



DISCUSSION PAPERS

DP/53/2006

**The Balkan Railways,
International Capital and Banking
from the End of the 19th Century
until the Outbreak
of the First World War**

Peter Hertner



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Peter Hertner

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SUMMARY.* During the second half of the nineteenth century railways, ‘the very symbol of rapid progress’^{**}, became increasingly one of the vital instruments for the integration of nation states, multinational empires, and colonies throughout the entire world. They served as a strategic tool for the development of hitherto backward areas, they helped to penetrate regions far away from the political and economic centres and to open them up to the achievements of the ‘civilised world’. ‘Because railways can change spatial realities, they have been a favoured tool of empire builders.’^{***}

Until the end of the 1860s, the main railway lines had been completed in Western, Southern and Central Europe.^{****} In the European East there were then still vast parts of the Russian Empire which had to be covered by a railway network. The Balkan peninsula, most of it still under Ottoman rule, also needed urgently, according to contemporary observers, this new way of communication and transport. It should have provided economic development and better and faster political and military control for the new states which had sprung up recently in this part of Europe, like Serbia, Montenegro or the Moldavian principalities, and for the rulers in Constantinople who tried to modernise the empire of the ‘sick man of Europe’.

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**Fremdling, R. *European Railways, 1825–2001. An Overview*, in: *Jahrbuch für Wirtschaftsgeschichte*, 2003, p. 209.

***Lee, R. *Railways, Space and Imperialism*, in: G. Dinohel, *Eisenbahn/Kultur. Railway/Culture (Mitteilungen des Österreichischen Staatsarchivs, Sonderband 7)* (Wien 2004), p. 91.

****Cameron, R. E. *France and the Economic Development of Europe, 1800–1914* (New York 1975, 1st ed. Princeton, N.J. 1961), pp. 204–320.

ABBREVIATIONS

ASI-BCI	Archivio Storico Banca Intesa, patrimonio Banca Commerciale Italiana, Milano
BNP Paribas	BNP Paribas. Archives historiques, Paris
BA	Bundesarchiv, Berlin
CAMT	Centre des Archives du Monde du Travail, Roubaix
GP	<i>Die Große Politik der Europäischen Kabinette 1871–1914. Sammlung der Diplomatischen Akten des Auswärtigen Amtes</i> , Berlin 1924 ff.
HADB	Historisches Archiv der Deutschen Bank, Frankfurt/Main
OestA, HHStA, MdÄ	Österreichisches Staatsarchiv, Wien: Haus-, Hof- und Staatsarchiv, Ministerium des Äußern
SG.AH	Société Générale. Archives Historiques, Paris

1. Baron Hirsch and the Oriental Railways, 1869–1890

Already in the 1860s the Turkish government had granted railway concessions to foreign investors: one was situated in the Dobrudja region and was to link Cernavoda on the Danube river to Constanza on the Black Sea – altogether just 64 kilometers, built and managed by British capital. When this region became later a part of Rumania the government in Bucharest bought the line in 1882 from its British shareholders.¹ The other one was to link Rustchuck, again on the Danube but more upstream, to Varna which was to become the major Bulgarian port on the Black Sea. According to Rondo Cameron, it '... was a truly international enterprise, with French engineers, British contractors, Belgian materiel, and capital from all three as well as the Netherlands'.² This line had a length of 225 kilometers and was opened in 1867.³ None of these two lines really lived up to original expectations, i.e. to link West and East in a quicker and safer way – navigation on the Danube proved to be just too slow and complicated and loading from railways to ships and back again took too much time; thus the Mediterranean route from Marseille or Brindisi to Constantinople remained the preferred one for travelers and exporters from Western Europe until the end of the 1880s.⁴

The idea of building a railway which would then connect 'the English Channel to the Persian Gulf' dates back to the 1840s and 1850s. In 1855, during the Crimean War, the Sublime Porte suggested such a project to Western investors,⁵ and, the following year, 'Palmerston, who opposed the idea of a Suez Canal, wrote that the real communication with India must be a railway to Constantinople, and from there through Asia Minor to the Persian Gulf'⁶ – a Baghdad Railway *ante litteram*. Nothing came out of these and other ideas and initiatives because the Ottoman Government did not show any further interest in such projects.

After it had been evicted from Germany in 1866, Austria became increasingly interested in its Balkan 'backyard' and thus presumably also in the big

¹Dimtschoff, R. M. Das Eisenbahnwesen auf der Balkan-Halbinsel. Eine politisch-wirtschaftliche Studie (Bamberg 1894), pp. 5–8.

²Cameron, R. E. France, p. 321.

³Dimtschoff, R. M. Eisenbahnwesen, pp. 8–12.

⁴Rechberger, W. Zur Geschichte der Orientbahnen. Ein Beitrag zur österreichisch-ungarischen Eisenbahnpolitik auf dem Balkan in den Jahren von 1852–1888, unpublished Ph.D. thesis (Universität Wien, 1958), pp. 16–26.

⁵Cameron, R. E. France, p. 320.

⁶Grunwald, K. Türkenhirsch. A Study of Baron Maurice de Hirsch, Entrepreneur and Philanthropist (Jerusalem, 1966), p. 29.

railway project.⁷In 1867, during the visit to Vienna of Sultan Abdul Aziz and Grand Vizier Fuad Pasha, the Sultan was persuaded that such a railroad would help cement his Balkan dominions'.⁸ Recommended by the Austrian Minister of Foreign Affairs von Beust, the Belgian firm Van der Elst & Cie was granted a concession in 1868 to construct a railway through the Balkans to Constantinople. Behind Van der Elst & Cie we find the Belgian financier Langrand-Dumonceau who tried to form a Catholic financial group during the 1860s; he was engaged in the provision of finance to the Pope and in numerous railway speculations.⁹ Langrand-Dumonceau's group collapsed a few months afterwards, it had not been able to collect all the capital needed for this big undertaking. By June 1869, the Ottoman government declared the provisional railway concession which it had granted to Van der Elst a year before to have become invalid.¹⁰

Who was to take Langrand-Dumonceau's place? It was a comparatively small private banker from Brussels, Baron Maurice de Hirsch – or Moritz von Hirsch, as he had been called in Bavaria, the country of origin of his family. He was born in Munich in 1831 and his father Joseph von Hirsch was a banker to three kings of Bavaria and a descendant of the Hoffaktoren, a Jewish family. Apart from his personal ambitions and his remarkable capability as a financier Moritz von Hirsch became successful as an investment banker thanks to his close relations to the Bischoffsheim family, bankers in Brussels, Amsterdam, Antwerp, Paris and London after having left Mainz. This was one of the most important family of bankers in 19th century Europe. Moritz von Hirsch married Clara Bischoffsheim in 1855, moved to Munich and then again to Brussels about three years later where he founded Banque Bischoffsheim de Hirsch together with his brother-in-law. It was a private banking house which twelve years later became one of the founders of Banque de Paris et des Pays-Bas. From 1871 he lived mostly in Paris.¹¹ According to Paul Emden the Bischoffsheims '... allowed him [Hirsch, P.H.] to use the organisation of the banking house of Bischoffsheim & Goldschmidt

⁷In the early 1860s Austria still favoured a line which would have run through Transylvania and the Carpathians down to the Danubian principalities – which would later on become Rumania – and from there to the Danube which then still formed the border with the Ottoman Empire (Rechberger, W. *Zur Geschichte der Orientbahnen*, pp. 1–15).

⁸Grunwald, K. *Türkenhirsch*, p. 30.

⁹Jacquemyns, G. *Langrand-Dumonceau. Promoteur d'une puissance financière catholique*, vol. 4 (Brussels, 1964), pp. 234–238; cf also Grunwald, K. *Türkenhirsch*, pp. 20–25, 30.

¹⁰Dimtschoff, R. M. *Das Eisenbahnwesen*, p. 22; Jacquemyns, G. *Langrand-Dumonceau*, vol. 5 (1965), pp. 66–67.

¹¹Emden, P. H. *Money Powers of Europe in the Nineteenth and Twentieth Centuries* (London, 1936), pp. 325–330; Grunwald, K. *Türkenhirsch*, pp. 9–27; Bussière, E. *Paribas, 1872–1992. L'Europe et le monde* (Antwerp, 1992), pp. 21–22, 27.

for his transactions, and at times they also left the management in his hands, but, a little afraid of his all too great spirit of enterprise and daring – others less favourably inclined occasionally thought him reckless – they did not take him into partnership¹².

On April 12 1869 Moritz von Hirsch signed a concession agreement with the Imperial Ottoman Government ‘... for the construction and operation of a railway network in European Turkey which was to connect Constantinople with Vienna ...’.¹³ It is not quite clear if Hirsch entered into the previous agreement between the Sublime Porte and Langrand-Dumonceau or if he came himself to terms with Constantinople. At the beginning Hirsch seems to have desired a clear distinction between the construction of the network, a task he wanted to take up himself, and its operation where he desired to engage the South-Austrian Railway, the well-known *Südbahn*, founded by the Rothschilds, which, however, withdrew its approval at the very last moment. The Austrian State Railways, a private firm despite its name which had been created by the Péreire brothers, also refused to participate.¹⁴ Hirsch was therefore practically forced to found by himself, as an operating company, the Paris-based *Compagnie Générale pour l’Exploitation des Chemins de Fer de la Turquie d’Europe* in January 1870. Its principal shareholders were the Anglo-Austrian Bank in Vienna, the *Société Générale*, Paris¹⁵, the *Banque Bischoffsheim de Hirsch* in Brussels as well as Moritz von Hirsch. ‘Chairman and negotiator with the Turkish authorities on behalf of the new company¹⁶ was Paulin Talabot, ‘the French ironmaster and railway magnate’.¹⁷ Besides Baron Hirsch and the directors of the construction company, *Société Impériale des Chemins de Fer de la Turquie d’Europe*, consisted mainly of representatives of the Anglo-Austrian Bank and of people who seem to have been close collaborators of Hirsch. ‘Each of the two companies was registered with a capital of 50 million francs of which one quarter was paid up.’¹⁸

¹²Emden, P. H. *Money Powers*, pp. 320–321.

¹³Grunwald, K. *Türkenhirsch*, p. 28.

¹⁴Gille, B. *Histoire de la maison Rothschild*, vol. 2 (Geneva, 1967), p. 526.

¹⁵The Parisian *Société Générale* participated by subscribing one third of the original capital of 50 million francs but decided to take shares for a nominal amount of 8 million francs; the rest was to be offered to ‘participants’ who might be interested and particularly to the members of its *Conseil d’Administration* (SG.AH, minutes of the *Conseil d’Administration*, 329e séance du 11 Janvier 1870). As to the participation of the Anglo-Austrian Bank, cf. Cottrell, P. L. *London Financiers and Austria, 1863–1875: the Anglo-Austrian Bank*, in: *Business History* 11 (1969), p. 117.

¹⁶Grunwald, K. *Türkenhirsch*, p. 35.

¹⁷Cameron, R. E. *France*, p. 96.

¹⁸Grunwald, K. *Türkenhirsch*, p. 36.

