 21 times in his manuscripts that are located in Tokyo, Japan. In all these references, he shows contempt for the French economist whom he sees as unscientific, because Bastiat and the free traders interfere economic policy from other foundations than pure theory. He views them as champions of a cause, but not as scientists. As Menger writes at the back of the “Foreword” page in the annotated copy of his *Principles*:

Bastiat on the one hand, and the socialists on the other, do not want to present things—or explain them—as they are but, on the contrary, they pursue practical goals and the former wants to *legitimize the situation* as it is (which is not a scientific problem), while the latter want to present them as screaming injustices, hence their misrepresentation of the facts, not to say anything of their laws! As to Bastiat, he wants to conflate the fundamentally different views of 'fact' and 'law', of 'what is' and 'what ought to be'. That is a wrong method (Socialists of the Chair as well as free-traders in Germany!). Bastiat is only the champion of a cause. (Campagnolo 2009, 75; own translation and emphasis in original)

Therefore, to stylize Menger as a secret follower of the Manchester liberals would be wrong. However, what Menger criticized about the free traders were rather methodological issues about value-freedom from which does not follow, as Campagnolo comments, that “*laissez-faire* must be necessarily rebuked by Menger—rather the contrary (!) as many of Menger's texts show” (Campagnolo 2009, 76; emphasis in original).

2.3 The Menger Library and the *Principles*

Menger's library contained the most important primary sources on the German free trade movement. Faucher's *Quarterly Journal*, which appeared between 1863 and 1893, was owned entirely by Menger. He possessed the published reports of the Economic Congress from the following years: 1860, 1862, 1864, 1867, 1868, 1869, 1871, 1872, 1873, 1874, 1875, 1876, 1878,

1880, 1882 and 1883. Since the *Quarterly Journal* reprinted these reports between 1863 and 1871, Menger solely did not own the reports from 1858, 1859 and 1885. He also possessed many books of the leading members of the free trade movement. There are three books by Prince-Smith: his *Collected Writings, On Hostility to Free Trade* (1843) and his last work *State and National Economy* (1873). There is no book by Faucher and one work by Karl Braun, *Usury Laws* (1856) co-authored with Max Wirth. Menger had eight books in his shelf written by Otto Hübner, including the free-banking tract *The Banks* (1854). He owned the collected writings of Otto Michaelis, the prophetic *Sozialdemokratische Zukunftsbilder* (Social-democratic Future Visions, 1891) by Eugen Richter, two editions of Wirth's textbook *Grundzüge der Nationalökonomie* (Principles of Economics, 1857) and *Socialism and the Labor Question* (1872b) by Viktor Böhmert.⁹⁹⁷ In his *Principles*, Menger cited some works by the German free traders that appeared in Faucher's *Quarterly Journal*. He approvingly quoted two times *Das Kapitel vom Werthe* (The Chapter on Value, 1863) by Otto Michaelis—one time on the distinction between use and exchange value, describing Michaelis as one of several authors “that should be mentioned” (Menger 1976, 307). In chapter five on price theory, Menger cited four free traders in a subsection on price determination in the case of two-sided competition. In the heading of the section, Menger (1976, 216) referred to Prince-Smith's article *Der Markt, eine Skizze* (The Market, an Outline, 1863). When Menger set out to elaborate his price theory, he added another footnote to explain the importance of markets, citing four free traders:

From this it is at once evident that the great importance to human economy of markets, fairs, exchanges, and all points of concentration of trade in general, is due to the fact that as trading relationships become more complex the formation of economic prices becomes virtually impossible without these institutions. The speculation that develops on these markets has the effect of impeding uneconomic price formation from whatever causes it may arise, or of mitigating at least its harmful effects on the economy of men. (Prince-Smith, *op. cit.*, pp. 143ff.; Otto Michaelis, 'Die wirthschaftliche Rolle des Spekulationshandels,' *Vierteljahrschrift für Volkswirtschaft und Kulturgeschichte*, II, [1864] part IV, 130ff., III [1865] part II, 77ff.; Karl Scholz, 'Der Wochenmarkt,' *ibid.*, V [1867] part I, 25ff.; A. Emminghaus, 'Markte und Messen,' *ibid.*, 61ff.). (Menger 1976, 218-9; emphasis in original)

Menger cited Prince-Smith's article a second time and Michaelis's work *Die wirthschaftliche Rolle des Spekulationshandels* (The Economic Role of Speculative Trading, 1864). He quoted two texts about fairs and weekly markets. One was *Märkte und Messen* (Markets and Fairs, 1864) by Arwed Emminghaus, who was economics professor in the South German city Karlsruhe when the

⁹⁹⁷ The numbers of books by selected members of the German free trade movement are (number of books in parentheses): Max Wirth (14), Viktor Böhmert, (14), Eugen Richter (6), Ludwig Bamberger (5), Prince-Smith (3), Arwed Emminghaus (3), Otto Michaelis (2) and Karl Braun (1). The *Concise Dictionary*, edited by Hermann Rentzsch, can also be found in the Menger Library.

Principles came out. The other article was *Der Wochenmarkt* (The Weekly Market, 1864) by Karl Scholz, a very minor character in the free trade movement. Additionally, Menger once cited the textbook by Max Wirth (Menger 1976, 166). Therefore, Menger quoted the following free traders (number of citations in parentheses): Otto Michaelis (3), John Prince-Smith (2), Karl Scholz (1), Arwed Emminghaus (1) and Max Wirth (1). This was certainly little compared to the German Historical School or English classicism. The leader of the German Historical School, Wilhelm Roscher, is cited 17 times, followed by Hermann (12), Adam Smith (11), Albert Schäffle (10) and Jean-Baptiste Say (10) (Streissler 1990b, 34).⁹⁹⁸ One reason was that most free traders were journalists and not professors, and their work was mostly about economic policy instead of economic theory. Wirth was the sole member of the free trade movement, who wrote an economic textbook. Moreover, citing the free traders was not unusual in the German-speaking academia. Wilhelm Roscher (1874a), the most famous economist of the Historical School at the time, quoted the free traders Soetbeer, Faucher, Michaelis, and Oppenheim in the eleventh edition of his treatise. Thus, Menger perhaps cited the free traders to promote his book since the free traders were an important target group, being at their peak point of influence in 1871.

