

State versus Private Enterprise in Railway Building in the Netherlands, 1838-1938

Augustus J. Veenendaal, Jr.
Institute of Netherlands History

When railway building started in the 19th century it was not unusual for Governments to help the new means of transportation on its feet in some way or another. Railways were considered essential to the interest of the State for many reasons -- social, economic, political, or military. This help could take many different shapes, depending on the resources of the State and the nature of the country. Land grants were a typical American phenomenon, as in European countries the public domain, if it existed at all, was generally too small for this purpose [5]. Other methods were used also in America, such as taking part by the State in the share capital of a railroad, or even outright building of a line by the State, as was done in Virginia, Pennsylvania, and Georgia, to name but a few.

Great Britain

In contrast, in Britain help from Government agencies was a rare occurrence. As every company had to seek an act from Parliament, this body was in a position to weed out unwanted or unsound schemes, but for the rest it confined itself to regulating the railways in respect of safety, rates, and such. Only now and then actual help was given, as in the case of the ailing Underground company in 1857, when the City of London subscribed one fifth of its share capital, or in the 1890s, when the West Highland Railway obtained a Treasury Grant for building a line into that desolate area of western Scotland. In this latter case, the construction of a railway was seen as a public work to lift that region out of its economic and social misery [13, pp. 47, 120].

France

France used several methods of Government aid in succession: loans to private companies, taking part in the share capital, guaranteeing a certain dividend on the shares or the interest on a loan, until in the late 1870s construction of lines was undertaken directly by the State, while the operation could be left in the hands of existing companies or given over to a State agency incorporated for the purpose [14].

Germany

In Germany, due to the political fragmentation of the country, many variants of State help are to be found. Several smaller states, such as Hanover, Brunswick, and Baden resorted to outright construction and operating of railways by the State itself. Saxonia began its railway era with a private company, but lack of capital soon forced the Government to take shares in the next company to be started, until in the late 1840s a system of full State railways became established. Bavaria showed much the same picture, although here financial problems forced the Government again to resort to the granting of an important railway concession, the "Ostbahn," to a private enterprise, with a dividend guarantee by the State. Soon it turned out that this was more expensive than outright ownership by the State, and the company was bought back in 1875.

In Prussia, the first railways in the Rhineland were private enterprises, but with some financial support from Berlin in the way of dividend guarantees or taking part of the shares. Foreign -- English and Belgian -- capitalists were also active in these early Prussian companies. Then in the 1850s the building of unremunerative but essential lines was undertaken by the State, while at the same time private companies were acquired by the State. Only the more successful were left in largely private hands, until after 1870 and the founding of the "Reich," these were also gradually taken over, the last in the late 1880s [8].

Belgium

Belgium presents a special case. In 1815 the former Austrian Netherlands had been combined with the former Dutch Republic under King William I, the son of the last Stadholder of Holland and Zeeland, to form the Kingdom of the Netherlands, thus creating a strong buffer state to keep the eternal firebrand, France, in check. But for several reasons the Belgians were not content with their new ruler and their new fellow-countrymen and revolted in 1830. Although a definitive separation was only accomplished in 1839, the new Belgium, under its brand-new King Leopold (of Saxe-Coburg), set out to make a success of its independence.

Because of the revolt, the existing connection of the port of Antwerp with the Prussian hinterland over the Dutch internal waterways had been severed, and a substitute was urgently needed. For technical reasons a canal was deemed out of the question, and a railway was proposed instead. Some discussion about the role of the State in this railway scheme took place, but the adherents of a State-built line won the day, as it was feared that otherwise the "Orangists" -- the industrialists in Flanders who were against the separation from Holland -- would get the upper hand among the private parties interested in the new line.

In 1833 the railway was voted in Parliament to be built and operated by the State. Between 1835 and 1843 a network of some 550 km was constructed by the Belgian State, comprising most important mainlines [11]. The result was a modern and comprehensive transportation system, but at the cost of financial exhaustion of the State. Concessions for new lines were from then on granted to private parties, in some cases with a subvention by the State. Only after 1870 the Government, for political and economic reasons, started a policy of buying back the private companies [10].

The Netherlands

In what remained of the Kingdom of the Netherlands, the situation was much different. King William I of Orange-Nassau governed there as an autocratic but enlightened ruler. His ministers had little responsibility of their own and acted mostly by royal command. The influence of Parliament was restricted, although not completely absent.

Even more important was the desperate state of the country's finances. A towering public debt absorbed more than half of the total annual budget for servicing, while an outmoded and unfair system of tax collecting did not tap the still existing private wealth [6, pp. 313-317]. King William's stubborn policy towards the Belgians had necessitated the continued mobilization of the army, further swelling Government expenditure. Income from the colonies did help somewhat, but the nature of this contribution in the form of cash crops such as sugar, coffee, and tobacco, with their unpredictable yields, made financiers wary to count much on this source of income.

Despite this slowly growing income from the East Indies, the total public debt in 1841 still stood at 1.3 billion guilders, which ate up 53 percent of the annual expenditure of some 30 million [7, pp. 55-58]. A "forced" conversion in 1844 brought some relief, but only a general upswing of the Dutch economy, first of all in agriculture, in the 1850s at long last gave some financial scope.

