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## Why did German early industrial capitalists suggest workers pensions, arbitration boards, and minimum wages?

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**Abstract:** Today at the beginning of the 21<sup>st</sup> century, there is a debate across Europe about how much welfare society should provide, and how much private insurance is possible. Two hundred years ago, in the formative period of industrial capitalism, social problems had long been left to private initiative. Commodification of labour and its concentration in large factories, however, created demand for social protection beyond the limited shelter provided by charity. Representatives of industry in Aachen suggested compulsory factory rules granting rights to workers, compulsory workers’ pension funds, minimum wages and maximum working hours. The article argues that the industrialists’ aim was to stabilize the social order of industrial capitalism by using ideas of social partnership. Labour should not just be pacified, but reconciled with capitalist society. While interpreting social policy as a capitalist aim, the article aims to contribute to the discussion about the origins of the welfare state.

### 1 Introduction\*

On August 30<sup>th</sup> 1830, the city of Aachen was home to a riot sparked by a labour conflict in a local cloth factory that ultimately involved more than 10 percent of the population. In this situation, the idea gained ground that workers should be provided with enforceable labour rights. Four weeks later the Trade Court formed by local industrialists and the Chamber of Commerce in Aachen, the elect representation of commerce and industry, suggested compulsory factory rules and, implicitly, collective labour agreements. Later, between 1863 and 1866, the Chamber of Commerce (hereafter ACC) suggested further steps: conciliation boards of employers and workers on a parity basis, the introduction of minimum wages, the limitation of working hours as well as workers pension funds with equal contributions from employers, workers, and the city. Thus, at a time when trade unions were still prohibited and liberal ideas dominated the Prussian State administration, capitalists in Aachen were demanding public welfare measures in order to mitigate the negative impacts of factory work and of social change in the formative period of industrial capitalism. Their objective was the legitimization and stabilization of the capitalist social order. At the time, the proposals from Aachen failed to gain support from the Prussian government – which argued in favour of freedom of contracting. By studying collective agreements, minimum wages, and workers pensions as a capitalist aim, this article aims to contribute to the debate about the origins of the welfare state. What will be presented is the

Polanyian argument<sup>1</sup> that disembedded markets, here the labour market (as well as industrial relations), might induce counter-movements that result in re-embedding those markets.

But why did early industrial capitalists in the Rhineland suggest collective labour agreements, minimum wages and social insurance? The argument developed here is that the particular institutional setting inherited from the French revolution (the region was French from 1797 to 1814) allowed for entrepreneurial self-organization in representative bodies, such as the ACC.<sup>2</sup> These institutions fostered discussions on reports and decisions, and helped to articulate a common opinion towards State authorities. The representatives had to think beyond the individual firm. The coordination within the elect bodies of industry and the expression of common ideas are assumed to shape – and be shaped by – shared social norms (culture). In addition, the regionalized structure of the Prussian state administration with state representatives on the level of the province and the district (the Royal Government of Aachen, hereafter Royal Government) included elements of self-administration that enabled and forced economic actors to coordinate approaches. Without coordination, they would not have had a voice.

In her book on social policy in Aachen and Barcelona in the 19<sup>th</sup> century, Beate Althammer provides an account of some of the events presented in this article with a different interpretation from the one presented here.<sup>3</sup> She focuses on the incapacity of the city elites to improve the workers' situation and to solve social problems, i.e. the outcomes. The argument followed here emphasizes the industrialists' aims with regard to factory rules, labour relations and pensions – aims which could be achieved only via compulsory legal norms.

The next section connects to the welfare state literature. It is followed by a description of the regional economy and its institutional arrangements. Section 4 describes the riot of August 30<sup>th</sup> 1830 and the proposals made by industrialists in response to it. Section 5 analyses the proposals of worker pension funds and conciliation boards for labour conflict; and Section 6 briefly summarizes the argument.

## 2 The Emergence of the German Welfare State

The emergence of the German welfare state (*Sozialstaat*) in the 1880s is usually traced back to the failed revolution of 1848<sup>4</sup> and to Bismarck's aim of reconciling labour with the Empire (*innere Reichsgründung*). Historians have stressed the fact that the social insurance legislation for industrial workers covering sickness (1883), accidents (1884), and disability and old age (1889) was connected to early modern institutions, and that it served, like the Prussian health funds (*Unterstützungskassen*) of the 1850s, as a substitute for older welfare institutions.<sup>5</sup> Nevertheless, the German welfare state is largely perceived as the outcome of a top-down political decision. The key source to this dominant interpretation is Kaiser Wilhelm's royal message of November 17, 1881, the main sections of which were edited by Bismarck himself. In the address, he argued "the redress of social problems is not simply to be sought by repressing the Social Democratic excess, but equally by positively

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<sup>1</sup> Polanyi, 1944.

<sup>2</sup> Also many French laws such as the *Code de commerce* continued to be in force after the Rhineland became Prussian in 1814 (see below).

<sup>3</sup> Althammer, 2002, passim.

<sup>4</sup> Volkman, 1967; Reulecke, 1983; Beck, 1997; Hennock, 2007.

<sup>5</sup> Cf. Ritter, 1983, 17-82; Hennock, 2007, 151-60; Kuhnle/Sander, 2010.

promoting worker's welfare".<sup>6</sup> Therefore, the social historian Klaus Tenfelde perceived social insurance as the counterpart of Bismarck's repressive 'carrots and sticks' policy towards the socialist labour movement.<sup>7</sup> The international welfare state literature follows this dominant perception. Kuhnle and Sander, for example, present the emergence of the German welfare state as an "attempt to build worker loyalty towards the imperial regime after having repressed the freedom of organization, assembly, and expression of a growing, radical socialist movement and party" and as a "contribution to state and nation-building".<sup>8</sup>

The interpretations appear to be changing slowly, partly due to the weighty archival documentation *Quellensammlung zur Geschichte der deutschen Sozialpolitik*, eight volumes of which are devoted to the period from 1862 to 1881.<sup>9</sup> The documentation clearly shows that there was no master plan shaping the German welfare state; it rather illustrates changing approaches of Bismarck and his ministers and of political as well as economic interest groups from the 1860s onwards.