The 1869 concession¹⁹ provided for a network of about 2500 kilometres: the principal line from Constantinople to the Austro-Hungarian border via Edirne – Plovdiv – Sofia – Nish – Pristina – Sarajevo to Sisak; furthermore four connecting branches: Edirne – Dedeagatch on the Aegean coast; Plovdiv – Burgas on the Black Sea; from Nish to the frontier with Serbia; Pristina – Salonica. ‘... the concession holder was assured of: a) an annual rental of 14,000 francs *per* completed kilometer, payable by the Ottoman government, for the entire period of 99 years, to be paid out of a state loan, and b) an annual rental of 8000 francs *per* kilometer from the operator’. The Turkish government agreed to pay a higher subsidy for the construction cost of the line in the mountains of Bosnia.²⁰

Particularly original was the solution found for financing this huge enterprise.²¹ Hirsch became famous all over Europe by creating the so-called *Türkenlose*,

... an entirely novel type of Government loan: the 3 per cent. Turkish Lottery Bonds which carried a low rate of interest but were paid off by drawings every two months at a very high redemption price; they enjoyed great favour amongst small investors on the Continent, especially in France and in Germany, and continued to do so although as early as 1875 the Sublime Porte defaulted on the drawings which, however, were resumed in 1881 (under the Decree of Mouharrem); payment of interest stopped in 1876.²²

There were however two substantial problems related to these lottery bonds: first of all, this type of bonds could not be officially quoted at the Vienna, the Paris or the London stock exchange. In Paris this was forbidden by a law from 1836, in Vienna stock exchange regulations did not admit these bonds to official trading. An exception had been made before in the case of the Suez Canal lottery bonds but then above all France and Austria had showed a strong political interest in that specific item. The other fly in the

¹⁹ Cf the handwritten copy of the *Convention de la concession* of 17 April 1869 and the printed copy of the *Convention principale d'exploitation* of the same date, in: HADB, OR 530.

²⁰ Grunwald, K. *Türkenhirsch*, p. 34.

²¹ At the beginning ‘... the Anglo-Austrian Bank provided the Balkan railway company with short-term bridging funds until there was a flow of capital available from the bond issues’ (Cottrell, P. L. *London Financiers*, p. 117).

²² Emden, P. H. *Money Powers*, p. 322. – Christopher Clay (*Gold for the Sultan. Western Bankers and Ottoman Finance, 1856–1881: a Contribution to Ottoman and International Financial History* (London and New York, 2000), p. 199) describes the solution adopted by de Hirsch with these lottery bonds in the following manner: ‘... to go over the heads of the great financial institutions, to issue the loan in a form designed not to appeal to well-informed bankers and their affluent or relatively affluent clients but to less sophisticated small investors who could not normally be tempted to subscribe to Ottoman *valeurs* at all’.

ointment was the way the six monthly drawings of the lottery bonds were arranged: all those bonds not yet sold or even not yet issued participated in the drawings and fell automatically to Hirsch's company. Thus '... the chances of getting even a small prize were exceedingly remote for all save the very large-scale investors',²³ and soon people started to talk of a case of 'organized theft'.²⁴ After a long back-and-forth between Hirsch and the Austrian government the *Türkenlose* were finally quoted at the Vienna Exchange on 27 June 1870. The French government had promised to follow immediately but in fact it did not, and shortly afterwards the Second Empire broke down and France had more important problems to tackle.²⁵

The first series of these bonds sold very well thanks to a well-organised publicity campaign and in spite of the outbreak of the Franco-Prussian War.²⁶ The second series, issued in September 1872,²⁷ fell into a much more difficult period and only part of it could be sold, the remaining bonds had to be taken back by the syndicate of issuing banks.²⁸ When the Ottoman state suspended its payments for all debt services in 1875, the quotation of the *Türkenlose* fell from an original high of 180 to a low which fluctuated between 20 and 30. From 1882 drawings were again honoured albeit only partially.²⁹ If we can believe the figures presented by Karl Morawitz, himself a banker and later on head of the Anglo-Austrian Bank, the profit made out of the entire business until Hirsch's retreat in 1890 should have been 160 to 170 million francs, a sum which Morawitz thinks to be a more or less fair reward for 'the enormous amount of labour, diligence and intelligence' applied by 'a small banker from Brussels' in such a hostile and difficult environment offered by a 'half-barbarian country as it was the case with the interior parts of Turkey thirty years ago'.³⁰ Even George W.F. Hallgarten whose judgement on Hirsch and his business practices is anything but lenient, sees in him the person who

²³ Clay, Ch. Gold for the Sultan, p. 199.

²⁴ Rechberger, W. Zur Geschichte der Orientbahnen, pp. 78–79, 117.

²⁵ *Ibid.*, pp. 102–123.

²⁶ Cf the contract made between Hirsch and a syndicate of banks (among them Société Générale, Anglo-Austrian Bank, Oppenheim, Banque de Crédit et de Dépôt des Pays-Bas) on 23 November 1869 for the sale of 750,000 'Türkenlose' (BNP Paribas, Archives Historiques, 3\Cabet-1\192). The issuing took place between 15 and 17 March 1870 (SG.AH, minutes of the Conseil d'Administration, 337e séance du 1 Mars 1870).

²⁷ Cf the prospectus 'Empire ottoman. Emprunt à primes. Emission de 880,060 obligations à primes ...' (27 August, 1872) (*ibidem*).

²⁸ Bouvier, J. Le Crédit Lyonnais de 1863 à 1882. Les années de formation d'une banque de dépôts, vol. 2 (Paris, 1961), pp. 690–691; Clay, Ch. Gold for the Sultan, pp. 202–203.

²⁹ Dehn, P. Deutschland und die Orientbahnen, in: Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich, 9 (1885), No. 2, p. 62.

³⁰ Morawitz, Ch. Die Türkei im Spiegel ihrer Finanzen. Nach dem französischen Original 'Les finances de la Turquie' (Berlin, 1903), pp. 422–423.

had helped to open the Balkans virtually and to anticipate, as a private capitalist of an older type, modern economic imperialism.³¹

Obviously the construction and operation of this network needed sound finance and solid technology, but above all it required constant collaboration and backing from the Ottoman authorities. Given the unpredictable shape of politics at the Sultan's court this meant, to begin with, close contacts with the ruling elite. In the words of David Landes '... one may be sure that much influence with government was bought – tactfully, through gratuities and accommodations, and crudely, by bribes' – and Landes does not only refer to the well-known backward conditions on the shore of the Bosphorus ...³² Hirsch had been lucky enough to get his concession when the 'Western-oriented Grand Vizier Ali Pasha' who favoured a railway link with Western Europe was governing the Ottoman Empire. He died in September 1871 and his successor Mahmud Nedim Pasha followed a completely different line by preferring rail connections with Russia via Rumania to any direct link with Western Europe via Austria-Hungary. This thoroughly changed situation led to a revised concession agreement with the Oriental Railway Company. Thus by a new contract in 1872 the overall length of the network was reduced to 1,260 kilometers.³³

Still, in 1872 construction was well under way, starting from Constantinople and from the Aegean coast. 387 kilometers were already in operation, '... 102 ready for operation and 661 under construction, – altogether 1,150 kilometers'.³⁴ People who lived along the future track were rather sceptical when the first surveyors arrived: the Bulgarians feared that they would be recruited as forced labourers by the Ottoman authorities, the Turks thought that railways were 'too European' for their future lives; only the Greek traders were enthusiastic when they considered their coming business chances.³⁵ In spite of ongoing construction work the connection to the West – through Bosnia or through Serbia – remained still to be made. By the end of 1872, part of the Bosnian line had been completed but in 1876 the operating company gave it back to the Ottoman government which so far had refused to connect it with the Austro-Hungarian network. 'After a few months of Ot-

³¹G. W. F. Hallgarten, *Imperialismus vor 1914. Die soziologischen Grundlagen der Aussenpolitik europäischer Grossmächte vor dem Ersten Weltkrieg*, 2nd ed., vol. 1 (München, 1963), p. 245.

³²Landes, D. S. *Bankers and Pashas. International Finance and Economic Imperialism in Egypt* (London, 1958), p. 29, note 1). This goes with Grunwald's comment: 'It can be safely assumed that Hirsch had to pay his way in Turkey, as was customary' (Grunwald, K. *Türkenhirsch*, p. 52).

³³Morawitz, Ch. *Die Türkei*, pp. 416–417.

³⁴Grunwald, K. *Türkenhirsch*, p. 39.

³⁵Rechberger, W. *Zur Geschichte der Orientbahnen*, p. 124.

toman operation, the line was abandoned'.³⁶

By the end of 1874 or – if we are to believe Morawitz – in the course of 1875 1,179 kilometres,³⁷ 'all the lines entrusted to Hirsch were completed, but not those which were to be built by the Turks. Thus the railway project meanwhile consisted of three isolated lines'.³⁸ Unfortunately, in October 1875 the Ottoman state suspended all its payments. In two decades it had borrowed 2.5 billion francs, of which more than nine tenths came from abroad.³⁹ Between 1869 and 1875 '... the nominal value of new borrowing exceeded the estimated revenues of the central government ...'.⁴⁰ Morawitz calculated that only about 10 per cent of this huge debt had been used for the building of the new infrastructure, above all railways.⁴¹ Six years later, in 1881, '... a contract was concluded between the Ottoman government and the representatives of its foreign and domestic creditors for the resumption of payments on Ottoman bonds. This agreement, called the Decree of Mouharrem (from the Turkish month in which it was drafted), instituted European control of a part of the imperial revenues'.⁴²

Meanwhile, railway construction in the European part of the Ottoman Empire had come to a standstill, not least because of Anti-Turkish revolts in Bosnia and Bulgaria between 1875 and 1878 and, of course, also as a consequence of the Russo-Turkish War of 1877–1878. The Congress of Berlin of 1878 entrusted the new state of Bulgaria as a successor of the Ottoman Empire within its new boundaries in article 10 of the agreement with the task of providing for a railway link with Austria-Hungary.⁴³ Hirsch's *Compagnie pour l'exploitation*

³⁶Grunwald, K. *Türkenhirsch*, p. 40.

³⁷Morawitz, Ch. *Die Türkei*, pp. 417–418.

³⁸Grunwald, K. *Türkenhirsch*, p. 41.

³⁹Morawitz, Ch. *Die Türkei*, p. 56; Pamuk, S. *The Ottoman Empire and European Capitalism, 1820–1913. Trade, Investment and Production* (Cambridge, 1987), p. 75, table 45 for the year 1881.

⁴⁰Pamuk, S. *The Ottoman Empire*, p. 60.

⁴¹Morawitz, Ch. *Die Türkei*, p. 56.

⁴²Blaisdell, D. C. *European Financial Control in the Ottoman Empire. A Study of the Establishment, Activities, and Significance of the Administration of the Ottoman Public Debt*, Ph.D. thesis, Columbia University (New York, 1929), p. 1.

⁴³According to Peter F. Sugar (*Railroad Construction and the Development of the Balkan Village in the Last Quarter of the 19th Century*, in: Melville, R. and H.-J. Schröder, (eds.), *Der Berliner Kongreß von 1878. Die Politik der Großmächte und die Probleme der Modernisierung*, in: *Südosteuropa in der zweiten Hälfte des 19. Jahrhunderts* (Wiesbaden, 1982), p. 495) '... the emphasis the continental powers (Germany and Austria-Hungary) placed on railroads at the Congress of Berlin was aimed at the displacement of the British and French from the Balkan markets'. This is all the more convincing since the lines built until the middle of the 1870s linked Mediterranean ports like Salonica or Dedeagatch or Black Sea ports like Varna with the interior parts of the Balkan peninsula without yet offering connections to Central Europe (see for instance Grunwald, K. 1966, pp. 44–48; Paskaleva, V. 1982, p. 512).

des chemins de fer de la Turquie d'Europe was explicitly mentioned in this paragraph. Also in 1878, Hirsch transferred the operating company from Paris to Vienna and replaced its French directors with Austro-Hungarian members.⁴⁴ Again according to Article 10 of the Berlin Treaty, Bulgaria '... had to guarantee 7,000 francs per km each year to the company [Hirsch's operating company, P.H.] and was entitled to only half of the profit over and above this amount. This arrangement, which was hardly designed to make the railroads profitable, remained in force until Bulgaria nationalized the line during the 1908 crisis'.⁴⁵ Only four years later, in 1882, the delegates of Turkey, Bulgaria, Serbia and Austria-Hungary met in Vienna in a *conférence à quatre* and reached an agreement in March 1883 which provided for the construction of two missing railway links: one from Bellovo via Sofia, Nish and Belgrad to Semlin in Hungary, the other from Nish to Wranja and from there to Skopje – Üsküb in Turkish – and thus to the line connecting Mitrovitza and Salonica.⁴⁶ The Ottoman Government, however, was not in a hurry to translate these decisions into action, particularly when Bulgaria occupied Eastern Rumelia, which formally still was an autonomous province of the Turkish Empire, and with it the railway lines as soon as they had been finished there in 1888.⁴⁷ The Sublime Porte wanted to react but did not have the means, not least because of European financial control of an important part of its income. Thus Hirsch, probably weary of the eternal conflicts with Constantinople, reached a compromise in 1885 providing the Ottoman administration with an 'advance' of 23 million francs, to be paid out of means he had so far withheld because of alleged violations of the existing contract with the Ottoman side.⁴⁸

Bulgaria had opted for a state-owned railway system in 1884 and it was the Bulgarian state that had constructed the last missing link which, after its inauguration in 1888, made the through traffic possible from Vienna to

⁴⁴Morawitz, Ch. Die Türkei, p. 419; Medlicott, W. N. The Congress of Berlin and after. A Diplomatic History of the Near Eastern Settlement 1878–1880, 2nd ed. (London 1963), p. 411; Grunwald, K. Türkenhirsch, p. 46; Rhode, G. Der Berliner Kongress und Südosteuropa, in: K. O. Frhr. v. Aretin (ed.), Bismarcks Aussenpolitik und der Berliner Kongress (Wiesbaden, 1978), pp. 107–129.