3. Faucher's Review of the *Principles*

At the congress, the free traders did not mention Menger. But when the *Principles* came out in 1871, Faucher was quite positive about the textbook.⁹⁹⁹ He started his review by praising the Austrian economists that, although less distinguished than the German authors, had made significant scientific contributions—for example, Sommerfeld, Neumann, Sax and Inama-Sternberg.¹⁰⁰⁰ He believed that no less than a new era of economic science had begun in Austria after 1866. Faucher criticized the hostility for theoretical work of the German Historical School in a harsh tone:

Systematisation [building of theoretical systems] and practical detailed work totally went apart on the field of economic science and hardly care about each other. The true reason is that the economic literature with systematic ambitions consists in its tremendous majority of really miserable pieces of work in Germany.¹⁰⁰¹

⁹⁹⁸ In June 2017, the author researched in the Carl Menger Papers at the Duke University in Durham, USA for references to the German free trade movement, but did not find anything of significance.

⁹⁹⁹ See *Quarterly Journal* III/1871, 194-205.

¹⁰⁰⁰ *Quarterly Journal* III/1871, 194.

¹⁰⁰¹ *Quarterly Journal* III/1871, 198.

Due to this sad state of economic theory in Germany, the *Quarterly Journal* usually refrained from reviewing economic treatises since its verdicts should only be positive in face of the huge material one had to master to write a textbook. However, Faucher made an exemption for Menger, attesting him the ability for practical work “not to a minor degree”.¹⁰⁰² In particular, he was enthusiastic about the methodological comment from the introduction of the *Principles*, where Menger indicated his dissatisfaction with the methodology of the Historical School. Faucher cited the full comment that amounted to four pages of Menger's work,¹⁰⁰³ and commented:

We have read this with pleasure, especially since the author parts from those, who only throw the catchphrase of the so-called 'natural-scientific method' around themselves to flee, under this pretext, from the work of thinking to a comfortable, but totally fruitless annotating of statistical patterns, which grants the advantage of appearing very scholarly and, due to its boredom that must be attributed to

¹⁰⁰² Ibid.

¹⁰⁰³ Menger's comment from the *Principles* that was cited by Faucher reads as: “In what follows I have endeavored to reduce the complex phenomena of human economic activity to the simplest elements that can still be subjected to accurate observation, to apply to these elements the measure corresponding to their nature, and constantly adhering to this measure, to investigate the manner in which the more complex economic phenomena evolve from their elements according to definite principles. This method of research, attaining universal acceptance in the natural sciences, led to very great results, and on this account came mistakenly to be called the natural-scientific method. It is, in reality, a method common to all fields of empirical knowledge, and should properly be called the empirical method. The distinction is important because every method of investigation acquires its own specific character from the nature of the field of knowledge to which it is applied. It would be improper, accordingly, to attempt a natural-scientific orientation of our science. Past attempts to carry over the peculiarities of the natural-scientific method of investigation uncritically into economics have led to most serious methodological errors, and to idle play with external analogies between the phenomena of economics and those of nature. Bacon said of scholars of this description: 'Magna cum vanitate et desipientia manes similitudines et sympathies rerum describunt atque etiam quandoque affingunt,' [similitudes and sympathies of things that have no reality, they describe and sometimes invent with great vanity and folly] a statement which, strangely enough, is still true today of precisely those writers on economic subjects who continue to call themselves disciples of Bacon while they completely misunderstand the spirit of his method. If it is stated, in justification of these efforts, that the task of our age is to establish the interconnections between all fields of science and to unify their most important principles, I should like to question seriously the qualifications of our contemporaries to solve this problem. I believe that scholars in the various fields of science can never lose sight of this common goal of their endeavors without damage to their research. But the solution of this problem can be taken up successfully only when the several fields of knowledge have been examined most carefully, and when the laws peculiar to each field have been discovered. It is now the task of the reader to judge to what results the method of investigation I have adopted has led, and whether I have been able to demonstrate successfully that the phenomena of economic life, like those of nature, are ordered strictly in accordance with definite laws. Before closing, however, I wish to contest the opinion of those who question the existence of laws of economic behavior by referring to human free will, since their argument would deny economics altogether the status of an exact science. Whether and under what conditions a thing is *useful* to me, whether and under what conditions it is a *good*, whether and under what conditions it is an economic good, whether and under what conditions it possesses *value* for me and how large the *measure* of this value is for me, whether and under what conditions an *economic exchange* of goods will take place between two economizing individuals, and the limits within which a *price* can be established if an exchange does occur—these and many other matters are fully as independent of my will as any law of chemistry is of the will of the practicing chemist. The view adopted by these persons rests, therefore, on an easily discernible error about the proper field of our science. For economic theory is concerned, not with practical rules for economic *activity*, but with the *conditions* under which men engage in provident activity directed to the satisfaction of their needs. Economic theory is related to the practical activities of economizing men in much the same way that chemistry is related to the operations of the practical chemist. Although reference to freedom of the human will may well be legitimate as an objection to the complete predictability of economic activity, it can never have force as a denial of the conformity to definite laws of phenomena that condition the outcome of the economic activity of men and are entirely independent of the human will. It is precisely phenomena of this description, however, which are the objects of study in our science” (Menger 1976, 46-9; emphasis in original).

thoughtlessness, deters the reader from examining what kind of mind is really behind the handicraft chatter.¹⁰⁰⁴

Faucher's familiarity with the German economic literature is shown by his recognition that Menger's innovation was the classification of goods into first order and higher order goods. Faucher did not like about the classification that the classes were numbered and seemed to be fixed. New goods were constantly entering the market due to advances in trade and division of labor, as Faucher explained, so the numbers of the classes were constantly changing. If it was, however, possible that the number of a particular good changed, "one could put up with the classification of Mister Rudolf [sic!] Menger."¹⁰⁰⁵ The crucial aspect was not the quantity of numbers in an economy, but the constant change to which the numbers were subject. If this fact was not recognized, a reader might arrive at false conclusions on trade policy, like Friedrich List. Faucher did not pass final judgment on the *Principles* because only the first part had been published so far, but he sounded quite content:

Solely regarding the author, we repeat that he proved at least his vocation according to our present impression and he therein parts from a whole range of contemporaries, which wasted a lot of paper and printing ink with their publishers only to prove that they do not have the slightest vocation for economic inquiry.¹⁰⁰⁶

Thus, the orthodox free traders received the *Principles* quite positively. Faucher was particularly enthusiastic about Menger's criticism of the historical method.¹⁰⁰⁷ Although not mentioning Faucher's review, Streissler similarly explains that the *Principles* did not receive unfavorable reviews, and the University of Vienna could write in Menger's personal file that his "*Foundations [sic!] of Economics* had met with a very favorable reception by the experts" (Streissler 1990b, 39; emphasis in original).

4. Conclusion

Although there are many similarities between Menger and the German free traders, there is no significant connection between them. Menger did not cite the free traders an unusual number of times. He possessed the most important works of the free traders, but he owned 37 books by Karl

¹⁰⁰⁴ *Quarterly Journal* III/1871, 200-201.

¹⁰⁰⁵ *Quarterly Journal* III/1871, 204.

¹⁰⁰⁶ *Quarterly Journal* III/1871, 205.

¹⁰⁰⁷ Unfortunately, Faucher was already dead when Menger's *Investigations* came out in 1884 and Eduard Wiss, his successor as editor of the *Quarterly Journal*, did not review Menger's work on methodology.

Marx as well. He distanced himself in a rather forced way from Manchester liberalism in the Methodenstreit with Schmoller. Certainly, he was already taking a controversial position with his methodological critique and did not want to make a political argument as well. In his newspaper article from 1873, he did not take sides in the debate between free traders and socialists of the chair. However, he stated that the free traders aimed at the improvement of the social situation of workers with their liberal economic policy. This view contradicted subsequent statement of him where he condemned Manchester liberalism as capitalist and as an ideology of special interests. On the other hand, the free traders received Menger's *Principles* quite positively. In sum, there is no clear disassociation of Menger from the German free trade movement. However, it is also clear that he rather saw himself in a tradition with Adam Smith and not the free traders, writing: “The new socio-political school [...] has been partly right in its fight with the representatives of capitalist Manchesterism—the social-political distorted image of classicism—*but not against Smith and classical economics*” (Menger 1891, 223; emphasis in original). Richard Schüller, the doctoral student of Menger, wrote a dissertation about the economic policy of the Historical School and endorsed Menger's view, writing: “This scientifically superficial, economically one-sided free-trade doctrine was very far behind classical economics. It wrongly relied on *A. Smith*, what was accepted by its historical opponents” (Schüller 1899, 81; emphasis in original).

B. Summary (Spanish)

Resumen en castellano según el artículo 22.2 de la normativa reguladora de los estudios de doctorado de la Escuela Internacional de Doctorado, incluyendo los objetivos, antecedentes, metodología, resultados y conclusiones de la tesis doctoral.

1. Objetivos

Gerd Habermann escribe en su historia del estatismo de bienestar en Alemania que pocos liberales alemanes se comprometieron con el *laissez-faire* doctrinario, aparte del joven Wilhelm von Humboldt. Debido a que la situación en Francia y especialmente en Inglaterra fue diferente, en estos países el trabajo de Humboldt ejerció una mayor influencia (Habermann 2013, 126). Esta tesis doctoral intenta demostrar que al menos algunos liberales alemanes defendieron un estado mínimo estricto, un “estado de guardia nocturno”, únicamente responsable de la producción de la seguridad. Algunos de ellos incluso rechazaron el estado por completo y llegaron a una visión anarquista individualista. Este trabajo presenta la historia y el pensamiento económico de estos liberales “ortodoxos”, que se reunieron en el Congreso Económico de 1858 a 1885. Hentschel (1975, 17-23) distingue entre los cuatro grupos de asistentes a este congreso: el grupo pragmático (Michaelis, Wolff, Meyer), el grupo idealista (Böhmert, , Lammers, Rentzsch, Gensel), el grupo político (Bamberger, Rickert, Oppenheim) y el grupo ortodoxo (Prince-Smith, Faucher, Braun). Los miembros del mismo grupo podrían estar en desacuerdo sobre algunas cuestiones particulares de la política económica. El presente trabajo identifica a los liberales ortodoxos como John Prince-Smith, Julius Faucher, Karl Braun y Otto Hübner. Los asistentes al congreso Alexander Dorn, Hartwig Samson Hertz y el arquitecto Timmermann también se acercaron a una visión ortodoxa, mientras que los anarquistas individualistas Heinrich Beta y Wilhelm Lipke podrían estar incluidos, aunque nunca visitaron el congreso. En la década de 1840, los miembros del grupo ortodoxo establecieron un movimiento de libre comercio en Alemania, y Prince-Smith escribió sus primeros artículos en la segunda mitad de la década de 1830. Todos los liberales ortodoxos defendieron un estado mínimo estricto al menos en algún momento de su vida. Prince-Smith expresó su punto de vista con las siguientes palabras: “Pero el libre comercio no asigna ninguna otra tarea al estado que la producción de seguridad” (Prince-Smith 1866, 441). Faucher, Lipke y Beta incluso dieron un paso más y llegaron al anarquismo individualista en la segunda mitad de la década de 1840.