Michael Stolleis has published the best-informed overview of the origins of the German welfare state. He analyses in detail the connections between the early modern systems of social protection and the new welfare regime, and presents the different interests involved in shaping the so-called Bismarckian system, "heavy and textile industries, the agrarian world, the workers' movement, the churches, scholarship, and – above all – the ministerial bureaucracy in Prussia and the Empire". Stolleis emphasizes that "industry, as well, pushed for the introduction of compulsory old-age and disability insurance for all factory workers" – and not only the accident insurance, as had been priorly acknowledged. The resulting insurance-based system, however, was very different from Bismarck's originally preferred solution, which would have been similar to the universal tax-based Scandinavian model.<sup>10</sup>

Although it is acknowledged that many industrialists argued in favour of social protection this is usually presented only as "a device to pacify workers".<sup>11</sup> With this article, I want to take a broader perspective linking the origins of social protection for industrial workers to the requirement of reproducing the social order of industrial capitalism, including the issue of legitimacy and acceptance by the workers. Industrialists were well aware of existing and potential social conflict; and they discussed the prospects of the emerging industrial society and developed ideas of how to manage the effects of increasing commodification of labour and how to conciliate workers. It is not assumed that industrialists would always support social reform or particular welfare programmes; instead it is argued that public welfare emerged as a condition of industrial capitalism in Europe.<sup>12</sup>

### 3 The Industrial District of Aachen and its Institutional Arrangements

The region of Aachen is a good example for illustrating the regional rather than national dimension of European industrialization.<sup>13</sup> In the first half of the 19<sup>th</sup> century, it was in the

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<sup>6</sup> Royal Message cited in: Ritter, 1983, 33; cf. Tennstedt, 1981.

<sup>7</sup> Tenfelde, 2001.

<sup>8</sup> Kuhnle/Sander, 2010, 65.

<sup>9</sup> Henning/Tennstedt, 1993-2006; cf. Hennock 1998; very influential was Ritter, 1983.

<sup>10</sup> Stolleis, 2013, quotes 53 & 54; see also Reidegeld, 2007.

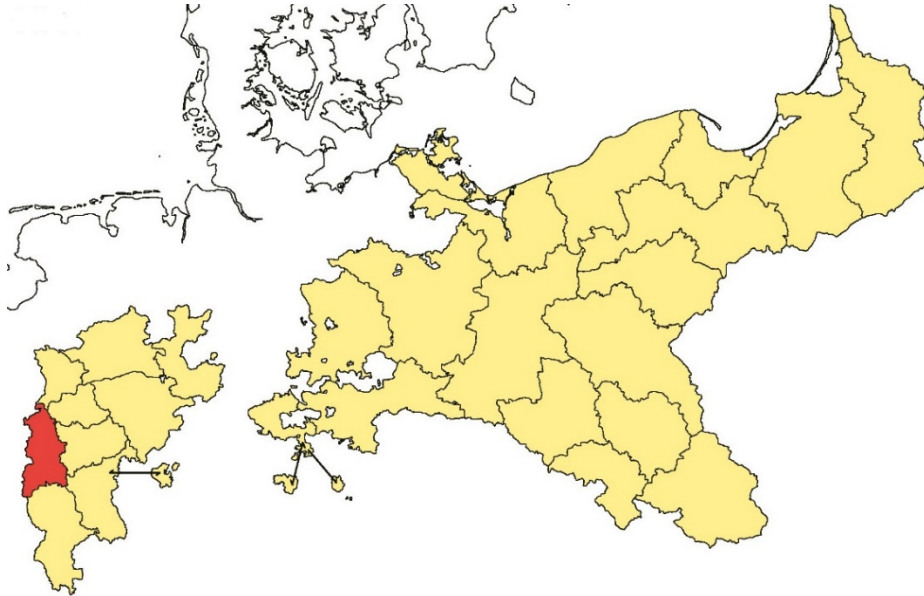
<sup>11</sup> Paster, 2019, 39. For the general argument also Mares, 2003; literature review: Paster, 2015.

<sup>12</sup> Re-reading Swenson, 2002; I became aware of parallels to his analysis, but there is room for debate on this topic, cf. Korpi, 2006.

<sup>13</sup> Cf. Pollard, 1981, 45-219; as for introductions to regional economic development see: Kellenbenz, 1967; Eyll, 1980.

vanguard of developments in the German states. Based on pre-industrial production systems, a dynamic industrial district with modern institutions and advanced industrial organization emerged during the first half of the 19<sup>th</sup> century.

*Figure 1: Prussia, administrative districts in 1818. District of Aachen (dark)*



Source: © IEG Mainz, A. Kunz (2001), own adaption.

*Figure 2: District of Aachen, industrial counties (dark)*



Own construction.

Artisanry and putting-out industries, particularly in woollen cloth, transformed into modern industries producing in large factories with machinery and power engines. By 1830, the large *clothiers* in the cities of Aachen, Burtscheid, Düren, and Eupen operated vertically integrated firms, where power engines drove almost all their machines. During the 1820s and 1830s coal mining and iron and steel production industrialized rapidly. New industries related to increased industrial demand emerged, such as the machinery industry providing other sectors with advanced technology. Aachen was situated on the first railway connecting Germany with a foreign country, Belgium; the line from Cologne to Antwerp via Aachen and Liège was finalized in 1843. Soon also the industries of zinc, glass, paper, and needles produced in large scale factories. By 1861, two thirds of the industrial districts labour force was working in manufacturing and mining (see tab. 1); about 50 percent of them in *large* factories with more than 100 employees.<sup>14</sup>

*Tab. 1: Sector employment. Administrative district of Aachen, 1861\**

County	Aachen, city	Aachen, county	Düren	Eupen	Mont- joie	Schlei- den	Industrial district	Σ admin. district
I. Agriculture	1,7%	18,9%	36,8%	18,1%	41,8%	44,1%		32,3%
II. Industry**	66,8%	68,9%	52,6%	70,2%	48,4%	49,8%		52,9%
III. Services	31,5%	12,2%	10,6%	11,7%	9,8%	6,1%		14,8%
Industrial workforce	22.893	21.761	13.465	7.470	4.108	8.164	77.861	103.525
total population	59.941	52.855	58.840	23.750	20.386	40.234	256.006	458.746

\* Percentages relate to the population older than 14 years, a rough estimate of the number of employable people. Four agricultural counties are not included.

\*\* Mining is calculated as part of "industry".