⁴⁵Sugar, P. Railroad Construction and the Development of the Balkan Village, p. 492.

⁴⁶Rechberger, W. Zur Geschichte der Orientbahnen, pp. 195–208.

⁴⁷The sector between Bellovo and Vakarell (47 km) which was on Bulgarian territory, but had been constructed by the Ottoman Bank and claimed by the Turkish government, was occupied by Bulgaria in July 1888. A few months later Bulgaria agreed to pay a yearly rent to the Ottoman government respectively the Ottoman Bank (Dimtschoff, R. Das Eisenbahnwesen, pp. 77–80).

⁴⁸Morawitz, Ch. Die Türkei, pp. 420–421.

Constantinople.⁴⁹ For the time being and despite of its new state railway system Bulgaria did not touch the rights of the Oriental Railways in Eastern Rumelia but it started to build a railway line in this province which ran parallel to the Oriental Railways track thanks to a loan received through the Viennese Länderbank and the Nationalbank für Deutschland, Berlin, in 1892. Georg Siemens of Deutsche Bank would have eventually preferred to sell the Eastern Rumelian part of the Oriental network to Bulgaria but his partners in Vienna, and with them the Ottoman government, opposed such a solution. In order to find a *modus vivendi* favourable to his bank and to the Oriental Railways Siemens put pressure on Bulgaria by starting an action against its loans at the Berlin stock exchange. Thus in 1899 he succeeded in forcing Bulgaria to accept an agreement with the Betriebsgesellschaft of the Oriental Railways: the Betriebsgesellschaft would lower its tariffs putting them on the same level fixed by the Bulgarian state lines; on the other hand, it would from now on take over the management of a parallel railway line of which 80 km had already been constructed by the Bulgarian state in order to put pressure on the Oriental Railways.⁵⁰

As a consequence of the Congress of Berlin, Serbia had become also formally independent in 1878. On this occasion it had gained some additional territory in the South, including Nish, from the Ottoman Empire. The well-known French banker – or better: speculator – Eugène Bontoux and the group he had formed around the Union Générale concluded a contract with the Serbian government in April 1881 which provided for a loan of nominally 100 million francs from the Union Générale, the construction of a railway network in Serbia and the creation of an operating company. Bontoux and his group went bankrupt in January 1882 but the Serbian government managed to transfer the entire business to another Parisian bank, the Comptoir d'Escompte de Paris, which just carried it on.⁵¹ By 1884 a line had been constructed which went from Semlin, on the border to Austria-Hungary, to Belgrad and from there to Nish. Two lines, one from Nish to the Bulgarian border, the other one from Nish to Wranja where it met the Turkish network, were completed in 1886 and 1887. In the following year the missing piece on

⁴⁹Simeonoff, I. Die Eisenbahnen und Eisenbahnpolitik in Bulgarien, Ph.D. thesis, Universität Erlangen (Halle/Saale, 1909), pp. 37–40; Kumpf-Korfes, S. Die ökonomische Expansion des deutschen Finanzkapitals in Bulgarien vom Ende des 19. Jahrhunderts bis zum Ausbruch des ersten Weltkrieges, in: Zeitschrift für Geschichtswissenschaft, 17 (1969), p. 1432.

⁵⁰Meinhard, F. Die Entwicklung der Balkanbahnen vom Jahre 1892 bis zum Jahre 1904, in: Archiv für Eisenbahnwesen, 28 (1905), pp. 1352–1353; Simeonoff, I. Die Eisenbahnen, pp. 59–69; Helfferich, K. Georg von Siemens. Ein Lebensbild aus Deutschlands großer Zeit, 2nd ed., vol. 3 (Berlin 1923), pp. 10–11; Kumpf-Korfes, S. Die ökonomische Expansion, pp. 1432–1433; Crampton, R. J. A Concise History of Bulgaria, 2nd ed. (Cambridge, 2005), pp. 121–122.

⁵¹Bouvier, J. Le krach de l'Union Générale (1878–1885) (Paris, 1960), pp. 98–103.

the Turkish side between Wranja and Skopje (Üsküb) was finished.⁵² On August 12, 1888, almost twenty years after the signing of the original concession, the first train left Vienna for Constantinople.⁵³ The distance covered amounted altogether to 1.686 km.⁵⁴ The line from Belgrade to Salonica had been inaugurated already in May of the same year. The wife of Edouard Hentsch, a banker from Geneva who was president of the Comptoir d'Escompte de Paris between 1872 and 1889, has left us a vivid account of the pomp and circumstance employed for the inauguration ceremonies.⁵⁵ Thus the story of the Orient Express could finally start – at least in literature it began some decades later, as we know ...

The Oriental network, once completed, was certainly a success of Western European finance and technology but, compared to what had been constructed before in Britain, France, Germany or even the Eastern parts of the Austro-Hungarian monarchy, it represented a second-rate solution. Already in 1872 the Ottoman government had accused, not without afterthoughts, Hirsch of having chosen the cheapest way for construction by, for instance, building wooden bridges instead of stone ones⁵⁶ (Rechberger, W. 1958, p. 145). A commission of foreign experts which inspected the Roumelian lines in 1874 found out that not all of the construction work had been really finished.⁵⁷ In order to save capital the track, as it was built, frequently avoided to pass directly through nearby villages and towns. The result were 'railway stations without towns and towns without railway stations'.⁵⁸ 'Most of the major towns in both central and western Macedonia lay at a considerable distance from the railway line',⁵⁹ and the roads linking these towns to the railway stations were generally in a rather bad shape. Besides, neither the Ottoman Empire nor, one or two decades later, Bulgaria and

⁵²Jordan, P. Die Entwicklung des Eisenbahnnetzes auf dem Gebiet des heutigen Jugoslawien (bis 1918), in: Plaschka, R., A. M. Drabek and B. Zaar (eds.). Eisenbahnbau und Kapitalinteressen in den Beziehungen der österreichischen mit den südslawischen Ländern (Wien, 1993), p. 24. – Carl Fürstenberg, the famous banker and one of the heads of the Berliner Handelsgesellschaft, did not believe in the profitability of these Serbian lines in the near future and he therefore refused to accept them as a security for his claims against the Serbian government (Fürstenberg, H. (ed.), Fürstenberg, C. Die Lebensgeschichte eines deutschen Bankiers, 1870–1914 (Berlin, 1931), pp. 286–87).

⁵³Grunwald, K. Türkenhirsch, p. 58.

⁵⁴Sugar, P. Railroad Construction, p. 488.

⁵⁵Hentsch, R. Hentsch. Banquiers à Genève et à Paris au XIXe siècle (Brussels, 1996), pp. 195–199.

⁵⁶Rechberger, W. Zur Geschichte der Orientbahnen, p. 145.

⁵⁷Österreichisches Staatsarchiv, Wien, Allgemeines Verwaltungsarchiv: k.k. Handelsministerium. Präsidium, Akte Nr. 1889 (31 October/10 November 1874).

⁵⁸Simeonoff, I. Die Eisenbahnen, p. 27.

⁵⁹Gounaris, B. C. Steam over Macedonia, 1870–1912. Socio-economic Change and the Railway Factor (Boulder, Colorado, 1993), p. 53.

Serbia managed to add sufficient branch networks to their main railway lines. As a result, apart from the three principle lines in Macedonia for instance '... the survival of horse and mule caravans testifies to the limited impact of these [...] lines on the Macedonian economy'.⁶⁰ Furthermore '[...] trains were slow and could not catch up with European standards'.⁶¹ Decades later, around 1900, the speed even of express trains was still only half of what such trains achieved in Britain or France,⁶² and this was certainly not only due to the difficulties of the ground in the Balkan hills and mountains but also to an insufficient substructure. Still, compared to the railways in the other parts of the Turkish Empire, the European network was in advance: 'In 1911, Ottoman railroads [...] in the Balkans contained 1,054 miles of track and carried 8 million passengers while those in Anatolia held 1,488 miles with 7 million passengers. By contrast, the 1,488 miles of track in the Arab provinces carried only 0.9 million, a reflection of the scant population'.⁶³ The well-known Baedeker travel guide tried to dampen tourists' fears when it underlined in its 1914 edition for 'Constantinople and Asia Minor' the fact that the trip to Constantinople would offer 'all sorts of comfort'. The Orient Express which would subsequently become so famous was scheduled to make the journey from Budapest to Constantinople via Sofia four times a week. The one-way ticket for the 35-hour trip cost 171.30 francs. The ordinary fast train which ran daily needed 40 hours and a half for the same distance. In this case the first-class ticket amounted to 123.80 francs.⁶⁴ Almost forty years before, in 1875, a German traveller going by train from Salonica to Mitrovitza in the Kossovo region needed no less than two days for this trip of about 365 kilometres with an obligatory overnight stop in Üsküb (Skopje). He spoke of this railway as of 'so to speak an embryo or at the most a child full of the best promises' since in those years links to Central Europe had not yet been constructed.⁶⁵

On the other hand, as it happened practically in all regions outside Western and Central Europe and North America at least until 1914, with Tsarist Russia being a partial exception, the construction of the Oriental Railways meant that investment goods were ordered in and delivered from the main industrial countries. To give but a few examples relating to our case: in 1881, the operating

⁶⁰Lampe, J.R. and M. R. Jackson, *Balkan Economic History, 1550–1950*. From *Imperial Borders to Developing Nations* (Bloomington, 1982), p. 302.

⁶¹*Ibid.*, p. 65.

⁶²Thus the express trains from Constantinople to Sarambey (552 km) achieved an average speed of 42 km/h compared with the best results in France of 93.5 km/h and in Britain of 87.7 km/h. The comparative Bulgarian figure was, however, only 35.3 km/h and the Greek one with 33.7 km/h still lower (Schulze, W. 1901, p. 142).

⁶³Quataert, D. *The Ottoman Empire, 1700–1922*, 2nd ed. (Cambridge, 2005), p. 123.

⁶⁴Baedeker, K. *Konstantinopel, Balkanstaaten, Kleinasien, Archipel, Cypern*. *Handbuch für Reisende*, 2nd ed. (Leipzig 1914), p. IX, 25.

