

British and French Investments in the Belgian Railroad Sector During the 19th Century

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Introduction

Belgium was one of the first countries on the European continent to industrialise. The bulk of investments took place in the railroad sector and found its origin in state and private financing. Within the railroad sector a lot of investments were made by foreign capital, especially French and British, in addition to investments made by the Belgian state, Belgian private investors and mixed banks. Stimulating motives of these investments were the profit rate, strategic considerations of economic supply and last but not least political-military reasons. The railroad sector indeed was very sensitive to the latter as it could be used for military reasons as well.

Apart from foreign capital investments into the Belgian railroad sector, Belgian private capital also invested on a massive scale in the sector abroad. In this paper foreign investments into the Belgian railroad sector will be discussed. Three different periods can be distinguished. The first era is characterised by a series of crucial decisions to start the railway sector by the state. Private companies were nearly allowed and finance was done by means of state loans for a large part subscribed by French capital. The second era is characterised by massive inflow of private capital, almost exclusively British. The third era is characterised by large-scale private investments partly Belgian, partly foreign, with France at the top of an expansionist policy. By the end of the French-German war new inflows of foreign capital were no longer stimulated nor realised. Only one French company, the *Compagnie du Nord* would continue its activities in Belgium until 1940 and was known as the *Nord Belge*.

1. The era of French capital partly financing the Belgian state railway initiatives (1834-1843)

The geopolitical and structural economic environment at the time of the Belgian Independence is of utmost importance to understand the state of the art of railway initiatives in Belgium. The Belgian State acquired independence in 1830 when it was separated from the 1815 Union with the Netherlands. Its modern economic history goes back to the French Empire in which it had been incorporated at the end of the XVIIIth century. For the economy this meant at the time a sweepstake towards development. After two centuries the river Scheldt became once again a world port. The manufacturing of arms (Liège) was stimulated as well as economic development in several sectors. The big French (continental) market acted as an outlet for its produce. Things changed after 1815. The Vienna Congress united it with the Netherlands. From an economic point of view this was a nice substitute for the advantages that France once had offered. It captured a vast colonial export market for its textiles; the Dutch King William I stimulated industry and laid the foundations of a modern banking system by creating the Société Générale, a mixed bank, in 1822. However a strong orientation towards France continued to exist and the unification was put into question by a coalition of catholic clergymen - very influential at the time - and liberal middle-class people. The separation of Belgium and the Netherlands took place nine years before it was officially settled in 1839. Meanwhile Belgium had to seek an alternative for its transport system, which it ought to realise very quickly to cope with the fast changing structural economic conditions. Indeed Belgium was no longer sure it could make use of the well-developed waterway system for transporting her goods from Antwerp and Liège towards the important Rhine region. And it was strongly in need of this as at the time Belgium was ready to participate in the new industrial revolution. It had some of the richest coal mines of the European continent and a newly emerging industrial sector as well, which had to look for foreign markets. Moreover it had one of the best-situated international ports at the river Scheldt (Antwerp). Finally it was situated in the heartland of the new emerging centre of continental Europe. Northern France with its fast developing industries and its big consumption market (Paris) as well as the

Rhine (Ruhr) region were essential for developing its economy. In these circumstances it was of utmost importance to realise a well-equipped transport system that would answer to these challenges. This transport system would serve several objectives. First of all the development of an international transport system that would respond to the transit of international trade was necessary. Secondly there was the need to exploit the comparative advantage of the Belgian coal mines and thirdly that of the industrial sector with the steel and metal industries in Liège.

Four types of discussion were held at the time. First of all the Belgian government and parliament had to choose between waterways and railways; a choice was made for railways. Secondly they had to decide which railway lines to construct; thirdly who would construct these railways and finally who would exploit them. The Belgian government and parliament by the law of 1834 and 1837 made a choice for constructing the railway system by the state. The railway system was centred on the connection of Antwerp with Liège and the Rhine land and adjusted for connections to Ghent, Ostend, Brussels and Mons. Furthermore they decided for state exploitation of these lines. Once these decisions were taken the Belgian State had to look for financing the railways. Belgian state credit was not well funded at the time and it was at this point that French loans, especially by the Bank of Rothschild came in.