Sources: own calculations based on v. Reinick, 1865, 134-35, 152-53.

Already in the 1820s, groups of regional industrialists from different industries developed new industries, such as steel or zinc, via cooperation in stock companies that were among the first industrial corporations incorporated in Prussia. By 1848, seven industrial corporations with a share capital of ten million Thaler were founded, one fifth of all industrial stock companies in Prussia; in addition, regional railway companies, insurances, and utilities were incorporated.<sup>15</sup> Incorporation allowed for shared ownership and limited liability and regional industrialists used the institution in order to re-invest profits and diversify risks. The stock companies allowed for enhanced knowledge transfer between firms and across sectors. But within each industry there was fierce competition on product markets and the markets for labour and capital. Thus, the district has been described as consisting of 'overlapping clusters' shaped by competition as well as cooperation and reciprocal interconnections of entrepreneurs, firms, and industries.<sup>16</sup>

<sup>14</sup> Reckendrees, 2012, tab. 8, 156.

<sup>15</sup> Sehr, 1912; Thieme, 1960; cf. Reckendrees, 2012, tab. 4, 6 & 8 for an overview.

<sup>16</sup> Reckendrees, 2017.

Clusters and industries were tied together by formal and informal institutions,<sup>17</sup> which determined legal boundaries, created opportunities for entrepreneurs, and space for collective activities. Until the late 19<sup>th</sup> century, the legal system (including the *Code de civile* and the *Code de commerce*) and other formal institutions were largely based on French law. When the region became Prussian in 1814, the preliminary President of the Rhineprovince noted that the industry “on the left bank of the Rhine was strongly connected with the French legal system”.<sup>18</sup> In 1815, Prussia therefore guaranteed the existing property rights supportive to economic development. The substitution of French law with new Prussian law was slow; and only few, most of which were inspired by French ideas like the Joint-Stock Company Act of 1843<sup>19</sup>, had a certain impact on regional economic development. More important was the membership in the Prussian currency union and tariff union.<sup>20</sup>

The institution of French law was reinforced by elected bodies of commerce, trade, and industry: the Chamber of Commerce (*Chambre consultatives de manufacture, fabriques, arts et métiers* 1804),<sup>21</sup> the Commercial Court (*Tribunal de commerce, Handelsgericht* 1805), and the Trade Court (*Conseils de Prud'hommes, Gewerbegericht* 1808).<sup>22</sup> The judges of the Commercial Court (until 1879) decided on conflicts between merchants or between industrialists, the judges of the Trade Court (TC) decided on labour related conflicts, most of which they could successfully arbitrate.<sup>23</sup>

When the Prussian government considered abolition of the self-regulating bodies foreign to the Prussian system in 1816, the judges of the Commercial Court argued in a letter to the Royal Government: “In a region so full of commerce and factories [...] normal courts are not sufficiently prepared to arbitrate the thousands of conflicts of merchants because in many cases there is no written law on the details, nor easy to decide according to civil law.” Economic development would always be ahead of law and the region’s industry would need a legal system “as simple as merchant contracts and as effective and quick as permanently active speculators are.”<sup>24</sup> The ACC, which also fought for its existence, supported this view. The industrialists had learned to use the system of representation for bargaining and articulating shared interests towards the authorities.<sup>25</sup> The Prussian government learned to finally accept these bodies; and in the following decades they developed into collective bodies representing the Aachen industry.<sup>26</sup> The elect members of ACC are best described as “industrialists”, from the very beginning the chamber was dominated by owners of cloth and needle factories, later ‘managers’ of large corporations, such as David Hanseman, director of the Aachen Fire Insurance Corp. and the Rhenish Railway Corp. were also elected.<sup>27</sup>

In the Prussian state, chambers of commerce had administrative functions such as providing information on regional industry, trade and commerce to the Prussian ministries and ministerial information to the local industry. The existing source material, however,

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<sup>17</sup> Following the distinction between institutions and organizations as suggested by North, 1990.

<sup>18</sup> Quoted from Arlt, 1921, 18.

<sup>19</sup> Kießling, 2007, Martin, 1969.

<sup>20</sup> Schubert, 1977; Bernert, 1982.

<sup>21</sup> For an organizational history of the chamber see: Thomes, 2004.

<sup>22</sup> Zeyss, 1907, 1-18; Bernert, 1982, 144, 147; Thomes, 2004, 20-33.

<sup>23</sup> Zeyss, 1907, 204-06, 216.

<sup>24</sup> Letter of the local judges to President von Reiman, Aachen, 19. April 1816, in: Düsseldorf State Archives, Reg. Aachen (hereafter: HSAD, RA) 1606.

<sup>25</sup> Letter of the Chamber of Commerce to President von Reiman, Aachen, 18. May 1816, in: HSAD, RA 1606.

<sup>26</sup> The observation challenges the persistent view in the economics of law literature that civil law systems, like the French and the Prussian, would have been inflexible.

<sup>27</sup> Thomes, 2004, 25; pure merchants were rare exceptions.

indicates that it fulfilled a double function in that it also served as the political representation of industrial interests towards the Royal Government and the Prussian ministries in Berlin (respective activities are documented, e.g. in regard to the establishment of the Rhenish railway and tariff questions).<sup>28</sup> Internally, the institutional setup allowed for articulating diverging interests, which had to be discussed and negotiated before the chamber or the court could make any statements. Such institutions helped develop trust and identify common interests.<sup>29</sup>

The legal institutional arrangements were supported by the bourgeois *Club Aachener Casino* (founded in 1805), in which industrialists, merchants, members of the State Administration, and their families met. The club served many purposes: It was an exclusive place to meet; a forum for news, information, and exchange (the club had its own large library with national and international newspapers); and a place for arranged marriages.<sup>30</sup> It seems plausible to assume that the Club, together with the self-regulating judicial bodies, strengthened informal institutions; belonging to the elite must have been an aim in its own within a city that had about 34,000 inhabitants in 1819.

While industrialists, merchants, and city officials took part in the emerging civil society, the workers had neither political representation nor were they allowed to unionize. Their bargaining position towards the employers was weak. Their situation had not improved with the transition to freedom of trade and capitalism. Whereas the pre-capitalist system dominated by guilds included mutual sickness funds and unemployment help for journeymen, the factory workers were not even protected against lost wages due to sickness; and the traditional system of poor relief was no longer capable of coping with the new dimensions created by factory work.<sup>31</sup> Frustrations of impoverished artisans, unemployment, and growing poverty emerged in the industrial cities of Aachen, Burtscheid, Eupen, and Düren, where from 1820 onward, a growing factory system brought about high concentrations of workers who challenged the legitimacy of the new social order that offered no social protection, perceiving this as unfair.