⁶⁵Braun-Wiesbaden, K. *Reise-Eindrücke aus dem Südosten*, vol. 3 (Stuttgart, 1878), pp. 211–212.

company of the Oriental Railways employed 105 locomotives of which 14 came from Austrian producers, 3 came from France, 11 had been imported from Belgium and the same number came from Britain. The entire rest, 66 machines, had been delivered by German suppliers. By far most of the 2,483 wagons came equally from Germany, a small number from Belgian and French suppliers.⁶⁶ By then also most of the original 257 wooden bridges used by the Oriental Railways had been substituted by iron ones. Almost 90 per cent of the iron used for these constructions came from two large German suppliers, the rest from a Belgian one.⁶⁷ Construction of the track, bridges and station buildings had, at least in the Rumelian part between Bellovo and Adrianople, been carried out 'exclusively by German engineers, technicians and auxiliary staff',⁶⁸ but there can be no doubt that indigenous labour had been used for all types of earth works.⁶⁹

As to the personnel employed, unfortunately, it has not been possible so far to ferret out any reliable statistics on its size and structure. Jüttner, in his report on the Oriental Railways dating from 1881, underlined that the *Beamte*, i.e. the managing staff, consisted to a large extent of German or Austrian citizens, 'particularly in the construction department'.⁷⁰ 'As was the case with all foreign-owned companies operating in the Empire, the overwhelming majority of the administrative staff, especially in the higher ranks, were Europeans'.⁷¹ On the other hand, the 'native population is quite apt for the lower functions of the railway service and is therefore increasingly employed for that purpose'.⁷² In 1905–1906, only in the vilayet of Salonica, and not counting the personnel employed for service in the trains, there were about 2,000 people working for the three railway companies which served this region.⁷³

⁶⁶Jüttner, *Die orientalischen Eisenbahnen*, in: *Archiv für Eisenbahnwesen*, 5 (1882), pp. 209–211.

⁶⁷*Ibid.*, p. 203, 205.

⁶⁸Paskaleva, V. *Die Anfänge des deutschen wirtschaftlichen Einflusses auf dem Balkan und in der Türkei in den 60er und 70er Jahren des 19. Jahrhunderts*, in: Melville, R. and H.-J. Schröder (eds.), *Der Berliner Kongreß von 1878. Die Politik der Großmächte und die Probleme der Modernisierung in Südosteuropa in der zweiten Hälfte des 19. Jahrhunderts* (Wiesbaden, 1982), p. 514.

⁶⁹'[...] workers and timber were provided locally. Everything else had to be imported, including the technical personnel' (Karkar, Y. N. *Railway Development in the Ottoman Empire, 1856–1914* (New York, Washington, Hollywood, 1972), p. 97.

⁷⁰This was quite different for instance in the case of the new Serbian state railways: the contract of January 1881, concluded between the French Union Générale and the Serbian Government, ruled that the entire managing personnel had to be chosen 'as much as ever possible' from people of Serbian origin (*Über den Bau und Betrieb der Serbischen Eisenbahn* (Belgrad – Nisch – Wranja), in: *Archiv für Eisenbahnwesen* 4 (1881), p. 173.

⁷¹Gounaris, B. *Steam over Macedonia*, p. 68.

⁷²Jüttner, *Die orientalischen Eisenbahnen*, p. 291.

⁷³Anastassiadou, M. *Salonique, 1830–1912. Une ville ottomane à l'âge des Réformes* (Leiden, New York and Köln, 1997), p. 343.

So far Hirsch, in spite of all the old and new problems he had to face with the Turks and the new Balkan states, with his shareholders and the holders of the *Türkenlose* as well as with the banks, had not given up. During the 1880s he increasingly tried to get rid of his huge empire. From the spring of 1882 Hirsch had probably started to negotiate with the Imperial Ottoman Bank. This institution had been founded in 1862–1863 as a state bank by a Franco-British group. Until the First World War it was to be found ‘everywhere in the Turkish economy dominating above all its commercial and financial relations with the outside world.’⁷⁴ Thus ‘the history of Ottoman banking is in large measure the history of the Ottoman Bank’, as David Landes has pointed out.⁷⁵ The Ottoman Bank and its unknown partners from Vienna and Berlin – at least one of them can however be identified as having been the House of Bleichröder – did not conclude the contract since they believed that there were still too many unsolved problems between Hirsch and the Ottoman Government which they would, had they taken over, have inherited.⁷⁶ In 1883–1884 there were negotiations, without tangible results, between Hirsch and the Austrian State Railways, and in 1887 we can observe new talks between Hirsch and the Imperial Ottoman Bank, again to no avail.⁷⁷

Finally, on 8 September 1888 Gerson von Bleichröder and Julius Schwabach as representatives of the House of Bleichröder, Adolf von Hansemann (Disconto-Gesellschaft) and Messieurs Heine and Berger from the Ottoman Bank met in Ostende to discuss an eventual takeover of Hirsch’s Oriental Railways. Among others they decided that participation of Austro-Hungarian banks, and possibly also British partners, should be sought for, that the German and the French partners should have an equivalent amount of shares and that each national industry should profit from orders for railway supplies according to national quotas attributed to the banks. The Ottoman Bank would continue its talks with Hirsch. Capital requirements would amount to a total sum of 110 to 120 million francs. A necessary condition for a definitive offer of this group of banks to Baron Hirsch

⁷⁴Thobie, J. *Intérêts et impérialisme français dans l’empire ottoman (1895–1914)* (Paris, 1977), pp. 81–89, quote on p. 81; Eldem, E. *The Imperial Ottoman Bank: Actor or Instrument of Ottoman Modernization?*, in Kostis, K. P. (ed.), *Modern Banking in the Balkans and West-European Capital in the Nineteenth and Twentieth Centuries* (Aldershot, 1999), pp. 50–60; for an informative description of its functions and structure see Clay, Ch. *Gold for the Sultan*, pp. 73–86.

⁷⁵Landes, D. S. *Bankers and Pashas*, p. 62.

⁷⁶CAMT, Roubaix, 207 AQ 328: Note sur la question des chemins de fer turcs [without date, but probably from 1882]. There are also traces of contacts established during the same year with the Austrian Credit-Anstalt but possibly they were only part of negotiations started by Hirsch with the entire Rothschild group, and in this case Bleichröder would have been included (*ibidem*). See also Schöllgen, G. *Imperialismus und Gleichgewicht. Deutschland, England und die orientalische Frage, 1871–1914*, 3rd ed. (München, 2000), p. 38–39.

⁷⁷*Ibidem*.

would be a satisfactory compromise of the latter one with the Ottoman Government.⁷⁸ Obviously nothing came out of this since in a memo written a few weeks afterwards by one of the leading men of the Ottoman Bank we find the proposal that Bleichröder and the Disconto-Gesellschaft should be asked to wait for further studies of this question because in the meantime Deutsche Bank and its group had launched a *coup* by obtaining a concession for the line Ismid – Ankara, the future Anatolian Railway.⁷⁹

Deutsche Bank had, however, not limited its initiatives to the Asiatic part of the Ottoman Empire. Already in April 1888 the head of its *Vorstand*, Georg Siemens, had asked the German Foreign Ministry if it had any politically motivated objections to make against their buying up shares of the Oriental Railways. It did not.⁸⁰ By the end of July, Deutsche Bank had started to become seriously interested in the company,⁸¹ and two months later negotiations with Baron Hirsch concerning such an eventual sale were initiated by Deutsche Bank with the help of its old ally Wiener Bankverein. Both banks, the German and the Austrian one, wanted to send experts to Paris where they should collect detailed information on the operating company belonging to Oriental Railways.⁸² This operating company had officially moved its seat to Vienna in 1879 but its administrative headquarters were still situated in Paris. Before things could advance further there was, however, an urgent need to improve the relationship between Hirsch and the Sublime Porte. Therefore already in the middle of the 1880s a group of independent arbitrators had been recruited,⁸³ another try was launched in 1888.⁸⁴ In both cases Georg Siemens had been involved as one of the persons who were asked to propose feasible candidates.

In October 1888 Siemens himself was looking for an expert with railway expertise since Deutsche Bank had obviously decided to buy a certain number of

⁷⁸Ibidem: Türkische Eisenbahnen. Konferenz in Ostende den 8. September 1888; BA, R 901/11973, fol. 51–52: memo by the Undersecretary in the German Auswärtiges Amt, von Berchem, of 22 September, 1888. – Cf also Stern, F. Gold and Iron. Bismarck, Bleichröder, and the Building of the German Empire (London, 1977), p. 421.

⁷⁹CAMT, 207 AQ 328: Unsigned memo of 2 October 1888. For the history of the Anatolian concession cf Seidenzahl, F. 100 Jahre Deutsche Bank (Frankfurt a.M., 1970), pp. 63–81; Pohl, M. (unter Mitarbeit von Angelika Raab-Rebentisch), Von Stambul nach Bagdad. Die Geschichte einer berühmten Eisenbahn (München and Zürich, 1999), pp. 22–33; Barth, B. Die deutsche Hochfinanz und die Imperialismen. Banken und Außenpolitik vor 1914 (Stuttgart, 1995), pp. 76–79.

⁸⁰Stern, F. Gold and Iron, pp. 420–422; Barth, B. Die deutsche Hochfinanz, p. 76.

⁸¹HADB, OR 530: Joly (Wiener Bankverein) to G. Siemens (29/7/1888).

⁸²Ibid.: Joly to G. Siemens (2/10/1888).

⁸³Ibid.: Wiener Bankverein to G. Siemens (27/2 and 20/3/1885).

⁸⁴Ibid.: Hirsch to G. Siemens (20/7/1888).

shares of the operating company of the Oriental Railways in spite of the fact that Hirsch was still negotiating also with the Austrian State Railway⁸⁵ which, quite contrary to its name, had been founded in 1855 as a private firm by *Crédit Mobilier* and remained under French control until the nationalization of its Hungarian network by the Hungarian government in 1891 and of its Austrian lines by the Austrian administration in 1909.⁸⁶ The Austrian State Railway eventually dropped out of this race, possibly because of Bulgarian opposition to the sale of the Oriental Railway to an Austrian company – according to Barth.⁸⁷ When this decision became known Siemens cabled to Deutsche Bank from Paris on 9 April 1889: ‘We will have to do this business’.⁸⁸ A few weeks later, in May, serious negotiations started finally between Hirsch and Siemens as well as Moriz Bauer of *Wiener Bankverein*.⁸⁹ These talks went on well into the spring of the following year. Quite early Ernest Cassel, the well-known financier based in London,⁹⁰ was involved as sort of a mediator since he had close connections with Hirsch as well as with *Bischoffsheim & Goldschmidt*.⁹¹

During all these months Siemens never lost interest in dealing with Hirsch since he considered this deal to be ‘an extraordinarily remarkable one and one which fits well into the sphere of our business undertakings’.⁹² By March 1890 Deutsche Bank and *Wiener Bankverein* sent their delegates to Paris and negotiations with Hirsch had almost come to an end. The question if the two banks should ask the Ottoman Bank to participate right from the beginning in an eventual deal with Hirsch was raised⁹³ and presumably rejected because the Turkish government, fearing an ultimate gain of influence of the Ottoman Bank, opposed it.⁹⁴ Moriz Bauer, in a letter to Georg Siemens of 26 March 1890, proposed to discuss with the Turkish government and with their colleagues of the

⁸⁵ HADB, OR 530: G. Siemens to Oberbaurat Jaedicke, Cologne (14/10/1888); *ibid.*: Joly to G. Siemens (9 and 21/11/1888).

⁸⁶ Cameron, R. France, pp. 217–221.

⁸⁷ Barth, B. *Die deutsche Hochfinanz*, p. 81.

⁸⁸ HADB, OR 531.

⁸⁹ *Ibid.*: Hirsch to G. Siemens (9/5/1889); G. Siemens to Hirsch (17/5/1889).

⁹⁰ Emden, P. *Money Powers*, pp. 331–342; Thane, P. *Financiers and the British State: the Case of Sir Ernest Cassel*, in: *Business History*, 28 (1986), pp. 80–99.

⁹¹ *Ibid.*: G. Siemens to Cassel (6/6/1889); Cassel to Siemens (8/12/1889).

⁹² *Ibid.*: G. Siemens to Moriz Bauer (*Wiener Bankverein*) (4/1/1890).