Los liberales ortodoxos tendían a defender una política económica concreta desde el punto de vista utilitario; Prince-Smith fue influenciado por el utilitarismo de Jeremy Bentham a una edad temprana y Faucher fue el seguidor de la filosofía del egoísmo de Stirner, que también iba en la dirección utilitaria. La mayoría de ellos estaba a favor de la “Kleindeutsche Lösung” (la solución de una pequeña Alemania), excepto del defensor de la “Kleinstaaterei” Lipke y posiblemente de Dorn y Hübner, y se puso del lado de Bismarck en el conflicto constitucional prusiano. Una razón importante para el compromiso a partir de 1866 fue su creencia en la primacía de la economía sobre la política y, en consecuencia, su perspectiva optimista sobre el futuro del libre comercio. A partir de 1871, este grupo de liberales ortodoxos se aislaron de los socialistas de cátedra en torno a Schmoller después de tener un debate en el congreso. Sin embargo, ya después de 1866, los liberales ortodoxos intervinieron menos en los debates. La razón fue que Faucher, Prince-Smith y Braun se convirtieron en los miembros del Partido Liberal Nacional, que estaba en el gobierno con Bismarck, teniendo un asiento en la segunda cámara del parlamento prusiano, la Cámara de Representantes, o el Reichstag. El medio de publicación del grupo ortodoxo fue la *Vierteljahrschrift für Volkswirtschaft, Politik und Kulturgeschichte* (una revista trimestral de economía, política e historia cultural), editado por Faucher y Otto Michaelis a partir de 1863 y Faucher como su único editor en 1867. Fue la principal publicación científica del movimiento de libre comercio (Hentschel 1975, 19). The *Quarterly Journal* publicó poco sobre la política diaria debido a su ritmo de publicación. De 1863 a 1871, publicó los informes estenográficos de los debates del congreso. Otro medio de publicación de corta duración fue *Abendpost* (Correo de la tarde), de enero a julio de 1850, de carácter anarquista y Stirneriano. Faucher fue el editor de este periódico radical, mientras que Prince-Smith y Beta contribuyeron a sus columnas. Otro punto focal del grupo ortodoxo fue la asociación de libre comercio de Berlín en 1847 y 1851, cuyos miembros fueron Prince-Smith, Faucher, Lipke y Beta. En las décadas de 1860 y 1870, los liberales ortodoxos se reunieron en la “Volkswirtschaftliche Gesellschaft zu Berlin” (la Sociedad Económica de Berlín), considerada como la sucesora de la asociación de libre comercio de Berlín y presidido por Prince-Smith, que debatía la política económica cada mes. En resumen, esta tesis doctoral presenta la historia y el pensamiento económico de este grupo liberal ortodoxo y pone énfasis en las figuras de Prince-Smith y Faucher como los representantes más doctrinarios e importantes.

2. Antecedentes

Como escribe Hentschel, la literatura sobre los liberales alemanes de la época es insuficiente y fragmentada. Apenas se vio su importancia para el desarrollo social y económico y, en general, se

tachó a los liberales de Manchester de egoístas, antinacionales e insensibles. La causa fue un debate polémico que tuvieron con un grupo de los jóvenes profesores alrededor de Gustav von Schmoller a principios de la década de 1870. Los comerciantes libres calificaron a estos jóvenes académicos de “socialistas de cátedra”, mientras que estos últimos utilizaron con frecuencia el término de la “escuela de Manchester”. Como señala Hentschel:

[L]a imagen del liberalismo económico alemán, que Schmoller, Schönberg y Wagner difundieron, inicialmente tuvo un impacto mucho más duradero en la opinión del público interesado, y luego en el juicio de los historiadores, que todas las observaciones originales de los liberales. Parece como si se hubiera olvidado por completo que estamos tratando con un esbozo polémico desde una posición antagónica. (Hentschel 1975, 11)

Esta evaluación no solo es válida para el movimiento de libre comercio en general, sino también para el grupo ortodoxo en particular. Por ejemplo, muchos autores posteriores repitieron la falsa acusación de los socialistas de cátedra de que Prince-Smith negó la existencia de la miseria social en su artículo *Die sogenannte Arbeiterfrage* (La así-llamada cuestión social, 1864).¹⁰⁰⁸ Hasta entonces, ningún trabajo se centra exclusivamente en los liberales ortodoxos. La literatura sobre el libre comercio ortodoxo se puede dividir en tres grupos. Primero, hay monografías sobre la historia del Congreso Económico que revisan sus informes estenográficos. Los estudios de Grambow (1903) y Hentschel (1975) son los únicos que pertenecen a este grupo. Sin duda, el mejor trabajo sobre el libre comercio alemán es la disertación de Hentschel *Die deutschen Freihändler und der volkswirtschaftliche Kongress 1858-1885* (Los liberales alemanes y el Congreso económico 1858-1885), a la que Ralph Raico llama “una obra que es admirable tanto por su valor científico como por su fría objetividad” (Raico 1999, 30-1). Hentschel presenta los debates en el congreso por orden cronológico de 1858 a 1885, repasando los dos principales periódicos de libre comercio, la *Ostseezeitung* y el *Bremer Handelsblatt*, y desmitificando muchos mitos sobre la “escuela de Manchester” a partir de investigaciones anteriores. Sin embargo, su trabajo se centra en la historia de las ideas y la historia institucional de todo el congreso, por lo que no consultó al *Abendpost* y escribió poco sobre el libre comercio antes de 1858, cuando los liberales ortodoxos establecieron un movimiento de libre comercio alemán. Puesto que no se enfocó en el libre comercio ortodoxo, no leyó todas las obras de Faucher o Prince-Smith y no investigó en los archivos sobre ellos. El presente trabajo intenta cerrar esta brecha. El segundo estudio que consultó los informes estenográficos es el de Grambow (1903), en el que también se proporciona una imagen imparcial y bastante objetiva del libre comercio alemán, ya que consulta los informes estenográficos, el *Handwörterbuch der Volkswirtschaftslehre* (Diccionario de mano de economía, 1866) editados por

¹⁰⁰⁸ Véase Kruse (1959, 67) and Dittert (1998, 12).

Hermann Rentzsch y los trabajos de los asistentes al congreso más importantes. Desafortunadamente, no presenta los debates del congreso en orden cronológico, sino que ordena temáticamente el material extenso. Su metodología le hace difícil al lector trazar los cambios en la opinión de los asistentes al congreso a lo largo del tiempo. Parece como si fueran un frente homogéneo en su mayoría, mientras que en realidad a menudo no estuvieron de acuerdo y una misma persona podría cambiar su opinión drásticamente a lo largo de los años. Al igual que Hentschel, Grambow se enfoca poco en el grupo ortodoxo alrededor de Prince-Smith y Faucher.