#### 4 The Revolt of 1830 and the Reaction of Employers and the Bourgeois Society

On August 30<sup>th</sup> 1830, a local conflict between J.M. Nellessen, the owner of a cloth factory, and some of his employees escalated into a revolt in the city of Aachen, in which finally approximately 4,000 people participated. The workers had accused Nellessen of shorting wages high-handedly and Nellessen, arguing the workers had not worked properly, had expelled the protestors from his factory. A small group of people was now standing and shouting in the courtyard. As it was lunchtime, they attracted a growing audience, especially of young and unemployed people. When policemen appeared, having been called to dissolve the demonstration, the situation heated up: The group repelled the policemen and followed them through the streets of the city. Encouraged by an experience of power – and possibly by the news of the Belgian revolution (August 25<sup>th</sup> 1830) – a growing crowd moved to other places in the city. The main object of attention was a capitalist symbol: the house of the wealthiest inhabitant of Aachen, James Cockerill, owner of coalmines and a capitalist rentier. From the workers' perspective, he did not work, went to horse races, and was still incredibly rich. The crowd held a 'party' at Cockerill's house (though most people were merely watching): His home was plundered, his wine cellar emptied, valuable furni-

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<sup>28</sup> Kumpmann, 1910; *Fremdling*, 1985.

<sup>29</sup> Cf. *Granovetter*, 1985; *Siegenthaler*, 1993.

<sup>30</sup> *Arens/Janssen*, 1937; *Sobania*, 1991.

<sup>31</sup> *Stolleis*, 2013, 32-43.



ture and paintings destroyed, and the piano was thrown out of the window. The total damage was estimated at 46,000 Prussian Thaler (about 360 times the annual wage of an average factory worker). The euphoric crowd now went on to the local prison, banished the guards and liberated the inmates. Yet, in the meantime, the city burghers had formed an armed brigade. Shooting the rioters – killing one of them and injuring some others –, they finally put down the rebellion, which already had petered out slowly; people had been going back home or were celebrating in the local pubs.<sup>32</sup>

In the following year (March 1831), 66 people were sentenced to jail; some of them got a lifelong penalty.<sup>33</sup> Yet not the fate of the prosecuted nor the trial is of interest here, it is rather the industrial capitalists' response to the revolt.

### *Industrial Demand for Labour Agreements*

After the incident, the TC and the ACC discussed the situation and how to avoid or contain potential labour conflicts, which they identified as being the source of the conflict. Only four weeks later, the judges of the TC proposed to the Royal Government – which was to deal with local initiatives or to pass them on to the Prussian Ministry of the Interior – an intervention by the state.<sup>34</sup> The industrialists did not call for suppression, protection of private property, and a larger policeforce – they called for compulsory rules for factory owners. Based on their experience with labour conflicts, the judges concluded that many of the workers' complaints were justified. Workers were employed too irregularly, wages were too low, and the truck system (payment in kind)<sup>35</sup> was used too often. It was necessary, the judges argued, to establish rules that would help reduce potential conflicts and ensure fair treatment of the workers. The precarious situation demanded precisely defined labour rights and concessions to the workers. At the present time, they wrote, "the factory worker is not able to feed his family, which raises a spirit of discontent that should be avoided thoroughly".<sup>36</sup>

The ACC fully conformed with the TC's interpretation and asked for a statute requiring compulsory factory rules for the Rhineprovince. Each factory owner should be obliged to set up a factory rule that was to be approved by the TC, which should have the authority to change the respective rule if minimum requirements were not met. These included (1) the abolition of wage deductions, (2) the abolition of any payment in kind, (3) negotiation and arbitration of any labour conflicts at the TC, and (4) 14 days' notice of changes in wages. Furthermore, violations by the factory owners should be penalized severely.<sup>37</sup> The call for a statutory rule is interesting for two reasons. It indicates that voluntary agreements between firms or any self-regulation was perceived as insufficient in that it might establish something like a public good potentially subject to free-riding: Without compulsory rules properly-behaving firms might be disadvantaged by competitors who could reduce labour costs in an illegitimate way. It also indicates that informal institutions appeared to be insufficient means of disciplining misbehaving members of the local industrial 'club'. The decree was to cover the Rhineprovince comprehensively, probably because a local decree would only encourage the relocation of factories outside the city of Aachen. All in all, the proposal can be regarded as a basic form of collective labour agreement. Particularly relevant in this respect was the requirement of 14 days' notice of changes in wages, for this

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<sup>32</sup> Venedey, 1831. The riot is described in several publications, e.g.: *Althammer*, 2002, 177-202; *Volkman*, 1973; *Düwell*, 1983; *Bock*, 1994.

<sup>33</sup> Venedey, 1831, 211-12.

<sup>34</sup> Chamber of Commerce to Royal Government, Aachen 29. Sept. 1830, in: HSAD, RA 1625.

<sup>35</sup> At the time, there was also a heated debate about the truck system in England; cf. *Hilton*, 1958, 470-79.

<sup>36</sup> Chamber of Commerce to Royal Government, Aachen 29. Sept. 1830, in: HSAD, RA 1625, f. 5.

<sup>37</sup> *Ibid.*, f. 6. The formulations were slightly changed in Dec. 1830, *Ibid.* f. 11.

implied the existence of a labour contract, despite the fact that workers were formally day labourers who could be sent back home when they showed up in the morning.