Apart from these financial stringencies, an added handicap for railway building was the excellent system of public transportation already in place in Holland and Zeeland, where most of the economic activity of the country was concentrated. A network of artificial canals supplemented the many natural rivers and inland lakes, and a regular service of barges connected most towns. Paved roads between all provincial capitals supplemented this system of waterways. Heavy freight also moved over water, although often hindered by sandbanks and shallow water in many places [16]. This system of public transportation was by no means perfect, however, and outside Holland and Zeeland there was hardly anything apart from the few paved roads. The State did build a few important canals, though, chiefly to improve the waterways around Amsterdam. By 1830 it was possible to bring a ship from Den Helder in the north of Holland to Charleroi in Wallonia by internal waterways [4, pp. 66-74].

The mercantilistic policy of King William I resulted in a somewhat haphazard complex of help to shipping, industry, and transportation. According to the constitution of the Kingdom, the King had a lot of liberty of action, without nasty questions being asked. But the true situation of the country's finances was hidden under a jumble of semi-governmental agencies, over which Parliament had little or no control. Measures in support of economic activities were thus largely the work of the King and his closest advisers [9].

Railways in the Netherlands

In the field of railway building the King was active at an early stage. The Belgian program of railway building, the "Iron Rhine," as it was known, was seen as a real danger to the transit trade of the North and had to be countered somehow. A plan, first mooted in 1832, for a railway from Amsterdam to Arnhem in the east and a connection with Prussia, was enthusiastically received by William. He personally ordered one of the leading Government engineers to check the project and make an estimate of the total cost. Without waiting for a formal concession from the King, private parties in 1835 opened subscriptions for a loan to build this line. Investors thought this a too risky way of venturing their capital and declined to come forward, and the plan came to naught.

Disappointed, the King in 1836 ordered a Government commission to examine if railways would be necessary and feasible in the Netherlands. And when this basic question was to be answered in the affirmative, the next question was which lines would be most needed and what the role of Government should be. The commission acted with commendable speed, and submitted its report in the same year 1836. The first question was answered with a very positive yes, and one of the lines most needed would be (not surprisingly) the line Amsterdam-Arnhem-Prussia. About the role of Government the commission was more vague. Generally the State should confine itself to the granting of concessions, checking of public safety, of tariff structures and such, and helping by means of suitable expropriation laws. One important proviso was made: the Government should always have the right to acquire any railway by compulsion when demanded by circumstances. As an afterthought it was added that construction of railways by the State was not advisable, except for a few special cases. Again not surprisingly, the line Amsterdam-Arnhem-Prussia was named as one of these special cases [12, pp. 9-14].

The way to railway building by the State thus seemed wide open, and early in 1838 the Government submitted a proposal to build this Rhine Railway to Parliament. An unfortunate addition to the same proposal was the drainage of the Haarlem Lake, a great and dangerous body of inland water between Leiden, Haarlem, and Amsterdam. This drainage project was in itself long overdue and most necessary, but it had no connection with the proposed railway at all. Opposition was severe, apart from the usual petty objections. Most criticism was levelled against the financial side: the Government proposed to pay the 15 million deemed necessary (for the railway alone) from the receipts of the sales of Indian products. Parliament thought this an insecure source of income and doubted the ability of the Government to finance two great public works at the same time. Consequently the proposal was voted down (46 against 2) in April 1838 and the Rhine Railway seemed to be farther away than ever.

Disgusted by what he saw as stupid meddling by a couple of reactionary members, the King, by Royal Decree of 30 April 1838, then simply ordered the Rhine Railway to be built by the State. He personally guaranteed, from his own private funds, the regular payment of interest on the loan of 9 million guilders, which was then easily placed. By the constitution of the Kingdom he was perfectly entitled to do so, but it was certainly an unusual measure. William had already earlier privately participated in new industrial ventures in the country, but never on such a scale. Construction and working of railways by the State, locked out by the front door by Parliament, thus crept in again by the back door.

The financial results of this State-built and State-run (but not State-owned) Rhenish Railway were so insufficient that the King regularly had to stand by his promise to pay the interest on the bonds. But William I abdicated in 1840 and his son William II (1792-1849), although he did honor his father's commitments, was not inclined to do so forever. A new Government commission in 1844 was charged with the finding of a solution. Two options were examined: a complete take-over by the State, or a transfer to private enterprise. The commission recommended the first, but Government decided otherwise and had the railway transferred to a private corporation, the Dutch Rhenish Railway Company Ltd. Most shares of this new company were in English hands. Thus ended the first period of active Government interference with the building and operating of railways in the Netherlands [1, pp. 57-62].

Meanwhile pure private enterprise had succeeded in establishing a railway line Amsterdam-Haarlem-Rotterdam, of which the first stretch was opened in 1839. Here Government did nothing but grant the concession and supervise the building and running of the line by the Holland Iron Railway Company. After 1845 only this Holland Railway and the Dutch Rhenish Railway existed side by side, and the principle of private enterprise seemed to have become the accepted mode of railway building. In the south, Belgian and German interests succeeded in penetrating the country with several short lines.