El segundo grupo de literatura no consulta los informes estenográficos del congreso. Un ejemplo es la disertación de Julius Becker *Das deutsche Manchestertum: Eine Studie zur Geschichte des wirtschaftspolitischen Individualismus* (Manchesterismo alemán: Un estudio sobre la historia del individualismo económico-político). Utiliza casi exclusivamente los escritos de Prince-Smith como la fuente principal, que apareció en una edición de tres volúmenes recopilados. Justifica este procedimiento al presentar a Prince-Smith como el “líder aceptado” (Becker 1907, 80) y el “fundador y representante principal” (Becker 1907, 27) del libre comercio alemán. Como muchos otros autores, atribuye los puntos de vista ortodoxos de Prince-Smith a todo el movimiento de libre comercio. Pero el trabajo intelectual de Prince-Smith no fue tan influyente como para interpretarlo como el líder. Ni siquiera era el líder del grupo ortodoxo, cuyos puntos de vista sobre los impuestos y las funciones del estado fueron moldeados por Faucher. No fue Prince-Smith, sino Böhmert y Schulze-Delitzsch los que fueron instrumentales en la fundación del congreso en 1858, y Prince-Smith no llegó a ser su presidente antes de 1869, siendo una posición puramente representativa. En general, los investigadores hablan de una “escuela de libre comercio” (Böhmert 1872, 134-40; Lourié 1924; Raico 1999, 49) o de un “partido de libre comercio” (Grambow 1903; Gehrig 1909, 25), sugiriendo el nivel de organización y de jerarquía que estaba ausente entre los comerciantes libres (ortodoxos). Por lo tanto, el primer requisito para un análisis imparcial del movimiento de libre comercio debe ser “que el partido de libre comercio ya no sea visto como una entidad indiferenciada en términos de tiempo y personal, sino como una unión flexible de personalidades independientes” (Hentschel 1975, 15). Por lo tanto, este trabajo utiliza el término “movimiento” en lugar de “partido” o “escuela”. El congreso fue el “centro organizativo” (Hentschel 1975, 16) de este movimiento de libre comercio. Este punto también se aplica a los comerciantes libres ortodoxos, que no pertenecían a una escuela económica que defendía una doctrina económica común. Por ejemplo, Karl Braun probablemente tuvo poco contacto con Faucher o Prince-Smith antes de la unificación alemana, ya que provenía del Ducado de Nassau del sur de Alemania, y no era políticamente activo en Berlín antes de 1867. Lo que unió al grupo ortodoxo fue solo su

compromiso declarado con un estricto estado mínimo y la doctrina de la armonía. Por lo tanto, a menudo se basaban en defensores más doctrinarios de *laissez-faire* como Wilhelm von Humboldt o Frédéric Bastiat. Sin embargo, sería erróneo concluir de allí que el estado no significó nada para los comerciantes libres (Mayer 1927, 45) o que eran antinacionales (Hentschel 1975, 14; Loh 1928, 4). Faucher y Braun fueron bastante militaristas en sus discursos parlamentarios e incluso Schmoller tuvo que admitir que Prince-Smith era un patriota prusiano-alemán. De todos modos, la disertación de Becker debe verse más bien como “un libelo difamatorio político” (Raico 1999, 30), ya que va tan lejos como para difamar a los liberales, con las palabras de Lassalle, como “bárbaros modernos” (Becker 1907, 106).

Otro estudio que no consulta los informes estenográficos es el de Gehrig (1909). Él también equipara a todo el movimiento de libre comercio con el grupo ortodoxo, en una sección titulada “Identidad de la visión del partido de libre comercio con las enseñanzas de Bastiat y Prince-Smith” (Gehrig 1909, 25). Además de Faucher, Prince-Smith y Braun, él cita a Arved , Hermann Schulze-Delitzsch y Max Wirth para defender su caso. Busca en los escritos de los liberales para obtener citas que justifiquen su argumento y observa con satisfacción: “En este aspecto importante, el resultado no es una analogía sino la identidad de las opiniones de la escuela de libre comercio con las de Bastiat” (Gehrig 1909, 35). Gehrig erróneamente atribuye a todos los comerciantes libres la adhesión al pensamiento de Bastiat. Por ejemplo, Michaelis, un colaborador del radical *Abendpost*, se desvinculó de la doctrina de la armonía, escribiendo alrededor de 1857: “El idilio económico de Bastiat, entendido en el sentido de la armonía sin perturbaciones, es tan una utopía como los Icarianos de Cabet” (Michaelis 1873b, 238). Gehrig presenta una imagen distorsionada del grupo ortodoxo, porque nunca existió una doctrina económica común o un tratado del que salieron todos los liberales ortodoxos. Cuando éstos se refieren a Bastiat, elogian al economista francés por su estilo de escritura concisa y su rigurosa defensa del *laissez-faire*. Aún más, Gehrig no considera cambios de opinión; por ejemplo, los de Braun que se distanció en los últimos años del estricto estado mínimo. Tampoco se puede decir que todos los liberales ortodoxos compartieron los puntos de vista metodológicos de Faucher (Gehrig 1909, 31). Braun hizo declaraciones en las que se comprometió con el método histórico. Sin embargo, Bastiat fue uno de los pensadores más importantes en la política económica para los liberales ortodoxos y éstos se referían con frecuencia a sus escritos. Prince-Smith tradujo las Armonías económicas de Bastiat al alemán y Braun (1880) lanzó un compendio de las obras de Bastiat.¹⁰⁰⁹

El tercer grupo de investigación sobre los liberales ortodoxos son las pocas biografías que se

¹⁰⁰⁹ Todavía falta un análisis comparativo de los escritos de Bastiat y la literatura ortodoxa, así como una historia de impacto del trabajo de Bastiat para la década de 1850.