⁹³ *Ibid.*: Telegramme (24/2/1890) of Wallich and Raphael de Bauer (brother of the Viennese Moriz Bauer and director of the seat of *Banque de Paris et des Pays-Bas* in Brussels, cf Pirenne, J.-H. Bauer (Raphaël, chevalier de), in *Biographie Nationale*, publiée par l’Académie Royale des Sciences, des Lettres et des Beaux-Arts de Belgique, vol. 39 (Brussels, 1976), pp. 80–94; Bussièrre, Paribas, p. 41, 43, 52; Koehler, B. *Ludwig Bamberger. Revolutionär und Bankier* (Stuttgart, 1999), pp. 158–161) to Deutsche Bank or to G. Siemens.

⁹⁴ *Ibid.*: G. Siemens to Moriz Bauer (31/3/1890).

Imperial Ottoman Bank 'the idea of a general trust company for Turkish railways'.⁹⁵ We shall see that this was exactly the thing which was to be realized shortly afterwards.

Finally on 17 April 1890 a group of banks, led by Deutsche and Wiener Bankverein, signed a contract in Brussels with Baron Hirsch through which they bought from him, for the moment, a quarter of the shares of the operating company (*Betriebsgesellschaft*) of the Oriental Railways⁹⁶ obtaining at the same time an option for the remaining shares. Eventually this syndicate of banks acquired 88,000 shares out of a total of 100,000 representing the share capital of the *Betriebsgesellschaft*, i.e. all of those possessed by Hirsch himself, as well as all financial claims put forward by Hirsch *vis-à-vis* the Ottoman government.⁹⁷

How should this important amount of capital be managed? As we have seen above, it was Moriz Bauer who had, already in March, insisted with Georg Siemens on the creation of a 'trust company' as a viable solution for this problem. In mid-May he again urged Siemens who was planning a trip to Switzerland to consult about this matter with the heads of two important Swiss banks, Schweizerische Kreditanstalt (Crédit Suisse) in Zurich and Basler Bankverein, a forerunner of the later Union Bank of Switzerland. The *trust company* which would eventually be established would immediately take over all the shares and financial claims bought from Hirsch. It could afterwards be charged with other securities but it should, as a next step, increase its proper capital in order to be able to issue bonds with a sufficient guarantee.⁹⁸

This idea, developed by a banker like Bauer, contained the essence of what a well-known economist of those days, Robert Liefmann, called *Effektensubstitution*, i.e. the process by which securities of a company were substituted by the securities of another one. Fundamentally this was done for three reasons: (1) to achieve a better distribution of risk since the newly created holding company would normally hold securities of more than one firm; (2) to enable the financing of companies which were not yet capable of placing their own securities in the capital market (for instance, because their plants were still in construction and could thus not yet yield a profit); and (3) to exercise a control via such a holding without investing further capital.⁹⁹

⁹⁵ *Ibid.*

⁹⁶ BNP Paribas, 3\CABET-1\193; cf also Barth, B. Die deutsche Hochfinanz, p. 81; Schöllgen, G. Imperialismus und Gleichgewicht, p. 47.

⁹⁷ Helfferich, K. Georg von Siemens, vol. 3, p. 9.

⁹⁸ HADB, OR 532: Bauer to Siemens (14/5/1890).

⁹⁹ Liefmann, R. Beteiligungs- und Finanzierungsgesellschaften. Eine Studie über den modernen Kapitalismus und das Effektenwesen, 2nd ed. (Jena, 1913), pp. 71–78.

2. A New Financial Holding: Bank für Orientalische Eisenbahnen, Zurich

On 1 October 1890 the Bank für orientalische Eisenbahnen held its first general assembly. The founders consisted of a group of banks, mainly from Germany, Austria and Switzerland: Deutsche Bank, Wiener Bankverein, Dresdner Bank, Deutsche Vereinsbank, Württembergische Vereinsbank, Crédit Suisse, Basler Handelsbank, but also the Imperial Ottoman Bank.¹⁰⁰ To this company, according to Liefmann 'the oldest and most important financial holding established in Switzerland',¹⁰¹ a capital of 50 million francs in ordinary shares was assigned of which, however, only 20 per cent had been paid in. Besides, there were also 13 million francs of preferential shares. A few weeks afterwards the company issued bonds for 63 million francs, the statutory upper limit corresponding exactly to nominal capital.¹⁰² The first securities taken over by the Bank für orientalische Eisenbahnen were of course the shares of the Betriebsgesellschaft, bought from Baron Hirsch: their nominal value was 44 million francs out of a total capital of 50 million.¹⁰³

This type of financial holding was, at least for continental Europe, quite an innovation¹⁰⁴ and as such it might be compared to the appearance of the new 'universal banks' and their forerunners, the Belgian Société Générale and the French Crédit Mobilier, decades earlier. But why was Bank für orientalische Eisenbahnen (B.O.E.) founded in Switzerland? There were certainly advantages offered by the Swiss *Obligationenrecht* of 1881 which was less strict than the corresponding German law as far as the evaluation of participation or the legal responsibilities of the *Vorstand* and the *Verwaltungsrat* were concerned. Swiss companies could buy their proper shares if they wished to do so and further capital increases were permitted before the preceding ones had been completely paid in. Bonds could be issued without any upper limit whereas in Ger-

¹⁰⁰Seidenzahl, F. Bank für Orientalische Eisenbahnen (Eine Finanzholding und ihr Portefeuille), in: Deutsche Bank (ed.), Beiträge zu Wirtschafts- und Währungsfragen und zur Bankgeschichte Nr. 1 bis 20 (Mainz, 1984), pp. 15–16.

¹⁰¹Liefmann, R. Beteiligungs- und Finanzierungsgesellschaften, p. 496.

¹⁰²Erster Geschäftsbericht der Bank für orientalische Eisenbahnen in Zürich: 1. Oktober 1890 bis 30. Juni 1891, Zürich 1891, pp. 8–10. For the financial development of B.O.E. see also Reibel, W. Die Gründung ausländischer Eisenbahn-Unternehmungen durch deutsche Banken, Ph.D. thesis, Universität Köln (Düsseldorf, 1934), pp. 74–77.

¹⁰³Liefmann, Beteiligungs- und Finanzierungsgesellschaften, p. 496.

¹⁰⁴The first company of this type of financial holdings in Switzerland was the Schweizerische Eisenbahnbank, founded in 1879 (cf Bauer, H. Schweizerischer Bankverein 1872–1972 (Basel, 1972), pp. 67–71). For the role of this new type of company in the international electrical industry from 1895 onwards cf Hertner, P. Les sociétés financières suisses et le développement de l'industrie électrique jusqu'à la Première Guerre Mondiale, in: Cardot, F. (ed.), Un siècle d'électricité dans le monde (Paris, 1987), pp. 341–355.

many this limit was formed by the amount of nominal capital – this was particularly important for financial holdings. Finally, taxes on securities were relatively low in Switzerland when compared to France or Germany.¹⁰⁵ There were also concrete political reasons for choosing Switzerland – or Belgium – as host countries. After the Franco-Prussian War of 1870–1871 these two neutral countries were the places where French and German capital could meet without being bothered, they became the turntables for international investment – Belgium until 1914 and Switzerland well beyond. Even if Deutsche Bank and Wiener Bankverein had godfathered the Bank für orientalische Eisenbahnen it was legally a Swiss company and its day-to-day administration, particularly bookkeeping and correspondence, was, by special contract, handed over to Crédit Suisse, a rather close ally of Deutsche Bank, which also administered its funds.¹⁰⁶ The Swiss share in the *Orientbank* consortium amounted only to 6 per cent – the Austrian was 54 and the German 40 per cent – but the influence of Crédit Suisse on this particular holding was ‘surprisingly large’. Walter Adolf Jöhr who has written an excellent history of this Zurich-based bank sees one of the reasons for this fact in B.O.E. being sort of a ‘neutral instance’ between the various interest groups present in this holding.¹⁰⁷

Georg Siemens, in a letter to Moriz Bauer written shortly after the foundation of B.O.E., underlined the problems which were awaiting the new owners of the Oriental Railways: according to Karl Schrader, a former railway manager, actually a member of the German Reichstag and also a member of the supervisory board of Deutsche Bank who had done most of the negotiations with Hirsch¹⁰⁸, the operating company of the Oriental Railways had suffered from contrasting interventions coming from its directors in Paris and in Constantinople. Unfortunately its relations with Bulgaria where its lines passed through were ‘very bad’, but its ‘real enemies’ were, according to Schrader, the Austrian and the Hungarian railway companies which showed no interest at all in favouring the traffic to Serbia and Bulgaria and wanted to divert it instead to Trieste and Fiume, nowadays Rijeka.¹⁰⁹ The growing self-assertiveness of the emerging Balkan states, Bulgaria first and Serbia later, was recognized very early by the leading staff of the railway company. Otto von Kühlmann, former manager with Hirsch’s company and now

¹⁰⁵Jürgens, M. *Finanzielle Trustgesellschaften*, Ph.D. thesis, Universität München (Stuttgart, 1902), pp. 73–75; Hafner, K. *Die schweizerischen Finanzierungsgesellschaften für elektrische Unternehmungen*, Ph.D. thesis, Université de Fribourg (Geneva, 1912), pp. 30–31.

¹⁰⁶*Bericht des Verwaltungsrathes der Bank für Orientalische Eisenbahnen ... vom 5. September 1891*, Zürich 1891, p. 21.

¹⁰⁷Jöhr, W. A. *Schweizerische Kreditanstalt 1856–1956. Hundert Jahre im Dienste der schweizerischen Volkswirtschaft* (Zürich, 1956), p. 189.

¹⁰⁸For Schrader’s role cf. Seidenzahl, *100 Jahre Deutsche Bank*, p. 154, 166 as well as the correspondence in HADB, OR 530.

¹⁰⁹HADB, OR 532: Siemens to Moriz Bauer (10/10/1890).

director general of the Anatolian Railways, called the Bulgarians, in a letter of 23 October 1890 to Georg Siemens, 'impertinent people': 'They have 300 kilometers of railways in their country for which they have not paid anything and then they complain because they believe railway tariffs are too high'.¹¹⁰ Herbert Feis observed the same problem with the eyes of a historian and with the benefit of hindsight, since he published his well-known book *Europe, the World's Banker* way back in 1930:

[...] As Serbia and Bulgaria made progress with their own railway system, as they repurchased other privately built railways within their territories, they resented the independence of the lines of the Oriental Railways within their borders. For that company was run from Vienna, had rate schedules and regulations outside their control and its higher personnel was foreign. The company was accused, justly or otherwise, of subordinating the interests of the countries which it traversed to its own financial interests and to Austro-German economic interests and of making no effort to develop local resources and industry.¹¹¹

All these problems made even some of Deutsche Bank's most reliable partners, for instance the leaders of Württembergische Vereinsbank in Stuttgart, consider Siemens' engagement in the affair of Oriental Railways as a 'folly'.¹¹²

Parallel to its activities connected with the Oriental Railways, Deutsche Bank managed to get a concession for another railway line from the Sublime Porte in October 1890:¹¹³ this one provided for 219 kilometers of a line running from Salonica to Monastir, today's Bitola in the Republic of Macedonia, together with the claim to extend it to an Albanian port on the Adriatic Sea.¹¹⁴ The motive for establishing such a new line might have been that by running it through Turkish Macedonia and extending the line eventually up into Serbia the Oriental Railways – which were supposed to manage this additional network as well – would have been able to pass around Bulgaria

¹¹⁰Ibid.: von Kühlmann to Siemens (23/10/1890). – As a matter of fact, until 1891 when the Bulgarian and the Oriental tariffs were unified, the tariff of the *Betriebsgesellschaft* of the Oriental Railways was higher than the Bulgarian one, and particularly so for local passenger transport. It was also clearly higher than the tariffs of the Prussian State Railways (Weiß-Bartenstein, W. K. Bulgariens Verkehrspolitik und Verkehrswesen, in: Archiv für Eisenbahnwesen, 38 (1915), p. 1239).

