

The Dutch as Railway Investors at Home and Abroad

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INTRODUCTION

During the 'Golden Age' of the Republic of the Seven United Provinces, the 17th century, an almost unassailable position in world trade and industry had been built up by the Dutch, based on fisheries, the Baltic grain trade and colonial trade. Shipping had been stimulated by the invention of a cheap to run cargo ship, the flute, which in turn stimulated the wind-powered sawmills, in what has been called the first industrial revolution. And although during the 18th century this preeminence had first been challenged and then taken over by the English, Amsterdam still remained the financial capital of the world. An enormous amount of capital had been accumulated there during the heyday of Dutch trade and industry, and foreign princes gladly made use of this wealth. The Bank of England was helped on its feet by Amsterdam capital and the young American Republic already in 1782 found its way to Holland when it was in need of money. The Amsterdam Stock Exchange in the 18th century was the first in the world where large amounts of foreign securities changed hands regularly. When the French emperor Napoleon in 1802 wanted to sell the French holdings in North America to the US government, the London house of Francis Baring & Company and its Amsterdam partner Hope & Co. supplied the \$11.250.000 needed for the purchase. Dutch investors easily absorbed the \$5 million reserved for the Amsterdam market.

Despite a serious decline in trade and industry during the French occupation of the Dutch Republic between 1795 and 1814, resulting in widespread unemployment and poverty, Amsterdam remained a financial center of some magnitude. Its place as financial capital of the world, however, had been taken over by London.

WHEN

Although it may be possible that some Dutch capitalists had already taken part in the founding of early railways in Great Britain, proof for this is hard to obtain. But the first well-documented opportunity for investing in a railway came in 1834, when a Dutch artillery-officer, William A. Bake, unfolded his plans for a 'Rhine Railway', to improve the communication between the port of Amsterdam with its hinterland, the Prussian Ruhr area. His plan was well founded, with a lot of technical detail, and supported by leading commercial circles in Amsterdam and by the 'merchant-king' William I himself. Unfortunately Bake's financial insight was lacking and his timing bad. He started to raise money even before a company had been founded and received its royal assent, and money circles were wary because of unrest in Spain, where Dutchmen had invested heavily in government bonds. His scheme fell flat.

Railways in America were the next to be introduced in Amsterdam. Early Dutch investment in that country was not confined to government bonds. Both the First Bank of the United States and its successor of 1816 had attracted Dutch capital, and several land and canal companies, river improvement schemes, regional banks and bonds of several States of the US were held in Holland, with limited profits generally. Three years after Bake's abortive domestic scheme, the first foreign railroad loan came to be offered on the Dutch market. The Tonawanda Railroad and the Batavia-Buffalo Railroad were trying to raise money for constructing their lines in upstate New York. Both operated in the area owned by the Holland Land Company, established in Amsterdam in 1792 and with its American headquarters in Batavia NY, from where its vast holdings were administered. Willem Willink, Jr., stockbroker of Amsterdam, in 1837 offered bonds of both companies to the amount of one million guilders of each on the Amsterdam market, but there were few takers. Apparently the Dutch public was not yet interested in railroads as a vehicle for investment.

The Rhine Railway, despite its early misfortune, was nevertheless destined to be built. King William I, very much in favor of industry and commerce, simply issued a royal decree in 1838, ordering the Government Corps of Engineers to

construct a line from Amsterdam to the Dutch-Prussian border. A 4,5% loan of 9 million guilders was to be issued for this purpose, and the King personally guaranteed the regular payments of interest. With every risk thus eliminated Dutch investors came forward in droves.

WHO

The first middlemen to introduce railway bonds were the commission houses and stockbrokers of Amsterdam, who had already been established there before 1800. But after the founding of the new Kingdom of the Netherlands in 1815, German-Jewish bankers and brokers came to Amsterdam to set up business there. Names such as Bischoffsheim, Königswarter, Raphael and Cahen came to the fore. Later Dutch brokers who handled American railroad loans on a large scale were Wertheim & Gompertz, Boissevain, Kerkhoven, Labouchere Oijens, to name but a few. New commercial banks, such as the Amsterdamsche Bank, set up along the model of the French Crédit Mobilier, became active in this field too. And these are only the better known firms. In 1914 the total number of stockbrokers in the country was said to be around 1500, or one broker for every 4000 Dutchmen!

WHOSE MONEY

Early investment in railways was chiefly coming from 'old' money, accumulated by traders and industrialists back in the 18th century and nursed all through the Napoleonic wars. Rentiers were looking for high returns with a reasonable measure of safety, and railway bonds and shares promised to be just that. Soon 'new' money was going to be used too. New industries, such as the diamond trade, after the new fields of the Cape of Good Hope had been opened, brought great wealth to certain groups, and they were happy to invest in railways. Tobacco and coffee, grown on a large scale in Sumatra, brought large amounts of money into the country and wage earners profited from the upturn of the economy after 1870, when rapid industrialization started.