escribieron. Otto Wolff escribió la única biografía sobre su amigo y mentor Prince-Smith, exagerando el significado intelectual de este último. Wolff comenta sobre los escritos de Prince-Smith que “su estilo se quedó dejado atrás por algunos de los mejores escritores alemanes” (Wolff 1880, 214) y lo pone en línea con Bastiat e incluso con Adam Smith, proclamando: “Sus escritos conservarán su valor. para la formación del pensamiento económico durante mucho tiempo, junto con los grandes maestros Adam Smith y Bastiat” (Wolff 1880, 370). Wolff se acerca más a la verdad en su afirmación que la importancia de Prince-Smith radicaba en sus actividades como “un *maestro*” (Wolff 1880, 369; énfasis en el original). Wolff elabora con gran detalle los eventos que precedían al *Abendpost* e investiga sobre el periódico *Elbinger Anzeigen* (Anuncios de Elbing), para el cual Prince-Smith escribió los artículos económicos desde 1835 hasta 1846. Sin embargo, Wolff escribe menos sobre el tiempo después de 1849. Por lo tanto, este trabajo proporciona una visión breve del tiempo antes del *Abendpost* y se centra en la época del Congreso Económico. En cuanto a la figura de Faucher, casi no hay ningún trabajo de investigación, aparte de los artículos de Fehl (1985) y Hegemann (1930) sobre su labor sobre el tema de la vivienda. Grandpierre (1923) y Seelig (1980) escribieron dos biografías de Karl Braun, centrándose en las actividades políticas de Braun en el Reichstag y sus escritos publicistas, pero investigando escasamente su pensamiento económico en el congreso. Por lo tanto, los discursos de Braun en el congreso se resaltan, mientras que sus actividades políticas solo se presentan cuando son significativas para una comprensión general del grupo ortodoxo. No se escribieron las biografías sobre el resto de los liberales ortodoxos como Hübner, Dorn, Lipke, y Timmermann. Solo Briese (2013) publicó un artículo muy informativo sobre la vida y el pensamiento de Heinrich Beta. A pesar de todo esto, la excelente historia del liberalismo alemán de Ralph Raico no debe olvidarse. Aunque haciendo la referencia breve al libre comercio ortodoxo, Raico (1999, 62-7) fue el primero en estudiar más en detalle al anarquista individualista *Abendpost*. Por lo tanto, en resumen, ha habido poca investigación sobre Faucher, el *Abendpost* y el libre comercio ortodoxo en el congreso y solamente dos autores estudiaron los informes estenográficos del congreso. El presente trabajo busca completar estos vacíos.

3. Metodología

Se investigaron cinco fuentes diferentes para obtener la información sobre los comerciantes libres ortodoxos. Primero, son los archivos que presentan las cartas y los documentos relacionados con Prince-Smith y Faucher. Estos son, sobre todo, el Gemeines Staatsarchiv Preußischer Kulturbesitz en Berlín, el Landesarchiv Berlín, el archivo del Bayerische Staatsbibliothek y los

archivos de la Otto von Bismarck Stiftung. Sin embargo, las propiedades de Prince-Smith, Faucher, Braun y Hübner se perdieron, por lo que no hay mucho material disponible. La segunda fuente son los periódicos contemporáneos como el Berlin *Nationalzeitung* (Periodico nacional). Estos periódicos son importantes ya que en ellos los liberales publicaron muchos artículos a lo largo de su vida y los periódicos solían informar sobre sus actividades. Una tercera fuente son los informes estenográficos de los parlamentos alemanes, del Congreso Económico y de la Verein für Socialpolitik (Asociación para la Política Social). La cuarta fuente son los escritos de Prince-Smith, Faucher, Braun, Hübner y otros liberales ortodoxos. Por último, algunos capítulos de la literatura secundaria también fueron bastante útiles en el proceso de investigación.

4. Resultados

El Capítulo I trata de los años formativos del libre comercio ortodoxo desde la década de 1830 hasta 1857. En este período, Prince-Smith luchó por la libertad de comercio y los liberales ortodoxos y pragmáticos se unieron en el periódico anarquista *Abendpost*. Este periódico es especialmente interesante porque fue el primer periódico anarquista individualista en Alemania y un órgano de *laissez-faire* doctrinario. Escribió, por ejemplo, el 27 de marzo de 1850:

El movimiento democrático alemán tiene que ser individualista. Debe protegerse contra la erección de un gobierno, un estado o cualquier otro poder que pueda ser transferido a una autoridad constituida. Debe tenerse en cuenta que la tarea soberana de las personas es evitar el gobierno.¹⁰¹⁰

Al mismo tiempo, el periódico defendió las ideas de Max Stirner, como su concepto de la unión, el ateísmo y el egoísmo filosófico. Estas partes de la tesis son completamente originales y se basan en una investigación exhaustiva en los archivos del periódico de Berlín. En el capítulo II, se recapitulan la fundación y los primeros años del congreso. En los primeros tres años, los liberales se centraron en la libertad económica, la política comercial y las cooperativas. Si bien el grupo ortodoxo desempeñó un papel menor en el proceso de la fundación, dio forma a los debates sobre la política comercial. El Capítulo III se centra en el tiempo de 1863 a 1866. Estos fueron los “años de *laissez-faire*” cuando el congreso abogó por una banca libre de reserva fraccionaria, contra los patentes, la interferencia estatal en los ferrocarriles, canales u otras empresas del transporte y por la libertad de comercio. Sin embargo, los liberales ortodoxos eran muy centralistas y presionaban por un estado nacional alemán en el congreso y en el parlamento prusiano. Michaelis y Faucher fueron unos de los primeros miembros del Partido Nacional Liberal que exigieron un compromiso con

¹⁰¹⁰ *Deutsche Reform*, 27 de marzo de 1850, núm. 822, edición de la tarde, página 1; énfasis en el original.