¹¹¹Feis, H. *Europe, the World's Banker, 1870–1914* [1st ed. New Haven, 1930] (Clifton, 1974), p. 298.

¹¹²Deutelmoser, O. K. Kilian Steiner und die Württembergische Vereinsbank (Ostfildern, 2003), p. 228, note 463.

¹¹³The German Auswärtiges Amt supported the request made by Deutsche Bank and its group to the Turkish government but it declined any responsibility in case of political unrest (BA, R 901/11975, f. 35: memo by Undersecretary of State count Berchem, March 12, 1890).

¹¹⁴Helfferich, K. Georg von Siemens, vol. 3, p. 50; Gounaris, B. *Steam over Macedonia*, pp. 51–53.

which, at least for the moment, was considered to be the most difficult partner. In 1893 another concession was given to a group, headed by the Ottoman Bank and by Banque de Paris et des Pays-Bas with the Frankfurt private banking house Bethmann as a third partner.¹¹⁵ This railway, called Chemin de fer Jonction Salonique – Constantinople, was supposed to run from Salonica eastward along the Aegean coast for 550 kilometers to Dedeagatch – its name today would be Alexandroupolis – where it would have joined the network of the Oriental Railways. The company started with a nominal capital of 15 million francs and the issue of 3 per cent bonds for an amount of 50 million francs.¹¹⁶ This line and the Salonica – Monastir line proved to be particularly useful to the Turkish army which could, as soon as these links had been finished, send large amounts of troops at short notice from the capital and from Anatolia to the European provinces of the Ottoman Empire, particularly to ever rebellious Macedonia.¹¹⁷ The ‘Constantinople Junction railway’, wrote the British correspondent William Miller in 1898, ‘... enabled the Turks to strike hard and quickly at their foes’.¹¹⁸

Judging by the annual reports and the data on transportation of passengers and merchandise the two decades between 1890 and 1909 were quite successful but, given the permanent unrest and the recurrent revolts in the European parts of the Ottoman Empire, traffic could not be compared to Western European standards. In 1903 for instance, there were violent revolts in Macedonia¹¹⁹ and the Turkish Army had sent about 200,000 men there in order to crush the uprising. The report of the operating company for 1903 describes concomitant Macedonian terrorism in the following way:

¹¹⁵Still in 1913 the Ottoman Bank owned 15 per cent of the capital of the Jonction railways (Thobie, J. *Les choix financiers de l’Ottoman en Méditerranée orientale de 1856 à 1939*, in: *Banque et investissements en Méditerranée à l’époque contemporaine. Actes du Colloque de Marseille, 4–5 février 1982* (Marseille, 1985), p. 72, table No. 6). For the role of the Bethmann bank and the Bethmann family as a link between French and German banking cf Barth, B. *The Financial History of the Anatolian and Baghdad Railways, 1889–1914*, in: *Financial History Review*, 5 (1998), pp. 120–121.

¹¹⁶BNP Paribas, 6\DFOM-221\493: prospectus for the issue of 100,000 bonds for 500 francs each at 3 per cent interest (1893). Cf also the detailed financial report of 12 February 1913 on this company, done by the research branch of Crédit Lyonnais (Archives Historiques du Crédit Agricole, Paris. Fonds Crédit Lyonnais, DEEF 24189).

¹¹⁷Gounaris, B. *Steam over Macedonia*, pp. 55–58; Anastassiadou, M. *Salonique, 1830–1912*, pp. 175–176.

¹¹⁸Miller, W. *Travels and Politics in the Near East* (London, 1898), p. 363.

¹¹⁹Adanir, F. *Die makedonische Frage. Ihre Entstehung und Entwicklung bis 1908* (Wiesbaden, 1979), pp. 160–199.

Von allen ähnlichen Aufständen früherer Zeiten unterschied sich die mazedonische Bewegung im abgelaufenen Jahr durch die rücksichts-loseste Verwendung von Sprengmitteln. Häufige Versuche der Sprengung wurden gegen unsere Eisenbahnlinien gemacht, glücklicherweise meistens mit nur geringem Erfolge [...]. Mehrere Attentate wurden durch Höllen-maschinen gegen fahrende Eisenbahnzüge verübt, eine Anzahl Passagiere wurde getötet oder verletzt. [...].¹²⁰

Terrorist action of this kind became rather frequent in 1903–1904, as described here, and again in 1910–1911. ‘These incidents occurred overwhelmingly in Ottoman Macedonia and Thrace ...’, and the French-controlled Jonction Salonique – Constantinople line was also among the preferred targets of terrorism.¹²¹

Already in 1895–1896 B.O.E. enlarged its portfolio by acquiring ordinary and preferential shares of the Salonica – Monastir railway from Deutsche Bank. This purchase comprised 96.35 per cent of the entire nominal capital of that railway company.¹²² Thus certainly an appreciated service was rendered to the financial status of Deutsche Bank although from June 1894 the line up to Monastir had been finished and profited from a payment of 14,300 francs *per kilometer* and year coming from the Ottoman government and guaranteed by the tithes of the Sanjaks of Salonica and Monastir, collected by the Administration of the Ottoman Public Debt.¹²³ After this purchase, B.O.E.’s portfolio did not change for a decade. Only in 1905–1906 did it decide to buy shares of the Anatolian Railway for a nominal value of 7.5 million francs.¹²⁴ This was again a favour done to Deutsche Bank and its group which had to finance the continuous needs of this railway.

On the other hand, Deutsche Bank and its group used B.O.E. for a compromise with the Imperial Ottoman Bank, concluded on 22 April 1905. It provided that each of the two partners would have to offer 25 per cent in any new business opened in Turkey. On top of that, the Ottoman Bank would re-

¹²⁰*Betriebsgesellschaft der Orientalischen Eisenbahnen. Vierunzwanzigste ordentliche Generalversammlung abgehalten in Wien am 31. Mai 1904: Betriebsjahr 1903*, Wien [1904], p. 3.

¹²¹Mentzel, P. Accidents, Sabotage, and Terrorism: Work Hazards on Ottoman Railways, in: Imber, C., K. Kiyotaki and R. Murphy (eds.), *Frontiers of Ottoman Studies: State, Province, and the West* (London and New York, 2005), pp. 229–231.

¹²²The company had also issued bonds for a nominal amount of 60 million francs (cf *Bericht des Verwaltungsrathes der Bank für Orientalische Eisenbahnen ... vom 19. September 1896*, Zürich 1896, p. 6, 12).

¹²³*Ibid.*, p. 6.

¹²⁴The prize was 5.4 million francs (*Bericht des Verwaltungsrates der Bank für Orientalische Eisenbahnen ... vom 25. August 1906*, Zürich 1906, pp. 4–6, 14).

ceive 25 per cent of B.O.E.'s capital.¹²⁵ Such a move would have again alleviated Deutsche Bank's balance sheet and further internationalized B.O.E., and that would have probably also pleased Crédit Suisse. It does not seem that the Ottoman Bank ever took such participation but in 1907, in any case, one of the members of its Paris general committee entered B.O.E.'s *Verwaltungsrat*.¹²⁶

There was another regrouping of B.O.E.'s portfolio in 1906 when half of the stock of the operating company (*Betriebsgesellschaft der Orientalischen Eisenbahnen*) was sold, with the help of its banking group, at the stock exchanges of Zurich, Basel, Geneva, Berlin, Frankfurt and Vienna.¹²⁷ By the end of 1906 even 45,240 of these shares – out of an original stock of 88,904 owned by B.O.E. – had been sold. B.O.E. made a profit of 3.42 million francs out of this.¹²⁸ Having wound up this sale, and again during the financial year 1906–1907, B.O.E. bought 37.5 per cent of the shares of the Harbour Company Haidar Pasha from the Anatolian Railways.¹²⁹ Also in this case it had looked after the interests of Deutsche Bank and its group.

Until the beginning of 1907 only 30 per cent of B.O.E.'s 50 million francs of nominal capital had been paid in. A general assembly then decided to fix its nominal capital at 40 million francs of which however 50 per cent had to be paid in. In the course of the same operation 50 million francs of 4 per cent bonds were then changed into 30 million francs of 4.25 per cent bonds.¹³⁰ In 1908 B.O.E. took over 94 per cent of the new shares issued by the Anatolian Railways – 63.5 million francs of which it had to pay in, or just 10 per cent. Most of it was earmarked for irrigation works in the plains of Konya.¹³¹

As a result of the Young Turk Revolution and one day before the Austro-Hungarian annexation of Bosnia-Herzegovina, Bulgaria declared its complete inde-

¹²⁵The text is to be found in: HADB, P 7950. Cf also Poidevin, R. *Les relations économiques et financières entre la France et l'Allemagne de 1898 à 1914* (Paris, 1969), p. 274; Barth, B. *Die deutsche Hochfinanz*, p. 226.

¹²⁶*Bericht des Verwaltungsrates der Bank für Orientalische Eisenbahnen ... vom 17. September 1907*, Zürich 1907, p. 26.

¹²⁷*Ibid.*, pp. 3–4.

¹²⁸HADB, OR 858: Frey to Gwinner (18/1/1907).

¹²⁹For the Haidar Pasha Harbour Company cf Barth, B. *Die deutsche Hochfinanz*, p. 125; Pohl, M. *Von Stambul nach Bagdad*, pp. 133–134.

¹³⁰*Bericht des Verwaltungsrates der Bank für Orientalische Eisenbahnen ... vom 17. September 1907*, Zürich 1907, pp. 14–16.

¹³¹*Bericht des Verwaltungsrates der Bank für Orientalische Eisenbahnen ... vom 19. August 1908*, Zürich 1908, pp. 3–4.; for the irrigation project in the Konya area cf. Pohl, M. *Von Stambul nach Bagdad*, pp. 109–110.

pendence,¹³² officially took over Eastern Roumelia and seized 310 kilometres of the Oriental Railways network in September 1908. The seizure was motivated by a strike of the local railway personnel¹³³ which had been fomented by the Bulgarians.¹³⁴ 'After the strike ended the [Bulgarian, P.H.] government declared its intention of retaining the line, asserting a willingness to indemnify the company, but not making clear where the necessary funds were to be found'.¹³⁵ In June 1909 the Turkish Government received a compensation of 42 million francs from the Bulgarians which had been 'furnished by the Russian Government'.¹³⁶ The operating company of the Oriental Railways was then compensated by the Turkish Government with a sum of 21.5 million francs for the losses incurred in the course of this seizure. From now on its network was reduced to a length of 954 kilometres.¹³⁷ In 1910, the Anatolian Railways called another 10 per cent on their shares. B.O.E. met these needs by issuing another series of its 4.25 per cent bonds for an amount of 7.5 million francs.¹³⁸

The B.O.E. report for 1910–1911 tells us that 'the company has been able to pay a dividend which varied between 5.5 and 6.5 per cent during a considerable number of years'. 'Since one can expect an appropriate and stable return on our share capital also for the future, our banks – which have already participated in the foundation of our institute – thought this would be the moment for introducing the shares of the Bank für orientalische Eisenbahnen at the Swiss stock exchanges of Zurich, Basle and Geneva'.¹³⁹ In 1910 the seat of the operating company of the Oriental Railways was transferred from Vienna to Constantinople. It became a Turkish company, and one might suppose that this was a political

¹³²Cf Ahmad, F. *The Young Turks. The Committee of Union and Progress in Turkish Politics, 1908–1914* (Oxford, 1969), p. 24.

¹³³GP, vol. 26/1, p. 71–2, document No. 8951: memo of the undersecretary of state to the German Foreign Office, Stemrich, of 23 September 1908; OeStA, HHStA, MdÄ, AR, F 19, Karton 47, Fasz. 3.

¹³⁴Weiß-Bartenstein, W. K. *Bulgariens Verkehrspolitik*, pp. 1233–1234; Kumpf-Korfes, S. *Die ökonomische Expansion*, p. 1433.