WHY

Why this interest in railway securities, both foreign and domestic? Apart from government loans, investors had little opportunity for investing their surplus capital in a gainful way. Countries such as Spain, Portugal, Turkey, or South American nations were seen as undependable and attracted little Dutch capital. Government loans such as British consols, Austrian and Russian paper or Dutch State bonds were considered safe, but yields were low. Savings banks came late in the 19th century but here again, the rate of interest was low, and unattractive to the capitalist. Railway bonds and shares promised a higher yield, but with less security. Surplus money was usually put out with banks and brokers for periods of – generally – three months, and renewed regularly and this money was often used for speculating on the Stock Exchange. American railroad bonds were the favorite tool for that kind of operation.

WHERE

It has already been said before that the almost 'Royal' Rhine Railway was the first railway to attract Dutch investors. The second domestic company, the Holland Railway, in 1837 issued its first shares to the tune of Nfl 1,3 million, and had no problems to float this issue in Amsterdam. When this sum turned out to be not enough to construct and equip the Amsterdam-Haarlem line, another 5,2 million in shares was issued, and again easily taken up. Dutch investors, lured by the promised high yields, had now acquired a marked taste for railway paper. But dividends, projected around the 8% or more, were in reality much lower, only 4,4% in 1840, and were to sink even lower to less than 2% a few years later! Dutchmen then sold off most of their holdings to Germans, and by 1844 the majority of shares was held in Germany, Prussia chiefly. The disappointment with the results of domestic railways is also shown by the founding of the Dutch Rhenish Railway in 1845. In that year the former Rhine Railway was taken over from the State by a limited company, headquartered in Amsterdam. There were few Dutchmen interested in the shares of the new company, but English investors came forward. As about 65% of the original shares was taken by them, the company had several English directors and until

its winding up in 1890 showed a strong British influence. Shares were of Nfl 240 (= £ 20) and successive issues were easily taken up by the London market.

A third large private railway company in the Netherlands was that founded to run the network constructed by the State after 1860. Here again the first issue of shares in 1863 of NFL 6 million was absorbed by the Amsterdam market, but a next issue of the same amount in 1866 could be placed only with great difficulty and at a large discount. Foreign investors took about 35% of the total, the rest was sold in Amsterdam. Dividends were low, and showed a rise to over 5% only after 1890.

In the Dutch East Indies railways came late, and the first one, connecting the sugar and coffee growing regions of the island of Java with the port of Semarang, had great difficulties in obtaining the necessary capital. In 1866, the same year that the 'State' Railway Company in the Netherlands was trying to float its shares, the private Netherlands Indies Railway Company came on the market with its issue, with a notable lack of success. A French consortium finally underwrote the issue. Later railway companies did attract sufficient capital in Amsterdam, but only after a boom in tobacco and crude oil had focused attention on this area in Sumatra.

Domestic and colonial railways thus held a very limited attraction to Dutch capitalists. Time to turn to foreign countries. Russia had been a focal point of the activities of the Amsterdam house of Hope & Co. since the 18th century, and numerous government loans had been floated in Amsterdam in the 19th century. When railway building started in earnest in Russia, the government turned to its traditional financier, the Kingdom of the Netherlands, for funding. Railway loans with attractive rates of interest were floated, guaranteed by the Czarist government, and private railway companies were also active on the Amsterdam Stock Exchange. Russia was a vast and expanding market throughout the 19th century, considered safe and sound. The Bolshevik revolution of 1917 was to shatter this rosy picture.

American 'rails' finally came to Amsterdam in 1856, when bonds of the Illinois Central were first offered. The slow trickle of new bonds and shares came to a standstill during the American Civil War but rose again to a flood in 1870 when no less than twenty new securities were offered in Amsterdam, with more than \$27 million (nominal value) sold there. The next year the total rose to over \$40 million, but the crisis of 1873, when many railroads defaulted, caused a temporary lull. By 1906, probably the high water mark, about \$600 million had been invested by Dutchmen in American railroads, and after that year the focus shifted slowly to other American industries and to colonial agricultural companies such as the Deli Maatschappij (tobacco) and Royal Dutch-Shell, where dividends well over 100% could be earned. American railroad companies such as Illinois Central, Santa Fe or Great Northern, however, were still listed on the Amsterdam Exchange well into the 1970's, some with substantial holdings.

CONCLUSION

Railway investment was seen as more risky than government loans, but higher yields made it attractive. Domestic rails were fairly safe, but their yields were not high, apart from the period between 1880 and 1900, when dividends between 5 and 8% were being paid. Domestic railway loans never gave more than 5% interest, and most were renting as low as 3 or 3,5%. American railroad loans promised higher returns, but with greater risks. Some companies such as the Illinois Central and later the Great Northern, were safe and gave good returns, and were considered eminently safe for widows and spinsters. Others, of more shady companies, were offered at large discounts, and combined with a rate of interest sometimes as high as 7 or 8% seemed most attractive. Here an element of speculation played a role. Cheaply bought bonds could be quickly sold at a profit before the almost inevitable crash came and quick gains were possible. Others, less aware of the risks, were left with worthless paper.

From the 1870's until 1914 Dutchmen were the largest investors in American railroads after the British, and followed at a distance by France and Germany. Of the 275 American securities held in the Netherlands in 1914, a total of 179

were railroad securities. Ten years before the figures had been 154 of 173, giving a clear indication of the relative importance of American 'rails' on the Amsterdam Stock Exchange and also of the gradual shift toward other American businesses, such as oil, steel and general industry.