Private investments in the Belgian railway sector were hardly allowed in this first era although a private appetite for railway investments existed. They were permitted by the Belgian government but on a very restricted basis. Private investments were allowed on the basis of a temporary concession (90 years) but had to be approved by the government. As such an investment on the Belgian territory was made by a France-financed Belgian Bank, the *Banque de Belgique* which managed to get a private concession, the *Chemin de Fer de l'Entre Sambre et Meuse*. This railway made a connection between the industrial, coal and mineral regions of Charleroi and the French border. The investment proved to be unsuccessful as the company failed in 1839, three years after its foundation. Moreover the connection between Paris and Brussels was one of the main con-

nections the private sector was interested in. The Belgian mixed bank *Société Générale* as well as the Paris banking house of Rothschild made plans for this connection. The Belgian multinational Cockerill took a second initiative. These private investors required interest subsidies or capital allowances considering the investments in the sector far too risky. In the end they didn't succeed for several reasons one of them being that the French government had not clearly decided up till then what it would do with the railway sector.

2. The era of private capital investment into the Belgian economy with Britain as the most important investor (1843-1850)

At the end of 1843 the Belgian State railway investment scheme had ended successfully. The country had an important network that crossed all over the country. The state would continue to exploit this network in the future. The next period is characterised by the privatisation of the railway sector when new additional railroads were no longer executed by the state but by private capital, exclusively British. Some but not all of them were however exploited by the Belgian State on a profit sharing basis. In order to attract British foreign investments the Belgian concession law was strongly adapted to the British system. The concessions allowed for during 1845-1847 were in total 770 kilometres and required an investment of 250 million BEF, whereas the state still exploited 559 kilometres.

There were several reasons some Belgian, others British to explain the phenomenon. The Belgian geopolitical situation had stabilised with the signing of the Treaty between Belgium and the Netherlands in 1839. Due to this Treaty from 1842 on Belgium had to carry the burden of the state debt that was by now divided between the two countries. This was an important factor in the changing policy at the time. Thus from a Belgian point of view private sources of financing were sought and were almost exclusively found in Britain. The reason being that the Belgian mixed banks had been almost completely immobilised for nearly a decade as a result of the 1838-1839 banking crisis in Belgium. As a consequence there were hardly any internal finances available to make investments. From the British side there were several reasons why foreign investments were

rather attractive. First, Britain had already a certain tradition and know-how as it was the first country to install new railways and from the beginning the private sector was allowed to invest in this sector. Second there was a remarkable difference between the very low interest rate in Britain (3,25%) and the promising alternative fields of investment abroad. Thirdly the railroad sector simply was the favourite sector to invest in, leading for the second time to a railway mania. Fourthly there was a lot of discussion in Britain about the political reaction on monopolisation and price agreements in the railway sector. The commission Gladstone whose work led to the *Parliamentary Train Act* had actually defended a bigger role for the state. Railway investors looked increasingly abroad.

From 1845 until 1847 ten concessions were allowed (*Entre-Sambre-et-Meuse, Tournay à Jurbise, Flandre Occidentale, Louvain à la Sambre, Liège à Namur et Mons à Manage, Charleroi à la Frontière de la France (Erquelinnes), Vallée de la Dendre, Manage à Erquelinnes, Grande Compagnie du Luxembourg, Manage à Wavre*). They were conceived as connections between the state railway lines, as international lines and as lines, which could compete with the state railways. All of these railways made connections between parts of the state railways, especially in the coal and industrial regions. Some of them had quite huge ambitions such as the *Manage à Wavre* that envisaged the construction of a big national railroad from the south to the north. The biggest international line was that of the *Grand Luxembourg* which made a connection between the Belgian capital and the southeast border. As such it could help to realise an international connection between the North Sea and Italy. By making use of the state railroads of Ostend towards Brussels it could make the connection from London to Triëste and from there on to the Indies. It was also presented as a means to bring the *Indian mail* to that region. It would stay a British investment until 1873. As a matter of fact in 1862 it would establish this connection by making use of the railroads of the French company *Compagnie de l'Est* with Genua from where on a shipping connection organised by *Peninsular and Oriental Steam Navigation Company (P&O)* took the further transport to Bombay.