It is unclear why – perhaps they regarded it being too far-reaching to be accepted – but the Royal Government and the President of the Rhine Province forwarded the proposal to the Ministry of the Interior in Berlin only in a reduced version mentioning only the abolition of the truck system. Although this does not appear revolutionary today, to some of the officials in the ministry it appeared to be just that. Although abuses of factory owners were recognised and it was agreed they should be eliminated, the initiative was crushed through inner-ministerial debates over three years. The exchange of letters demonstrates how far the ministry had embraced liberal thought. The Minister of the Interior for Commerce and Trade – familiar with the advanced industry in the Rhineland – supported the intervention and found as an ally the Minister of Finance. But his counterpart, the Minister of the Interior and Police, argued there was “no need for prohibition”: Either the factory owner would employ the worker on the condition of payments in kind or he would not do so. The worker would always have the free choice to accept or to decline the job. The Minister rejected the argument that a factory owner would be able to exert pressure on the worker by threatening with dismissal. He argued it was “impossible to take the weapon [the threat of dismissal] from the factory owner, but the use of it was likely to find its most certain and natural limitation in the self-interest of the factory owners”. Any factory worker would need to decide whether a contract was in his interest – a disadvantageous contract should “induce the worker to cancel the contract as soon as he is able to use his labour in a more beneficial way”. The Minister of Justice, mainly preoccupied with the agrarian provinces in the east of Prussia but leading in any legal matter, followed this line of thought; he did not want to interfere at all with liberal contracting. Finally, the Secretary of State, Earl von Lottum, concluded in June 1834 that the proposal was “nothing but a tax regulating the wage” in the interest of the worker only.<sup>38</sup>

For fifteen more years Rhenish industrialists wrote petitions supported by the Royal Government and the President of the Rhine Province and finally also by the Provincial Parliament (*Rheinischer Landtag*), where several speakers repeatedly complained about abuses of factory owners. Finally, more than two decades after the industrialists from Aachen had proposed it, the General Trade Act of 1854 (*Preußische Gewerbeordnung*) abolished all payments in kind.<sup>39</sup>

In Aachen, the ACC, the TC, and the Royal Government were not pleased with the rejection in 1834. The size and the numbers of factories and factory workers were rapidly increasing<sup>40</sup> and potential singular conflicts between employers and workers could easily spill over to other companies and thereby threaten the social order. Thus, the Royal Government tried to calm labour conflicts. It changed the police rules to the effect that the local police was to be informed before any mass dismissal. The task for the police was to ensure law and order, but also to provide new jobs, if possible. When the machine factory Dobbs & Nellessen laid-off 120 of their 300 workers in September 1836, a group of workers wanted to burn down the factory in a nightly attack. The police reacted in terms of protecting public order and arrested the arsonists. But it also organized new jobs for almost

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<sup>38</sup> Minister von Brenn to Minister von Schuckmann, 25. Jan. 1833, f. 16-19; Votum of Earl of Lottum, 21. June 1834, f. 111, in: Prussian State Archive (hereafter GStA) PK, I. HA, Rep. 120, Abt. BB VII 3 Nr. 4 Bd. 1; cf. *Anton*, 1891, 136-39.

<sup>39</sup> *Ibid.*, 135-57.

<sup>40</sup> First reliable data are available for 1849: Table on “productive establishments and factories of all kind in the district of Aachen for 1849”, in: HSAD, BR 2116-48, f. 319ff. The average size of a cloth factory was about 300 workers, *Reckendrees*, 2006.

50 percent of the dismissed in neighbouring factories in Aachen and Eschweiler. Belgian migrant workers, however, were shoved off to Belgium.<sup>41</sup>

Source material is unfortunately scarce except for the 1830 riot, and the local newspaper did not usually report on such issues. Still, the above-mentioned events indicate that regional industrialists aimed at containing potential labour conflicts by regulating labour relations and penalizing employers' misbehaviour. They also indicate a search for cooperative solutions for mass dismissals (unemployment). The new proposals reflected the need for industrial relations in line with modern industrial production, including specified workers' rights. The articulated aim was to thoroughly avoid any "spirit of discontent".<sup>42</sup> The ideological background of the people involved is rarely known. To be sure, some of them like David Hanseemann, a leading liberal at the time and the chairman of the ACC in 1830, pursued also humanistic ideals. But at the same time the industrialists' perspective differs from philanthropic approaches aiming at improving the conditions for workers for humanitarian reasons and to shape a good society.<sup>43</sup> To the industrialists in Aachen improving the life of the worker appeared as a necessity for maintaining the social order.

### *Savings for Industrial Workers*

Certain general social problems like the Cholera epidemics of the 1830s also affected the industrial region of Aachen. The city bourgeoisie, including the industrialists, tried to solve such problems with charitable organizations such as the *Kornvereine* which distributed bread and rye among the suffering.<sup>44</sup> But charity appeared to be an insufficient approach for a city in which factory work had become the major source of income for the people and dependency on market provision for food had increased. The new *instrument* introduced after the 1830 revolt was a savings bank for the working class constructed as an instrument to integrate workers into the capitalist system, which – in the view of industrial capitalists in Aachen – increasingly depended on protecting the worker against the risks of wage labour.

While the institution of the savings bank and the idea of help to self-help was not completely new in the German states (savings banks mushroomed across Europe in the early 19<sup>th</sup> century), the concept of the savings bank received a distinctive and novel interpretation in Aachen. The savings bank called "Aachen Association for the Encouragement of Industriousness" (*Aachener Verein zur Beförderung der Arbeitsamkeit*)<sup>45</sup> was funded with the profits of the "Aachen Fire-Insurance Corp." (*Aachener Feuerversicherungs-Gesellschaft*) established by wealthy people of the region including many industrialists in 1825. The Prussian incorporation law requested that any corporation had to demonstrate its benefit for the public good. For an insurance company the authorities stipulated that after reserves had been accumulated, 50 percent of the net-profits should be allocated to public purposes. The Aachen Fire-Insurance financed, for example, the cultural education of workers and a kindergarten for female factory workers, in line with the traditional charitable approach.<sup>46</sup>

<sup>41</sup> Summary of the events by police director Lüdemann, 19. Sept. 1836, President of the Royal Government to the city government, Aachen, 12. Oct. 1836 (new police rules), in: HSAD, RA 1625, f. 35-36. Cf. Althammer, 2002, 376f., focusing more on the dimension of repression.

<sup>42</sup> Chamber of Commerce to Royal Government, Aachen 29. Sept. 1830, in: HSAD, RA 1625, f. 5.

<sup>43</sup> Thomes, 2000, 509-18; for the Central Association for the Wellbeing of the Labour Classes (*Centralverein für das Wohl der arbeitenden Klassen*, founded in 1844), cf. Reulecke, 1983.

<sup>44</sup> See the account in Althammer, 2002.

