

Alfred Escher, the Nordostbahn and railway finance — overview and summary

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Anyone who leaves Zurich's main railway station by its southern portal walks past a bronze figure standing high on a fountain. It shows Alfred Escher, the man who more than any other person determined how the railways of German-speaking Switzerland were built, who owned them and how they were paid for. Richard Kissling's monument was unveiled in 1889, seven years after Escher's death. Its position is telling, because the figure stands on the square between the station built by the company he founded and the beginning of the Bahnhofstrasse, the street that later became a synonym for Swiss private banking.¹ The arrangement expresses in stone what this chapter describes in prose. Between 1852 and the 1870s the financing of private railway companies became the first large-scale business of the Zurich capital market. The bank which Escher created to supply that capital, the Schweizerische Kreditanstalt, remained one of the two pillars of the Swiss financial centre until its absorption by UBS in 2023.

The chapter follows Escher's life only as far as it explains the railway question. It begins with his family and its fortune, turns to the parliamentary battle that produced the Federal Railway Act of 28 July 1852, and then examines the Schweizerische Nordostbahn, the company formed in 1853 which Escher led as president of its directorate until 1872 and as president of its board until his death. Particular attention is given to the capital structure of the private railways: the balance between shares and bonds, the role of foreign investors from Paris and Germany, and the growing conviction among Zurich's liberal leaders that Switzerland needed a domestic institution capable of mobilising savings on a national scale. The political consequences follow. Escher's accumulation of offices produced the so-called "Escher system", which the democratic movement of the 1860s attacked and in 1869 overturned. The railway crisis of the 1870s, the collapse of the Nationalbahn in 1878 and the long road to the nationalisation referendum of 1898 complete the story.

Three perspectives inform the account. For the historian, the private railway era is a case study in how a small federal state without a central bank, without a national capital market and with a deep suspicion of central power built one of the densest rail networks in Europe within a single decade. For the lawyer, it is a lesson in the regulation of natural monopolies through concessions, in the limits of cantonal sovereignty and in the relationship between public purpose and private ownership. For the practitioner, finally, it is the origin of habits that still mark the financial centre: the close link between infrastructure and capital markets, the reliance on bond finance, the recurring anxiety about foreign control of strategic assets and a lasting public sensitivity to the entanglement of politics and finance. The founding of the Kreditanstalt is treated in its own right in Chapter D.II, the Polytechnikum in Chapter D.III and the Gotthard railway in Chapter D.VI. Here those subjects appear only where they are needed to understand railway finance.

1 Notes

1. Historisches Lexikon der Schweiz (HLS), Joseph Jung, “Escher, Alfred”, version of 26 August 2024, <https://hls-dhs-dss.ch/de/articles/003626/2024-08-26/>. The HLS records the dedication of the monument by Richard Kissling in front of the main station in 1889. The date of unveiling, 22 June 1889, is given in Wikipedia (en), “Alfred Escher”, https://en.wikipedia.org/wiki/Alfred_Escher. ↩

2 Conclusion

The railway era turned Zurich from a prosperous merchant town into the financial capital of Switzerland, and Alfred Escher was the person who made that transformation happen. His victory in the parliamentary battle of 1852 placed the construction of the Swiss network in the hands of private companies operating under cantonal concessions. His Nordostbahn, formed in 1853 from the weak Nordbahn and the new Zürich-Bodensee-Bahn, made Zurich the hub of the railways of north-eastern Switzerland. The capital needs of the Nordostbahn and its competitors, which the Swiss market could not meet without foreign help, led him in 1856 to found the Kreditanstalt, the first great Zurich joint-stock bank and the institution around which much of the later financial centre grew.

The same concentration of power that allowed Escher to build so quickly also produced the reaction that limited him. Friedrich Locher’s pamphlets gave the democratic movement its language, the crisis of 1867 gave it its

opportunity, and the constitution of 1869 gave Zurich the direct democracy and the cantonal bank that the movement demanded. The crisis of the 1870s then exposed the financial fragility of the private railway model. Aggressive expansion financed by bonds brought the Nordostbahn close to insolvency, wiped out most of its share value and moved control of its equity abroad. The Nationalbahn, conceived as a democratic alternative, collapsed even faster and left Winterthur with debts that it finished paying only in 1953.

The resolution came through law. The purchase clauses of the concessions granted under the 1852 Act, the federal concessions of 1872, the accounting acts of 1883 and 1896 and the voting-rights act of 1895 created the legal and technical basis on which the electorate approved nationalisation in 1898. The Nordostbahn passed to the Swiss Federal Railways on 1 January 1902, and its shareholders received federal railway bonds in exchange.

For today's financial centre, the chapter leaves four lessons. Infrastructure has been the original business of the Zurich capital market since the 1850s, and bond finance has been its preferred instrument. Governance failures at the intersection of politics and finance provoke political reactions that outlast the individuals involved. Foreign capital is welcome in Switzerland but provokes recurring efforts to preserve domestic control over strategic assets. The figure of Alfred Escher, finally, remains a mirror in which each generation of Zurich bankers and politicians sees its own questions: about the benefits of entrepreneurial concentration, about its democratic legitimacy and about the origins of the wealth on which the financial centre was built.

3 In five sentences

1. The Federal Railway Act of 28 July 1852, which Alfred Escher and the Zurich liberals pushed through against the advocates of a state railway, left railway construction to private companies under cantonal concessions and thereby created the first large market for Swiss securities.
2. Escher's Schweizerische Nordostbahn, formed in 1853, made Zurich the railway hub of north-eastern Switzerland and, through its need for capital, led directly to the founding of the Kreditanstalt in 1856.
3. The concentration of railway, banking and political power in one man, the "Escher system", provoked Friedrich Locher's pamphlets and the democratic movement, which overturned Escher's dominance in Zurich with the constitution of 1869 and the Zürcher Kantonalbank of 1870.

4. Overexpansion financed by bonds brought the Nordostbahn to the brink in the crisis of the 1870s, while the democratic Nationalbahn collapsed in 1878 and left Winterthur with debts that were extinguished only in 1953.

5. Standardised railway accounting, the voting-rights act of 1895 and the purchase clauses of the concessions made possible the nationalisation approved on 20 February 1898, which turned the railway shares of the Escher era into the federal railway bonds of the SBB.

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