These concessions gave rise to the founding of joint-stock companies that were financed in Britain. The stocks were quoted at the London Stock Exchange but not in Belgium for a first period as Belgian law allowed quotation only after the railroads had finished their construction phase completely. This legislation would soon change and from 1847 on four of these companies were quoted on the Brussels Stock Exchange (*Chemin de Fer de l'Entre-Sambre-et-Meuse, Tournay à Jurbise, Namur à Liège, Charleroy à la Frontière de la France*). Still these British foreign direct investments proved to be a disaster in the years to come. Only one investment (*Tournay à Jurbise*) was successfully carried out and at the end of 1850 most work had stopped. The 1847-1848 economic, financial and political crisis was responsible for this but also the way of financing the railroads. Indeed successive parts of share capital had to be demanded in the course of time; many stockholders refused when they saw profit perspectives diminishing. Railroad stock prices fell dramatically during these years as witnesses the London Stock Exchange.

3. The era of private capital investment into the Belgian economy with France as the most important foreign investor (1851-1940)

This third era is characterised by the system of interest guarantees and a massive inflow of Belgian and French capital, although British capital was far from absent. The government had to resolve the lasting banking crisis in Belgium by creating the *National Bank* in 1850, which enabled private banks to get rid of their immobilised portfolio. Moreover, in view of the disaster of the private railway sector the government initiated the law of 20/12/1851 that could allow her to give an interest guarantee to private companies on railway investments. As a result of these two measures Belgian as well as French capital invaded the railway sector.

Contrary to Britain France had not taken the lead in the railway revolution and it was only by the law of 1842 that a decision was taken to create a national railway system. The country was changing very fast and in a few years massive investments were made. In 1845 the *Compagnie du Nord* was founded which rapidly proved to be one of the biggest and strongest oligopolistic companies of

France. It would soon expand beyond the borders. Subsequently with the revolution of 1848 the geopolitical situation changed and when Napoleon III came into power the importance of France grew rapidly as well as an imperialist policy of expansion. From a French point of view Belgium was important for several reasons. First it was one of the richest coal regions of Europe and thus could provide France, the industrial north of France and Paris, with all the energy sources it needed. Secondly it was a natural part of the Western Rhine region and the connection towards the harbours of the Netherlands. As such it also had a military meaning for France.

The first attempt to expand the French FDI into Belgium came with the *Compagnie du Nord* that had made conventions with several Belgian railway companies who had their centre in the coal regions. The first convention with *Compagnie du Nord* gave this company control of the railway company *Charleroi à Erquelinnes*, which connected the French border with the Charleroi region. The second convention was with the railway company *Namur à Liège and Mons à Manage* from which it hired the railroad between Namur and Liège at the same time giving access to the mining and industrial region of Liège. In addition a future railroad from Namur towards Givet would make it possible to reach the French railways. A third convention with the railway company *Namur à Liège and Mons à Manage* about hiring the railway Mons-Manage was made in 1856. However the Belgian Government intervened and did not allow this transaction, as it would give the French company direct access to Brussels. Both railway companies had been founded with British capital. Similar to what happened in France those investors became sleeping partners and were rather happy they could let French capital come in as the conditions of the agreement with the *Compagnie du Nord* guaranteed them a fixed and high income. At the same time a fourth initiative was taken as Rothschild founded the *Chemin de fer de Mons à Hautmont* together with the *Société Générale*: a railway connecting the industrial site of Hautmont (France) with the coal region of Mons (Belgium). Meanwhile Rothschild had already acquired control of many Belgian coal mines such as *Charbonnages Belges*. Later on *Compagnie du Nord* would make a

specific agreement with the *Société du Chemin de Fer de Chimay* to gain control over this railway (1875).