<sup>45</sup> Hanseemann, 1834; Berndt, 1884; Thomes, 1999.

<sup>46</sup> 90% of initial shareholders came from the region: List of shareholders, in: HSAD, RA 16058, f. 42; statutes in: GStA PK, I. HA, Rep. 120, D XXII 9, vol. 4.

After the 1830 revolt, the objectives of the Aachen Fire-Insurance changed favouring the establishment of the savings bank. In 1833, the provisional committee set up for founding the savings bank wrote that most industrial workers would no longer have any other means of income than wage labour (such as subsistence agriculture). Under such conditions, individual crises like unemployment or illness would make workers dependent on charity and poor relief. Savings, the committee wrote, would help survive in such crises and it was for this reason that the savings bank was to provide to the “labouring population” financial precautions against (un-)expected risks. Since wages were low and the means for savings rather thin, the bank was to offer high interest rates and bonuses. Establishing and maintaining accounts was subsidized by the funds stemming from the insurance’s profits. The model was attractive to those who had almost no means of saving. Yet the bank did not want to pay high interest and bonuses for free. Only if the saver was positively assessed by banks manager for “industriousness, order, and good conduct”<sup>47</sup>, saving for over three years, and accumulating 20 Prussian Thaler (an average wage earners income of seven to eight weeks) would a three Thaler premium be given in addition to interest.<sup>48</sup>

Since factory workers could not rely on vegetables from a garden or other means of the traditional agrarian society, a savings account would provide at least small means to cope with illness or unemployment. At the same time, savings was a means of socially disciplining and educating the ‘labouring population’. For this objective, the fire insurance shareholders deliberately used a substantial amount of the insurance income. While help to self-help stayed within the conventional principle of charity, and the ideological framing was not very different from paternalistic approaches elsewhere, the banking model acknowledged the necessity of precautions against temporary urgencies of an industrial society, such as inability to work or unemployment and supported individual precautions against these risks. The fact that the savings bank was planned shortly after the 1830 riot is not a coincidence. In line with the proposed factory rules, it indicates the broad acknowledgement that the risks involved in wage labour required social protection as well as insurance against unemployment and illness. The solution, however, was not yet to be found in compulsory schemes or public welfare.

An endemic risk of industrial labour was accident and illness. When the factory system expanded, the traditional system of poor relief was not supplemented by new systems of social security. Poor relief was still based on the birthplace but labour migration had made this system impractical. The still existent mutual relief funds of the guilds of the 18<sup>th</sup> century provided insurance only to journeymen and at the beginning of the 19<sup>th</sup> century some regional coal mines and factories established mutual health funds on factory level.<sup>49</sup> But these instruments were not at all comprehensive until, in the 1850s, health insurance was made compulsory, first for the region’s coal mines and then for the metal industries. State authorities were the driving force.

The case of coal mining in the district of Aachen is illuminating. In the Inde revier, where one large company was operating, a *Knappschaft* (miners’ mutual health fund) had already been established in the first decade of the 19<sup>th</sup> century. But in the neighbouring Wurm revier, where eleven mines were operating during the 1820s, the attempts of the mining authorities to establish a *Knappschaft* failed. The number of workers of a single mine was too small for a company-based *Knappschaft*; and the owners of the firms who

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<sup>47</sup> Executive committee of the Aachen Fire-Insurance Corp. as a provisional committee of the Aachen Association for the Encouragement of Industriousness, 25. Oct. 1833, in: HSAD, RA 16058.

<sup>48</sup> In 1849, the bank was the largest savings bank in Prussia with 11,500 accounts. The share of working-class people was far above average; *Anonymous*, 1861, 85-108.

<sup>49</sup> *Stolleis*, 2013, 32-43; *Venedey*, 1831, 54-55, 119; *Schainberg*, 2004, 293.

were competing against each other could not agree on a joint fund.<sup>50</sup> Only after a serious mining disaster with 63 miners killed in 1834, could the authorities enforce an agreement to set up the joint *Wurm-Knappschaft* providing medical treatment, help to injured miners, and basic pensions to widows and orphans of miners killed in work accidents.<sup>51</sup>

In 1854, the Prussian state made it possible to establish local statutes forcing workers and journeymen as well as employers into funds (*Unterstützungskassen*), providing basic health insurance.<sup>52</sup> The ACC welcomed the proposals, but rejected the approach of industry-based insurances that was suggested in Aachen. They were too large and would be prone to shirking. Industrialists did not object to insurance contributions; some had already established factory schemes, but sought for cheaper solutions.<sup>53</sup> When the insurance was implemented, it was not the industrialists, but the workers, who protested radically against withholding contributions to the insurance from their wages. They held demonstrations with hundreds of participants and distributed pamphlets calling for a revolution: “Do not let the factory owners withhold your self-earned money next Saturday, if anything we want revolution, for unity is strength.”<sup>54</sup> Some workers even went on strike and the new regime could only be implemented in accompaniment of military alert, police patrols, and penalty threats.

What should be stressed again is that the industrialists were not predominantly driven by humanitarian or philanthropic ideas. They were interested in keeping production costs low and whenever they could they tried to find the cheapest possible solutions, but they also considered social peace and the conditions for reproducing the capitalist system. For this reason, the industrialists were clearly in favour of child labour. When the restrictions for children aged 12 to 16 were sharpened in 1853, the chamber repeatedly argued against the new regulations. They emphasized increased labour costs and also increasing costs of living, which made workers families dependent on income from child labour.<sup>55</sup>

## 5 Workers Pensions and Labour Conflict Arbitration

In the second half of the 1850s, production growth, new factories, and new industries (tobacco manufactures) enhanced competition for labour in the region, as indicated by rising wages in the iron and steel industry, the metal industry, and coal mining. Population increased substantially by about ten percent from 1855 to 1861 in the city and the county of Aachen, while the average of the region was only five percent.<sup>56</sup>

When the Kingdom of Saxony allowed labour coalitions in 1861, the repeal of the prohibition of coalitions in the Prussian Trade Act (1849, § 181 and § 182) arrived on the political agenda in Prussia together with full freedom of movement. The debate forms the background for a reanimated discussion among the industrialists in Aachen, and across the state. The proposals of the ACC were again motivated by the fear of social unrest, which Aachen had experienced repeatedly: during the riot of 1830, the 1848 revolution<sup>57</sup>, and on a lower conflict level in regard with the health insurance for factory workers. The focus was

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<sup>50</sup> The mines in the region of Aachen operated under French law and legal enforcement by the mining authorities was not possible.