¹³⁵Feis, H. *Europe, the World's Banker*, p. 301. Cf also Crampton, R. J. *A Concise History of Bulgaria*, p. 130.

¹³⁶*Ibid.*; Gutsche, W. *Monopole, Staat und Expansion vor 1914. Zum Funktionsmechanismus zwischen Industriemonopolen, Großbanken und Staatsorganen in der Außenpolitik des Deutschen Reiches 1897 bis Sommer 1914* (Berlin (DDR), 1986), p. 162.

¹³⁷BNP Paribas, 3\CABET-1\194: French translation of the minutes of the shareholders' meeting of the operating company of the Oriental Railways (15/121909); printed *Notice* on the Compagnie d'Exploitation, probably from 1923.

¹³⁸*Bericht des Verwaltungsrates der Bank für Orientalische Eisenbahnen ... vom 19. August 1910*, Zürich 1910, pp. 3–5.

¹³⁹*Einundzwanzigster Geschäftsbericht des Verwaltungsrates der Bank für Orientalische Eisenbahnen ... für die Geschäftsführung während des Zeitraumes vom 1. Juli 1910 bis 30. Juni 1911*, Zürich 1911, p. 3.

move, motivated by the growing nationalism in Turkey itself; the other reason will have to be found in the desire to keep the company out of the growing conflicts between Austria-Hungary and the new states which had sprung up in the Balkan area. At the same time the company that had become Turkish remained under the control of its German and Austro-Hungarian shareholders, particularly the B.O.E., and received considerable compensation payments from the Turkish and the Bulgarian governments.¹⁴⁰ The acquisition of almost 10,000 preferential shares of the Mersina – Tarsus – Adana Railway in 1910 was financially not important at all but it was probably justified by the overall strategy of Deutsche Bank in this area.¹⁴¹

The Italo-Turkish War of 1911–1912, but above all the two Balkan Wars of 1912–1913 did not only much harm to general railway traffic, they also blocked the operations of the now Turkish *Compagnie d'Exploitations des Chemins de fer Orientaux*, and particularly in the areas occupied by the Serb, the Greek and the Bulgarian armies. By the end of the second Balkan War, in the summer of 1913, and due to huge territorial changes, 466 km of the Oriental network remained on Turkish soil, 85 km were now in Bulgaria, 77 km in the new Greek areas and not less than 371 km in Serbia's new territories.¹⁴² Whereas the Greek government showed itself disposed to a possible compromise, both the Serbian and the Bulgarian governments had occupied the lines of the Oriental Railways and operated them on their own responsibility. In the end a solution could be found with Bulgaria but the problems with Serbia became chronic. During the entire period between the end of the Balkan conflict and the outbreak of the First World War, the Serbian administration showed almost no signs of willingness to come to an agreement with the *Compagnie d'Exploitation*.¹⁴³ In April 1913, it accused the company of having concentrated, right from the beginning of the conflict, most of its wagons and locomotives in Salonica thus depriving Serbia of all of its means of transport. Such a situation ought to be avoided in the future.¹⁴⁴

¹⁴⁰Gutsche, W. *Monopole, Staat und Expansion*, p. 163.

¹⁴¹*Ibid.*, p. 4, 22.

¹⁴²Gutsche, W. *Serbien in den Mitteleuropaplänen des deutschen Imperialismus am Vorabend des ersten Weltkrieges*, in: *Zeitschrift für Geschichtswissenschaft*, 23 (1975), p. 41.

¹⁴³*Dreiundzwanzigster Geschäftsbericht des Verwaltungsrates der Bank für Orientalische Eisenbahnen ... vom 20. September 1913*, Zürich 1913, pp. 3–6; *Vierundzwanzigster Geschäftsbericht des Verwaltungsrates der Bank für Orientalische Eisenbahnen ... vom 5. November 1914*, Zürich 1914, pp. 3–5.

¹⁴⁴That is what the Serbian envoy to the Austro-Hungarian government said to the Austrian politician Joseph Maria Baernreither on 7 April, 1913 (Baernreither, J. M. *Fragmente eines politischen Tagebuches. Die südslawische Frage und Österreich-Ungarn vor dem Weltkrieg*, ed. by J. Redlich (Berlin, 1928), p. 231).

To most observers it seemed to be clear that Serbia wanted to integrate its part of the Oriental network into the Serbian state railway system.¹⁴⁵

As we have already seen, both countries, Serbia and Bulgaria, aimed at state railway systems. Both of them discouraged private investors, and the difficult relationship between the newly founded Bulgaria and the Oriental Railways has demonstrated this quite clearly. Thus the Serbian attitude in 1913–1914 is just another illustration of this general approach. From an economic point of view of course Michael Palairet is convincing when he states that the politics of nationalization of foreign-owned railway companies by both countries ‘... merely burdened them with compensation payments which damaged their finances, and made it even more difficult to raise funds to build extension lines. ... [They] ... regarded the railway as a facility of the administration rather than as a provider of economic services’.¹⁴⁶

3. The Austro-Hungarian Solution

Given the really difficult situation which prevailed in the entire Balkan peninsula during and after the two wars of 1912–1913, it was quite a surprise when B.O.E. and Deutsche Bank managed, by the end of April 1913, to sell their shares of the Compagnie d’Exploitation to a syndicate of Austro-Hungarian banks¹⁴⁷. B.O.E. in its annual report for 1913 explains quite clearly how it saw the matter: according to these views there was little hope that an easy and quick understanding could be reached with the successor states to the Ottoman Empire. There would be too many chances that line operations would remain disturbed for a rather long time, in any case: for an incalculable period. Under these conditions it would be better to sell. The Saloniki – Monastir shares would be given away at a fixed price and the shares of the operating company of the Oriental Railways at a fixed price plus participation in eventual gains which would be realized in the future. The prices which would be paid now by the Austro-Hungarians were considered to be just ad-

¹⁴⁵Cf the exchange of notes between the Serbian and the Austro-Hungarian Foreign Offices, in: OeStA, HHStA, MdÄ, AR, F 19, Karton 47, Fasz. 1.

¹⁴⁶Palairet, M. *The Balkan Economies, c. 1800–1914. Evolution Without Development* (Cambridge, 1997), p. 329.

¹⁴⁷Cf for the correspondence on this matter which started in November 1912 and came to the desired agreement in April 1913, in: OeStA, HHStA, MdÄ, AR, F 23, Karton 105. For the German part cf GP, vol. 37/2, pp. 713–15, documents No. 15118 and particularly No. 15119 (German ambassador in Vienna, von Tschirschky, to Chancellor von Bethmann Hollweg, 28 April 1913). A copy of the agreement between the two groups of banks of 16 April 1913 can be found in HADB, OR 1375. Cf for the negotiations between Deutsche Bank (von Gwinner) and B.O.E. (Frey), on the one hand, and the Viennese group, particularly Bodenkredit-Anstalt and Wiener Bankverein, on the other, in: HADB, OR 614.

equate, not really corresponding to their intrinsic value. Additional participation in future profits was, as we have seen, however, guaranteed. It should furthermore be accepted that one could now enjoy '... the calm with which one might from now on observe the political events in the Balkan peninsula as a materially no longer really engaged observer'.¹⁴⁸ In another letter Deutsche Bank pointed out that this sale would enable them and their 'friends' to recuperate the capital invested in the European part of Turkey and to '[...] liquify it in favour of our Asiatic railway enterprises, particularly the Baghdad railway'.¹⁴⁹

The buying group was led by the Wiener Bankverein, not really a newcomer to this scenario, and comprised furthermore two other big Viennese banks, Anglo-Austrian Bank and Allgemeine Boden-Credit-Anstalt.¹⁵⁰ On the Hungarian side figured Ungarische Allgemeine Creditbank, Pester Ungarische Commercial-Bank and Pester Erster Vaterländischer Sparcassa-Verein. Each of the two groups got exactly 50 per cent. 51,000 shares of the Compagnie d'Exploitation were on sale. Of these 45,000 came from B.O.E. and 6,000 from Deutsche Bank itself. The price was fixed at 52.45 million francs of which 17.5 million were to be paid at a later date.¹⁵¹ The Austro-Hungarian government, particularly its Minister of

¹⁴⁸*Dreiundzwanzigster Geschäftsbericht ... vom 20. September 1913*, pp. 6–7 (quote on p. 7). Cf also the arguments put forward in the meeting of the Council of Administration of B.O.E., held in Vienna on 16 April 1913 – the day of the agreement – where the sale was justified in the same way (HADB, OR 850).

¹⁴⁹Seidenzahl, F. 100 Jahre Deutsche Bank, p. 233. – Arthur von Gwinner who was then the leading manager of Deutsche Bank underlines this point of view also in his memoirs (Gwinner, A. von, *Lebenserinnerungen*, 2nd ed., ed. by Manfred Pohl (Frankfurt/Main, 1992), p. 85).

¹⁵⁰The Governor of Bodenkreditanstalt, Rudolf Sieghart, claims in his memoirs a leading role in this sale. According to him the idea of this transfer had been devised by Felix Somary who had been working until 1909 as an assistant manager to Karl Morawitz, head of the Viennese Anglo-Austrian Bank, and had then left Vienna for Berlin (Sieghart, R. *Die letzten Jahrzehnte einer Großmacht. Menschen, Völker, Probleme des Habsburger-Reichs* (Berlin, 1932), p. 164). Somary confirms Sieghart in his own memoirs: '[...] The Oriental Railways were of no interest for their yearly dividend payments but for Austria they were of the highest political value after the Balkan War had ended. I took an option on the majority of its shares and sold it to the Austrian and the Hungarian Governments' (Somary, F. *Erinnerungen aus meinem Leben* (Zürich, 1959), p. 98). Sieghart's version is confirmed in the *Tagesbericht* of 19 November 1912 written by a high official of the Viennese Foreign Ministry, Ippen, who says explicitly that the idea came originally from Felix Somary and that his initiative had been 'probably the first step' (HHStA, MdA, AR F 23, Karton 105). The proof that somehow Sieghart and Somary told the truth lies in the fact that Somary claimed 'the fee which has been promised to me' in a letter to Helfferich on 17 May 1913 and that Deutsche Bank informed him through a letter of 20 June 1913 that a sum of 100,000 francs would be remitted on his account (HADB, OR 614).

¹⁵¹GP, vol. 37/II, pp. 714–715, document No. 15119. Cf also Löding, D. *Deutschlands und Österreich-Ungarns Balkanpolitik unter besonderer Berücksichtigung ihrer Wirtschaftsinteressen*, Ph.D. thesis, Universität Hamburg (Hamburg, 1969), pp. 52–59; Barth, B. *Die deutsche Hochfinanz*, p. 360; Kolm, E. *Die Ambitionen Österreich-Ungarns im Zeitalter des Hochimperialismus* (Frankfurt/Main, 2001), p. 232–233.

Foreign Affairs count Berchtold, showed great interest in this transaction and obliged the banking syndicate to take important decisions in this particular railway matter only after close consultation with the Government. The latter one was authorized to buy these shares at any moment and for a fair price but the banks could also sell to the Government whenever they desired to do so.¹⁵² One might suppose that Berchtold hoped to be able to put increasing pressure on the Serbian government once Austro-Hungarian banks had acquired control of this network. This proved to be a profound illusion, at least until the outbreak of the First World War in the following year changed everything. There were however contemporaries who recognized this problem as one can read in *Der Oesterreichische Volkswirt*, an authoritative Viennese economic journal, of 3 May 1913. The author of this article was convinced that the transaction had not so much been in the interest of this group of Austro-Hungarian banks but had much more been driven by the Viennese Foreign Office. He criticised the deal particularly from a political point of view since in his opinion it would embitter relations with the Balkan states.