Bismarck en el conflicto constitucional. Como dijo Faucher en el parlamento prusiano en 1865:

¿Por qué tanto la corona como el pueblo no deben tener un deseo de reconciliación, y por qué no debemos buscar esta reconciliación por medio de un compromiso? ¿Qué es el compromiso en la vida política? Compromiso es la victoria del patriotismo sobre el egoísmo, [movimiento] el compromiso es la victoria de la humildad sobre la vanidad, [escucha, escucha!] Y en Prusia somos personas patriotas y humildes y esperamos que nuestro gobierno también lo sea.¹⁰¹¹

La división de los liberales en 1867 fue la gran tragedia del liberalismo alemán (ortodoxo), del cual no se recuperó. Mientras que los asistentes al congreso habían formado “una falange de libre comercio bastante cerrada” (Böhmert 1872, 138) hasta 1866, comenzaron a desintegrarse con los idealistas y las pragmáticas enfrentadas entre sí, mientras que el grupo ortodoxo se hizo cada vez menos participativo en el congreso. El Capítulo IV destaca el período de la Confederación Alemana del Norte desde 1867 hasta 1871, los años del mayor éxito práctico. Los comerciantes libres pudieron implementar muchas de sus propuestas de reformas en la constitución de la Confederación Alemana del Norte. Faucher fue muy activo en la cuestión de la vivienda, pero finalmente no logró mejorar las condiciones de vida de los pobres en su ciudad natal, Berlín. Por último, el capítulo V presenta el debate con los socialistas de cátedra, que inició un cambio de la opinión pública que culminó con el giro de Bismarck hacia el proteccionismo en 1879. A partir de 1872, Faucher y Prince-Smith quedaron aislados en el movimiento liberal, mientras que Braun se distanció de su defensa anterior del estado vigilante nocturno. La doctrina ortodoxa del estado mínimo estricto se desacreditó en los ojos del público, como Adolf Held señaló: “Los periódicos liberales ahora están furiosos al declarar que nunca han querido un *laissez faire* absoluto” (Held 1877, 166).

5. Conclusiones

Apenas se vio que los comerciantes libres ejercían una gran influencia política en el proceso de la unificación alemana y en la legislación de 1867 a 1875 (Hentschel 1975, 283; Roscher 1874, 1016). Esto es especialmente cierto para los liberales ortodoxos, que se reunieron con las élites políticas en la casa de Prince-Smith y pronto buscaron un compromiso con Bismarck en el conflicto constitucional. Otro error generalizado es suponer que la economía alemana y la clase trabajadora sufrieron del libre comercio. Como escribió Heinrich von Treitschke en el año de la muerte de Prince-Smith, en 1874:

La transformación de nuestra economía nacional ha dado a la clase obrera un gran aumento de salarios,

¹⁰¹¹ Informes estenográficos de los debates de la Cámara de Representantes, 15 de marzo de 1865, sesión 21, página 504.

sin paralelo en la historia alemana. Con ello aseguraron, como antes las clases trabajadoras inglesas, la posibilidad de mejorar permanentemente su nivel de vida y de aproximarse más a los hábitos de las clases medias. (citado en Dawson 1904, 31-2)¹⁰¹²

Los problemas del libre comercio alemán y especialmente del grupo ortodoxo eran triples: eran demasiado poco radicales, demasiado centralistas y demasiado poco científicos. Los comerciantes libres ortodoxos no eran suficientemente radicales puesto que hicieron un pacto político fatal en 1866 y no sostuvieron sus opiniones en 1871, cuando el clima de opinión comenzó a cambiarse. Siguieron una estrategia aristocrática Hayekiana para convencer primero a las élites, quienes luego difundieron las ideas liberales entre el público en general, en lugar del enfoque populista de Rothbard de la persuasión directa de las masas.¹⁰¹³ Por lo tanto, Hentschel erróneamente proclama una falta de atraktividad intelectual del liberalismo como la causa de su fracaso en 1879:

Cuando el público interesado se apartó de él [el libre comercio], resultó que la idea por sí sola no tenía suficiente poder integrador para formar y mantener unida a una organización vibrante contra los proteccionistas poderosos, y no había suficiente resplandor y poder de persuasión para mantenerse en una opinión pública despierta y resiliente. (Hentschel 1975, 275).

Ciertamente, el liberalismo como tal no era poco convincente ni atractivo; en caso afirmativo, ¿cómo había asumido la supremacía sobre la opinión pública en la década de 1860 en primer lugar? El problema era más bien que el libre comercio alemán nunca tuvo una base tan masiva como en Inglaterra, siendo introducido desde arriba por las elites políticas prusianas, que perseguían la hegemonía alemana sobre Austria. Como explica Schunke:

Los liberales solo tenían influencia mientras el estado prusiano reaccionara a sus pensamientos y los apoyara. [...] Por lo tanto, los liberales se convirtieron en defensores de la política prusiana, que aseguró su independencia comercial mediante el contrato con Hanover en 1851 y el acuerdo comercial con Austria en 1853 [...]. Cada paso que Prusia dio al libre comercio mientras tanto estaba a un paso de Austria, levantó la barrera económica y preparó la batalla final por la hegemonía en Alemania. (Schunke 1916, 84-5; véase también Mayer 1927, 47-9)

¹⁰¹² Véase Raico (1999, 1-5) y Hayek (1954) para una refutación del bienestar industrial y los mercados libres. Véase Reichel (1994) para una tesis empírica contra la tesis de la pauperización, el aumento de la desigualdad en los ingresos y el aumento del número de crisis económicas en Alemania desde 1840 hasta 1880.

¹⁰¹³ El “apóstol para el libre comercio” Faucher es una excepción en este aspecto. Rothbard defiende el modelo populista de la siguiente manera: “[E]l problema no es sólo un error intelectual [de las élites intelectuales]. El problema es que la élite intelectual se beneficia del sistema actual; en un sentido crucial, son parte de la clase dominante. El proceso de conversión hayekiana supone que todos, o al menos todos los intelectuales, solo están interesados en la verdad, y que el interés económico nunca se interpone en el camino. Cualquier persona que esté familiarizada con intelectuales o académicos debe desaprobarse de esta noción, y rápidamente. [...] La importancia, para los libertarios o para los conservadores del gobierno mínimo, de tener un doble golpe en su armadura: no solo de difundir ideas correctas, sino también de exponer a las élites gobernantes y cómo se benefician del sistema existente, más específicamente, cómo están estafando” (Rothbard 1992, 7-8, énfasis en el original).