<sup>51</sup> *Reckendrees*, 2014.

<sup>52</sup> *Ritter*, 1983, 21-22.

<sup>53</sup> *Jahresbericht 1852, 1853, 14-16, 23; Jahresbericht 1860, 1861, 8-9.*

<sup>54</sup> *Schindlmayr-Reyle*, 1969, 203.

<sup>55</sup> *Jahresbericht 1853, 1854, 18; Jahresbericht 1856, 1857, 3; Schulz*, 1996.

<sup>56</sup> *Reckendrees*, 2014, 142-43; v. *Reinick*, 1865, 128; effects of the economic crisis 1857 were only short-term, *Ibid.* 183.

<sup>57</sup> Cf. *Althammer*, 2000.

again on industrial relations but also on social welfare in form of a compulsory pension for elderly and incapacitated people.

The ACC's approach to the repeal of the prohibition of coalitions and freedom of movement differed from other Prussian chambers. Most of them were in favour, many argued that after initial disturbances people would understand that wages would be "determined by supply and demand and not by the discretion of the employer"<sup>58</sup>, but the ACC was sceptical. It argued that prior to any repeal of the prohibitions, collaborative institutions of employers and workers should be established. Without such instruments the situation would only be worsened.<sup>59</sup>

### ***Workers Pension Funds***

Even before the Prussian Government had asked the chambers of commerce for comments on the issue of coalitions and freedom of movement, the ACC had proposed to the Royal Government the introduction of pension funds for factory workers (*paritätische Arbeiter-Rentencassen*) in 1863. This may have been in response to a memorandum of Hermann Wagener, Council of Justice of the State Secretary.<sup>60</sup> But while the Royal Government at first was sympathetic, it later argued that such an insurance would not be feasible and that the health funds should cover those risks.<sup>61</sup>

In its report on 1864, and in the next two years, the ACC repeatedly asked for a regulation implementing pension funds in order to secure the "livelihood of the worker in his incapacitated age". It justified the proposal with unequal social chances between industrialists and workers stating that there was a "disparity between the factory owner who looks forward to a secure future due to his [economic] activity, and the worker who – only in years of full work capacity – enjoys a strictly limited autonomy." While the industrialists would be able to retain all profits, the incapacitated worker would be "an unprotected object of his fate."<sup>62</sup> The worker could not be expected to save voluntarily for his old age, because he would be so "much more concerned with the present than with the future" (because of low wages).<sup>63</sup> Three parties should contribute to the fund: (1) the employers "who significantly profit from labour force", (2) the worker, receiving a pension rather than poor relief, and (3) the cities profiting from local wage expenditures and saving on poor relief. The state should provide a certain amount of seed capital into the Worker Pension Funds or interest-free loans.<sup>64</sup>

The ACC gave several reasons for its proposal, including the price formation of labour, explicitly rejecting the supply and demand argument of other chambers (see above). The "fundamental difference between any good and a worker" was that "the latter cannot survive, if he receives for his labour, which is his sole property, a lower price than is necessary for his subsistence [...] the cost of subsistence determines the minimum level of wages."<sup>65</sup> Although it is certainly interesting that the industrialists argued based on a labour theory of value, it appears more relevant that the ACC provided the historical argument that with freedom of trade and modern wage labour, the workers had lost the safety nets of the 18<sup>th</sup>

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<sup>58</sup> Engel, 1865, 268-69.

<sup>59</sup> Jahresbericht 1864, 1865.

<sup>60</sup> Memorandum H. Wagener, Feb. 13, 1863; Letter from Bismarck to Minister of the Interior, March 18, 1863; Letter from the Minister of Commerce to Bismarck, April 30, 1863, in: *Tennstedt/Winter* 1994, 2-4, 14-16, 29-30.

<sup>61</sup> Jahresbericht 1863, 1865, 352.

<sup>62</sup> Jahresbericht 1866, 1867, 485-86. *Thomes*, 2004, 96-97, briefly quotes from the documents.

<sup>63</sup> Jahresbericht 1864, 1865, 291.

<sup>64</sup> *Ibid.*; Jahresbericht 1866, 485-86.

<sup>65</sup> Jahresbericht 1864, 292.

century and that they lacked an “equivalent”. A “decent” living standard for elderly people (incapacitated age) would be a matter of justice considering the profits produced by utilizing their labour. A second argument was that with the pension, the worker “joins the class of the owners and becomes a conservative, property protecting member of the bourgeois society.”<sup>66</sup>

### *Arbitration and Conciliation Boards*

In connection with the pension funds the ACC proposed arbitration and conciliation boards (*paritätische Schiedskommissionen*, hereafter: Board) for labour conflicts. The ACC had not forgotten its ideas of 1830, but its understanding of labour conflicts and industrial relations had improved. While the proposal of 1830 suggested that the Trade Court dominated by factory owners should be the arbitrator in case of a conflict, the ACC now proposed a board with a parity of industrialists and workers representatives. They should reconcile any “differences between factory owners and workers by direct negotiation in friendly agreement”.<sup>67</sup> The proposal used the rhetoric of social partnership arguing that the worker would “accept the decisions of the commission, in which he would feel equally represented”. It was further motivated by the need to convey the work ethics which the quality work demanded by the industry depended on. Under such conditions the worker would develop an own interest in the quality of ‘his’ produce and in the competitiveness of ‘his’ factory since this would “increase the value of labour” and help provide a secure livelihood. In the future, industry would be dependent “on producing goods of undoubted quality instead of cheap products”.<sup>68</sup>

The ACC regarded the two proposals as connected: The pension funds would protect the worker against poverty, but would not have any positive impact on despotic factory owners nor on work moral. For this purpose, the chamber conceived of the Boards as the “only adequate institutions” with any potentially positive influence. On April 3, 1865, it proposed a draft bill for the Board with a parity of industrialists and workers. According to this draft, the Board should deal with labour conflicts not only ex-post but help prevent conflicts by establishing rules similar to collective labour agreements: it should define the “minimum level of labour prices” and “the length of the working day”, and it should penalize those violating the rules.<sup>69</sup> The freedom of movement as suggested by other chambers of commerce would only increase the labour supply from outwards and encourage the industrialist to lay-off obstinate workers instead of “reconciliation”.<sup>70</sup> Acceptance of industrial capitalism by labour and fear of social rebellion appear to be the dominant concern of the industrialists in Aachen.<sup>71</sup>

## **6 Conclusion**

The regulation of labour relations and the pension funds, which the representative bodies of industrialists in the district of Aachen proposed during the 1830s and 1860s, concerned issues related to wage labour and factory work that potentially lead to disorder and social unrest. The ideas of 1830 clearly related to the riot of August 30<sup>th</sup> 1830. The new proposals from 1863 to 1866 were framed in the context of a possible repeal of the prohibition of

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<sup>66</sup> jahresbericht 1866, 486.