Either we live in peace with Serbia, then we will not need the shares [of the Oriental Railways, P.H.]. If we are in conflict with that country, then – with or without the shares – means of power will decide, in the last instance the bayonets.¹⁵³

Other countries did not want to stay behind. Italy was particularly interested in the concession of a line joining Monastir with Valona or Durazzo on the Albanian coast, a concession which had originally been granted to Deutsche Bank when it gained access to the Salonica – Monastir line.¹⁵⁴ Otto Joel, leading manager of the Banca Commerciale Italiana, sent a telegramme to his friend count Hutten-Czapski in Berlin in which he urged him to ask the German government for a conference with Austria-Hungary and Italy on these railway matters before the Paris conference on financial issues of the Balkan states would have started¹⁵⁵. This was one of the reasons why Joel travelled to Vienna a few days later where he reached a consent with the Austro-Hungarian government which seemed to agree.¹⁵⁶

A few months later, in the fall of 1913, a tentative attempt was made to get even French and, to a lesser extent, Russian capital into the Oriental Railways busi-

¹⁵²Cf. Kanitz-Wiesenburg, A. Wiener Bankverein, a typescript preserved in the Historical Archives of Bank Austria-Creditanstalt, Vienna [ca. 1936], part 3, pp. 123–124.

¹⁵³Die Erwerbung der Orientalischen Eisenbahnaktien, in: *Der Oesterreichische Volkswirt*, No. 31 of 3 May 1913.

¹⁵⁴PA, R 14349: Reports of the German Ambassador in Rome, v. Flotow (17 and 18/5/1913).

¹⁵⁵Ibid.: text of the telegramme from Joel, sent to the Auswärtiges Amt on 20/5/1913.

¹⁵⁶BI.BCI, PJ 13: Joel to Minister of Foreign Affairs di San Giuliano (31//1913); PA, R 14585: German ambassador in Vienna, v. Tschirschky to Auswärtiges Amt (28/6/1913).

ness, possibly on a fifty-fifty basis with the Austro-Hungarians because only thus, it was hoped, Serbian opposition could eventually be mitigated. As a by-product, much needed capital would flow from the ever resourceful Paris capital market to Austria-Hungary.¹⁵⁷ The French Minister of Foreign Affairs, Pichon, in a discussion with the Russian ambassador to France emphasized the right which, according to his interpretation, Serbia had to nationalize the Oriental Railways on its territory but he pleaded nevertheless for another solution to this conflict by way of ‘internationalizing’ the Oriental network.¹⁵⁸ Since the end of the First Balkan War, which means April 1913, a so-called *syndicat d’initiative* had been formed by the well known French construction group Régie Générale de Chemins de Fer of count Vitali and the Paris private bank Gunzburg with Wilhelm von Adler, an ex-director of the Wiener Bankverein who had acquired an important position within the French Société Générale, as counsel.¹⁵⁹ By November 1913 the French group had prepared a project which consisted of the creation of two operating companies, one for the Serbian and one for the Greek net. In each of them either the Serbians or the Greeks should get one third of nominal capital. Another third was reserved for French and another one for Austro-Hungarian capital. Both companies would be controlled by a financial holding or, as it was called, *une société de trust*, organized according to French law and based in Paris. Within the holding French and Austro-Hungarian capital would have equal shares and an equal number of representatives. Its president would be a Frenchman.¹⁶⁰

¹⁵⁷Cf Löding, D. Deutschlands und Österreich-Ungarns Balkanpolitik, pp. 176–179; Ableitinger, A. Österreichische Versuche um Zugang zum Pariser Finanzmarkt vor 1914, in: F. Kreissler (ed.), Relations franco-autrichiennes, 1870–1970. Actes du Colloque de Rouen 29 février – 2 mars 1984 (Rouen, 1986).

¹⁵⁸Report of the Russian ambassador in Paris, Iswolski, to the Russian Minister of Foreign Affairs of 10/23 October 1913 (Stieve, F. Der diplomatische Schriftwechsel Iswolskis, 1911–1914. Aus den Geheimakten der Russischen Staatsarchive, vol. 3 (Berlin, 1926), pp. 318–19).

¹⁵⁹According to information gathered by the German ambassador in Vienna, von Tschirschky, von Adler or, as the French called him, d’Adler, was not a French citizen ‘... but in France he is considered to be a Frenchman. He lives in Paris, plays an important role in the French business world and enjoys at the same time the confidence of the Austrian business circles’ (GP, vol. 37/2, p. 726, document No. 15131: von Tschirschky to Chancellor Bethmann Hollweg on 2 January 1914). Bernard Michel (Banques et banquiers en Autriche au début du 20e siècle (Paris, 1976), p. 247) tells us that the French ambassador in Vienna, Dumaine, called von Adler in 1913 a ‘financier cosmopolite’ and comments that: ‘Cette étiquette un peu méprisante [...] ne nous apprend rien, sinon la méfiance des ambassadeurs pour les milieux financiers’. Already in January 1913 von Adler had proposed a joint-venture composed of French and Austrian capital through the acquisition of the Western part of the Oriental Railway network. Such an initiative would ‘... increase the guaranties that for the line to Salonica [...] no tariff policy could be realized against Austria and that existing stipulations would be respected scrupulously’ (W. von Adler to Sektionschef Ritter von Wimmer of the Austrian Ministry of Finance on 4 January 1913, in: OeStA, HHStA, MdÄ, AR F 23, Karton 105).

¹⁶⁰SG AH, B 3180: ‘proposition française pour la solution des questions de chemins de fer dans les nouveaux territoires serbes et grecs’ (21/11/13).

The Société Générale, one of the big Parisian *banques de dépôts* was asked to collaborate,¹⁶¹ but this was a pure formality since Wilhelm von Adler, a close collaborator of this bank, had been one of the promoters of the project. At a later date the Greek and the Serbian governments would probably want to buy the networks situated on their soil. In this case the financial holding company would try to mobilize the necessary funds on the international, particularly the French capital market by issuing its own bonds. The sum required would be altogether around 80 million francs.¹⁶² Russia which considered Serbia to be part of its zone of influence would get participation in the French quota of the Serbian operating company.¹⁶³ Italy, again represented by Otto Joel from Banca Commerciale, tried to stay also in this game but it asked only for subparticipation in the Austro-Hungarian quota. When the government in Vienna refused, the Italians wanted to ride with a French ticket.¹⁶⁴

The Germans knew about the Franco-Austrian negotiations, and Deutsche Bank was not amused when it was informed that the Austro-Hungarian banking group would not want to hand them back the Eastern part of the Oriental network to which they thought to be entitled through the agreement of April 1913. The German side, and particularly Deutsche Bank, believed that the network in these European areas which after the Second Balkan War still belonged to the Ottoman Empire – more than 400 km – would in the meantime have become a valuable complement to the lines built through German initiative in the Asiatic part of the Empire.¹⁶⁵ The German government was equally against ‘a total elimination of German influence on the Oriental Railways.’¹⁶⁶ Already at the end of January 1914 the Secretary of State and head of the *Auswärtiges Amt* von Jagow had declared to the Italian ambassador in Berlin, Bollati, that Germany was

¹⁶¹Ibid.: a draft of a letter by Régie Générale de Chemins de Fer and the private banking house Gunzburg to Société Générale of 25 November 1913.

¹⁶²Ibid.: Note sur la société financière à créer of 6 January 1914.

¹⁶³The Russian ambassador in Paris, Iswolski, to the Russian Minister of Foreign Affairs on 23 November/6 December 1913 (Stieve, F. *Der diplomatische Schriftwechsel Iswolskis*, vol. 3, pp. 373–74).

¹⁶⁴HHStA, MdÄ, AR F 23, K 105: telegram of the Austro-Hungarian ambassador in Rome, von Meroy (20/12/1913) and draft of the answer to von Meroy (24/12/1913); HADB, OR 614: Frey (Crédit Suisse) to Helfferich (Deutsche Bank) on 2 March 1914; Helfferich to Frey on 7 March 1914.

¹⁶⁵And this particularly since, as a result of the Second Balkan War, Adrianople/Edirne – and together with it a larger part of former European Turkey – had been retained by the Turks (GP, vol. 37/2, pp. 728–31: memo by Deutsche Bank director Helfferich of 23 December 1913).

¹⁶⁶Ibid., pp. 739–40, document No. 15139: von Jagow, Secretary of State of the German Foreign Office, to the German ambassador in Vienna, von Tschirschky on 23 February 1914. On 10 March 1914, von Jagow told the Austrian politician Baernreither that it would be ‘politically totally incomprehensible’ if Austria opened the Oriental Railways to French and Russian capital (Baernreither, J. *Fragmente eines politischen Tagebuchs*, p. 302).

against the internationalisation project and that it was making all sorts of efforts in order to make the Franco-Austrian compromise fail.¹⁶⁷ The Serbian government, on the other hand, which still preferred the eventual nationalisation of the Oriental network in Serbia to the Franco-Austrian project of internationalisation, tried to gain time.¹⁶⁸

In the very end, nothing came out of the Franco-Austrian project.¹⁶⁹ Instead, an additional agreement was made between the German-Swiss group which had sold the 51,000 shares in the spring of 1913 and their Austro-Hungarian counterparts: the shares bought by the banks from Vienna and Budapest were to be blocked for a period of ten years and an ensuing sale to foreign buyers could be vetoed by the Viennese government.¹⁷⁰ This was a result not only of pressure exercised by the German government and Deutsche Bank and its group but it was also due to diverging opinions within the Austro-Hungarian government where particularly the Hungarian Prime Minister Tisza was opposed to the internationalisation project.¹⁷¹

4. A Few Concluding Remarks

Much more could be said on the entire topic, for instance about plans made since 1908 between France, Italy, Russia and Serbia to construct a railway line from the Danube to the Adriatic Sea or about Austrian plans to build a railway across the Sanjak of Novi Pazar.

For the moment one can only conclude that the case study presented in this paper started with a rather bold but nevertheless traditional banker like Hirsch. Then it switched over to a quite advanced form of late 19th century capitalism, the finance company, embodied in the Zurich-based Bank für Orientalische Eisenbahnen but also applied to the Franco-Austrian

¹⁶⁷ Ministero degli Affari Esteri, Roma. Archivio Storico-Diplomatico, Serie Politica (1908–1914), Pacco 746: Telegramma in arrivo No. 825 of 29 January 1914.

¹⁶⁸ Cf the correspondence between the Austro-Hungarian Legation in Belgrade and the Ministry of Foreign Affairs in Vienna between January and April 1914, in: OeStA, HHStA, MdÄ, AR, F 19, Karton 47, Fasz. 1. – Cf also in SG AH, B 3180: Note of 30 April 1914 (...du côté serbe, la négociation relative aux Chemins de Fer orientaux a été menée avec un lenteur particulière et avec l'intention visible de n'accepter l'internationalisation que si tout espoir devait être abandonné de voir le Gouvernement Austro-Hongrois agréer la formule du rachat).

¹⁶⁹ For an excellent description of this project and its development cf Michel, B. *Banques et banquiers en Autriche*, pp. 276–79.

¹⁷⁰ GP, vol. 37/2, pp. 744–45, document No. 15142: *Aide-mémoire* sent by the German Undersecretary of State in the Foreign Office Zimmermann to the Austro-Hungarian Embassy in Berlin on 9 March 1914.

¹⁷¹ OeStA, HHStA, MdÄ, AR, F 23, Karton 105: Berchtold to Tisza on 7 August 1913 (draft of a letter).

internationalisation project of 1913–1914 described above. Even this more elaborate system, however, fell victim to the new nation states which had grown up in the Balkans as heirs to the Ottoman Empire (and later to the Habsburg one) and for whom state railway systems – as later on state-owned airlines – became sort of a status symbol.

One might conclude by saying that capitalism's irresistible march could well be interrupted and then delayed in some parts of Europe even by second-rate wars and conflicts and by relatively small states. If bankers in Berlin, Vienna, Zurich, Milan or Paris had ever forgotten this possibility, they were reminded of it when and if they were looking to the European South-East between the 1870s and 1914.

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