En consecuencia, el libre comercio tuvo su gran avance después de 1849, cuando Prusia cambió a una política comercial liberal, y su declinación correspondió al establecimiento de la hegemonía prusiana después de 1866 y especialmente después de 1870. Una vez que se fundó un estado central, las elites prusianas tuvieron poco interés en más alianza con los comerciantes libres. La única estrategia prometedor hubiera sido la resistencia a Bismarck en 1866 y a los socialistas de cátedra en 1871 porque, como dice un autor libertario, “*sólo* las ideas [...] radicales pueden agitar las emociones de las masas aburridas e indolentes” (Hoppe 2002, 94; énfasis en el original). Pero los liberales ortodoxos perdieron su oportunidad histórica. Se centraron en las alianzas con las élites políticas en lugar de difundir sus ideas entre el público general. Ignoraron las cuestiones constitucionales y solo se centraron en las cuestiones económicas en el parlamento. Su ingenuidad política y su falta de “radicalismo intransigente” (Bagus 2009) contribuyeron en gran medida a la erosión del libre comercio.¹⁰¹⁴

La otra deficiencia fue su actitud centralista. Descartaron a *Kleinstaaterei* con la calumnia del “particularismo” y creyeron, como dijo Braun, que “la libertad económica no se puede realizar de otra manera que en la unidad política.”¹⁰¹⁵ Especialmente Braun estaba en la vanguardia de esta campaña contra los pequeños estados; la gran parte de sus libros están dirigidos contra *Kleinstaaterei*. Wilhelm Lipke tenía razón cuando reconoció que un estado central alemán significaría un “retroceso” (Lipke 1851, 15). Hubiera sido difícil introducir el estado de bienestar y los aranceles bajo *Kleinstaaterei* porque las personas productivas habrían abandonado los estados antiliberales y habrían migrado a los países más libres para huir de la creciente carga fiscal (véase Bagus y Marquart 2017). Por último, los liberales ortodoxos carecían de una base científica sólida y la capacidad intelectual científica. Aunque Faucher editó una revista científica, muchos artículos del grupo ortodoxo poseían un carácter científico popular y no tenían una gran profundidad analítica. La crítica de Schüller es parcialmente correcta cuando escribe: “Los economistas liberales de este período [desde la década de 1850 hasta la década de 1870] no se involucraron de manera independiente en el campo científico. Utilizaron la economía clásica, a menudo superficialmente, con fines puramente políticos, y formularon las doctrinas Smithianas en un sentido crematístico unilateral” (Schüller 1899, 79). Por ejemplo, la crítica de Faucher del método histórico siguió siendo superficial y el historicismo no fue atacado de manera sostenible hasta las *Investigaciones* de Menger más de dos décadas después. Los escritos de Prince-Smith eran populares-científicos, y Braun apenas escribía sobre la economía. Una excepción notable es el extenso tratado de Hübner

¹⁰¹⁴ Según Eugen Richter, Bismarck admitió más tarde en el Reichstag que habría hecho grandes compromisos con los liberales en 1866 para establecer un estado central (Richter 1892, 189-90).

¹⁰¹⁵ Informes estenográficos de los debates del Congreso Económico, 1882, página 26.

Die Banken (Los Bancos, 1854). El único liberal del congreso que escribió un tratado económico fue Max Wirth. No obstante, esto no quiere decir que Faucher y sus amigos no hayan contribuido a la economía contemporánea. Roscher (1874b, 1015) elogió la investigación de Faucher sobre la vivienda y su trabajo en los ciclos económicos como bastante original. Sin embargo, los liberales ortodoxos se centraron más bien en la política económica y descuidaron las cuestiones teóricas más fundamentales. Prince-Smith planeaba a escribir un tratado en la década de 1840 (Wolff 1880, 233-4) pero nunca lo terminó a pesar de su independencia financiera. Esta falta de la base científica resultó fatal en el debate con los socialistas de cátedra. Le correspondió a Carl Menger y sus discípulos en Austria a desarrollar una base científica más consistente para el *laissez-faire* doctrinario.

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Publications

- Huber, Elias. Forthcoming. "The Berlin *Abendpost*: A Stirnerite and Individualist Anarchist Newspaper from 1850." *The Independent Review*.
- Bagus, Philipp and Huber, Elias. Forthcoming. "A Misconception of Friedrich Hayek and the Market Algorithm." *The Journal of Prices & Markets*.
- Huber, Elias. 2016. "Carl Menger and the Spanish Scholastics." *Procesos de Mercado: Revista Europea de Economía Política* 13 (2): 84-113.

Presentations

- “The Berlin *Abendpost*: An Individualist Anarchist and Stirnerite Newspaper.” Presentation at the Regional Conference of Students for Liberty Jena, Jena, Germany in November 2018.
- “Carl Menger and the German Free Trade Movement.” Presentation at the 2nd Annual Madrid Conference on Austrian Economics, King Juan Carlos University, Madrid, Spain in November 2018.
- “The Berlin *Abendpost*, An Individualist Anarchist and Stirnerite Newspaper.” Presentation at the XI Congreso de Economía Austriaca, Instituto Juan de Mariana, Madrid, Spain in September 2018. Youtube: <https://www.youtube.com/watch?v=CCG9GrN7iq8>
- “Was Carl Menger influenced by the Spanish Scholastics?” Presentation at the IX Congreso de Economía Austriaca, Instituto Juan de Mariana, Madrid, Spain in June 2016. Youtube: https://youtu.be/LYMBTHh_PMg?t=920
- “The synthesis between Mises, Hayek and Rothbard.” Presentation at the VIII Congreso de Economía Austriaca, Instituto Juan de Mariana, Madrid, Spain in May 2015. Youtube: <https://www.youtube.com/watch?v=8IcfeIXA7v4>

Extracurricular Activities

- Summer fellowship at the Ludwig von Mises Institute in Auburn, Alabama, USA from May to July 2019.
- Seminar on the History of Economic Ideas with Bruce Caldwell, Duke University in Durham, North Carolina, USA in June 2017.
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