<sup>67</sup> *Ibid.*, 487.

<sup>68</sup> Jahresbericht 1864, 1865, 292.

<sup>69</sup> Jahresbericht 1866, 1867, 487.

<sup>70</sup> Jahresbericht 1864, 1865, 292.

<sup>71</sup> Most propobably the proposals were not picked up again, the reasons are unclear but the Prussian-Austrian war and the Prussian-French war seriously impacted on the regional industry.

labour coalitions and in regard to recent conflicts regarding factory workers' contributions to health insurance. Competition on the labour market, the need for an experienced workforce, and the ever-growing social problem of the elderly poor in the cities appeared to be issues requiring new solutions. At the same time, the industrialists upheld their reservations against mandatory schooling and the prohibition of child labour, because both would have increased labour costs without providing any larger benefit to the industry that was predominantly interested in practical on-the-job education.

Neither of these proposals received much attention within the Prussian Government, even though the discussion about disability and old-age insurance slowly began in the 1860s. What followed was a lengthy discussion within the ministerial bureaucracy in Prussia and the Empire, from time to time including representatives from industry, agriculture, the workers' movement, churches and academics. But it took until the 1880s before the 'Bismarckian' welfare system emerged. Regarding disability and old-age insurance (which did not exactly deserve its name), Bismarck explicitly argued: "Whoever has a pension to look forward to in his old age is much more concerned and more easily taken care of than the man who has no prospect of any [...] If we [...] safeguard the future of our workers, whose insecurity is the main cause of the hatred for the state, we [guarantee] our own future."<sup>72</sup> The rhetoric of Bismarck, who was familiar with the industrial city of Aachen having started his career in the Royal Government in 1836, and the rhetoric of the ACC are remarkably similar if one substitutes capitalist society for the state.

For Bismarck and the German Empire, the disability and old-age insurance of 1889 was clearly a "contribution to state and nation-building",<sup>73</sup> but industrialists in Aachen were less interested in the German state than in a *reproducible* social order guaranteeing private property and private accumulation of wealth. They regarded the capitalist social order as under threat from potential social unrest – at least they feared their profits were in danger – because of the inequalities brought about by capitalist society. They argued it was necessary to make workers feel that they could profit from industrial production too.

A functional reading of the events suggest that the developed industrial society brought forward ideas of rudimentary labour agreements defining workers rights, security for elderly, and instruments to help create 'social partnership', which were perceived necessary for the unhindered and continuous reproduction of the capitalist order. To the Trade Court and the Chamber of Commerce, self-regulation was not a feasible solution because of obvious free-rider problems. They requested legally binding arrangements that would create an equal playing field for all.

How the approach of the industrialists from Aachen can be explained in more depth is open to debate.<sup>74</sup> In Aachen, as well as in other densely populated cities of region, Burtscheid, Düren, Eupen, and Stollberg, the factory owners were living face-to-face with the workers, and their factories were situated within the cities. Any uproar as in 1830 (or on a lower scale in 1848 and 1857) was to be avoided. More importantly, inherited institutions of French origin such as the chamber of commerce and the trade court created an environment for the industrial elites to discuss new concepts and policies for the society they were living in. They also had to compromise on reports and suggestions made to the state authorities. Obviously they thought that self-regulation was insufficient and aimed at compulsory rules for all in order to avoid free-riding and rent-seeking behaviour by competitors and to maintain a competitive situation on the German markets. To be sure, not

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<sup>72</sup> Bismarck in a conversation with Moritz Busch, 21. January 1881, cited in: *Ritter*, 1983, 34.

<sup>73</sup> *Kuhnle/Sander*, *Emergence*, p. 65.

<sup>74</sup> A comparison with advanced British regions might be useful, where unionization was legal and first conciliation boards were established in the 1850s; see e.g. *Jaffe*, 2000, 525-58.



all industrialists in Aachen shared the view of the ACC, and few participated in the elections, but the elections of 1863 indicate strong support for the new chamber president and change in political priorities.<sup>75</sup>

The proposals from Aachen did not materialize. For most Prussian provinces and large parts of the German states the concentration of industry and factory work was far less pronounced than in Aachen, where two thirds of the total work force were working in factories. Many voices participated in the debate about social insurance. Some industrialists developed proposals similar to the Aachen chamber of commerce, such as the steel industrialist Karl Ferdinand Stumm,<sup>76</sup> others rejected them because of liberal ideology. But it is not so relevant for the argument presented in this article that the ideas were not put into effect. The implementation of compulsory social insurance was impossible without state legislation. I argue that the idea of social protection for industrial workers was related to the requirements of modern industrial capitalism. Paul Thomes, who briefly mentions the proposal of the Workers Pension Funds in his history of the ACC, concludes with the view of “social policy as a system stabilizing factor”.<sup>77</sup> What was to be stabilized was the reproduction of a social order guaranteeing private property and private accumulation of wealth, which increased inequality and required a certain acceptance of the social order by the industrial workers. Disembedded labour markets making large numbers of elderly and disabled industrial workers dependent on poor relief, however, undermined its legitimacy.

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<sup>75</sup> Thomes, 2004, 90, also on voter turnout.

<sup>76</sup> Minutes of a Meeting in the Prussian Ministry of Commerce, in: Tennstedt/Winter, Bd. 1 Grundfragen, pp. 256-266; Tennstedt/Winter, Bd. 2 Haftpflichtgesetzgebung, p. XXV; Tennstedt/Winter, Bd. 6 Altersversorgungs- und Invalidenkassen, p. XX.

<sup>77</sup> Thomes, 1804, p. 97.

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