In addition to the *Compagnie du Nord*, a second big railway company of France, the *Compagnie de l'Est* became active in Belgium. Her initiatives concentrated on the Rhine land, as one of her objectives was to create one big international railroad to the east of France that would connect Italy and Switzerland with Belgium and the Netherlands. The first initiative of the *Compagnie de l'Est* was concerned with Luxembourg. This small territory belonged to the personal heritage of the Dutch King and it participated in the *Zollverein*. Napoleon III however wanted to get it under French influence. He explicitly favoured this operation in 1867 after the Prussian-Austrian war but did not succeed. Years before the *Compagnie de l'Est* had already taken initiatives to acquire the economic control of the railroads in Luxembourg and in Belgium. The *Compagnie de l'Est* soon started after the creation of the Luxembourg railroad company *Guillaume Luxembourg* (1855). The *Compagnie de l'Est* realised an agreement by which she could hire all the railways of this company; moreover the *Guillaume Luxembourg* succeeded in reaching similar agreements with the Belgian government to hire the connection between the border (Gouvy) and Spa (in the east of Belgium). Then *Guillaume Luxembourg* continued expansion by making a similar agreement in 1863 with the railway company *Pepinster à Spa*, stipulating she could exploit it once finished (1867). By doing so a connection with the state railroads at Pepinster, east of Liège, was realised. The biggest expansion occurred around 1868/1869. After the failure of Napoleon III to gain control over Luxembourg, the *Compagnie de l'Est* made several attempts to establish control over some strategic Belgian railways. The first step was the agreement on the take-over of the *Grand Luxembourg* in 1868, an agreement that was blocked by the Belgian government as it feared to lose its neutral status when such a key sector - that gave access to Liège and to Brussels - would be controlled by France. In the atmosphere of growing tension and the going-to-war of France and Prussia in 1870 this was not surprising as railways had an additional military meaning which had already proven its reliability during the French campaign in Italy (1859) or the Prussian-Austrian war (1866). This take-over pro-

posal was accompanied by other French initiatives such as the take-over bid of railway companies who could make the link between Liège and the Dutch railway system. Indeed the Belgian railway companies *Liègeois Limbourgeois* as well as *Plateaux de Herve* were identical objectives of French expansionism into the Belgian railroad system. A year later the French-German war (1870-1871) broke out. As France was defeated Germany effectively imposed control over the Luxembourg railroad system by the *Deutsche Reichsbahn* by the Treaty of Frankfurt (10/5/1871).

The French-German war meant the end of foreign expansion in the Belgian railroad sector. The railroad system was almost completely realised so the need to attract foreign capital diminished. At the same time the Belgian government started a program to increase control over the Belgian railway system. It would keep the Belgian railway system out of foreign control and an attempt by German capital to acquire control over part of the Belgian railways in 1873 was blocked. For this purpose a railway company *Société des Chemins de Fer Belges-Luxembourgeois* would have to be in control of the *Grand Luxembourg*, *Réseau Forcade* and *Prince Henri* amongst others. The state refused and bought back *Grand Luxembourg* in 1873; other companies would follow. Although private companies existed until 1957, gradually the state took over the exploitation in exchange for profit participation or the state made an arrangement to buy back the concessions in exchange for a fixed allowance until the end of the concession time. The *Nord Belge* however existed in Belgium until 1940 and it was allowed to make still one specific agreement with the *Société du Chemin de Fer de Chimay* that was near to disaster in 1871.

Foreign capital had thus contributed significantly to the expansion and well functioning of the Belgian railroad sector but this does not mean that Belgian capital was not active in Belgium. Mixed banks as well as several other initiatives were taken in Belgium. Moreover Belgian capital started investing abroad on a massive scale. From 1858 in combination with French capital a Spanish railway company *Chemins de Fer du Nord de l'Espagne* was founded. This proved to be the start of many investments in the rest of Europe but also in a lot

of other countries such as Russia, Turkey, Argentina, Brasilia, China amongst others.

Conclusion

During the first era state financing of the railway system was the rule; this financing became partly possible by loans provided on a large scale by the Paris banking system. During the second era starting in 1843 private and almost only foreign capital came in on a massive scale driven by the profit rate motive. After an almost complete disaster of this foreign capital expansion and some new initiatives of state aid a new and massive inflow of private capital took place from 1852 on. It included a lot of foreign capital that was strategically oriented towards the coal mines on the one hand, to the internationally railroad lines along the Rhine on the other hand. Due to the political risks in a context of the duty of neutrality the Belgium state put an end to any further foreign capital expansion into Belgium although it let the *Nord Belge* continue its activities until the outbreak of the Second World War.