The Mixed System

However, the results of this policy of abstention were far from satisfactory. Plenty of new concessions were being sought by private parties, but only for those lines that promised a good return on the investment, while the expensive and technically still problematical river crossings were avoided. And meanwhile the neighboring countries were forging ahead, leaving the Netherlands as a quaint backwater, where nothing seemed to happen. Slowly the feeling grew that some kind of action was needed.

The political climate had changed fundamentally too. Although the revolutions of 1848 had bypassed the country, under their influence a new constitution had been drawn up, which gave more powers to Parliament, made the ministers responsible towards Parliament only, and curtailed the power of the King. The liberals, led by Johan Rudolph Thorbecke, were strongly influencing the nation's policies, but even many of them, although principally against intervention by the State in economic matters, leaned towards some form of State help to the railways to break the deadlock.

In 1857 plans were ventilated for some kind of Government involvement in the shape of an interest guarantee or by paying for the most expensive works, such as the great river bridges. It still proved impossible to make these proposals palatable for Parliament, but after several cabinets had fallen on this hot issue, without accomplishing anything, the time seemed ripe for more drastic measures. Moreover, there was money in the till, as the revenues from the Indies were flowing more freely than ever.

A new ministry, led by the conservative-liberal Floris Adriaan van Hall, who had been attorney for the Holland Railway in his younger years, at long last solved the dilemma. In 1860 he introduced a law which authorized the State to build more than 800 km of new lines. Ten million guilders annually was to be spent, during a

period of at least ten years. Van Hall was strongly against interest or dividend guarantees for private companies, as these tended to make railway directors less interested in economical management and profitable working of their lines, as the State would make good the deficits anyhow [15]. By skilful massaging of the several members and by promising them lines passing through their own electoral districts, which they couldn't well afford to oppose, he managed to steer his proposal through Parliament. To appease the more radical liberals, the method of working the State-built lines was left undecided as yet. Thorbecke voted against, and declared that building railways by the State inevitably would lead to working of railways by the State [3, p. 228].

Thorbecke himself was to prove that he had been wrong. In 1863 he was leader of a liberal cabinet that had to decide on the working of the State network, of which the first lines would be finished soon. He proposed that private companies were to operate the State-owned railways, and a large majority in Parliament accepted his views. A new limited company was set up to operate most of the network, while the Holland Railway also got some lines to work. It took some time to adjust the rates for the use of the lines, until they were fair to all parties, but by 1869 the situation had stabilized.

This mixed system survived for a long time, but it could not be said that it worked well. Competition between the three biggest companies (the Holland, the Rhenish, and the so-called State railways) was severe, resulting in net yields per mile much lower than those in the surrounding countries. After an inquiry by Parliament, Government in 1890 decided to buy up the Rhenish Railway and concentrate the network in the hands of the two remaining companies, the Holland and the State companies.

This new system of concentration and competition, as it was called, did bring some improvement, as it put both survivors on an equal footing in respect of international connections, access to ports and industrial centers and such, but the competition between the two did not diminish and the net receipts continued to suffer as a consequence.

At the end of the 19th century about half of the total railway network in the Netherlands, including the fixed plant of stations, engine sheds, and such, was owned by the State, but the State itself did not own a single locomotive or carriage.

Towards More Government Influence

Despite its shortcomings, the concentration and competition worked after a fashion when circumstances were favorable and coal prices low. But it was murderously expensive because of the forced competition and yields remained low, forcing the companies to spend all their net income on dividends, without adding enough to their capital reserves. Leading economists therefore found little to applaud. Moreover the State failed to protect the interests of the traveling public in regard of connections and such adequately, while at the same time foreign governments could play off the two companies against each other with respect to international services. The call for a fully State-run system became louder and louder.

The outbreak of war in 1914 made the shortcomings all too visible. Although the Netherlands managed to remain neutral in the conflict, its economy was severely hurt. Transit traffic fell off immediately and the price of (imported) coal

skyrocketed. The railways were requisitioned by the military authorities, and when calm returned after the first hectic days of mobilization, it became clear that some form of closer cooperation between the two big companies was necessary. For the time the State guaranteed a limited dividend on the share capital of the companies and paid for the extraordinary transport of military personnel and refugees.

At the end of 1916 a closer union between the Holland and the State railways was signed. One common board of directors would govern from now on, wasteful competition was to be avoided, receipts were to be pooled, rolling stock renumbered into one system, and so on [12, pp. 252-254]. The corporate structure of both remained intact, however. Losses continued to mount and in 1920 a new agreement between the State and the railways was signed: to obtain the badly needed capital for improvement of the run-down system, so much new stock was to be issued to the State that from now on it would have a clear majority. The remaining private stockholders, now a minority, were guaranteed 5 percent on their holdings and were moreover encouraged to exchange their shares for new 5 percent bonds; operational deficits were to be supplied by the State [2, pp. 64-70].

So in 1920 the State finally acquired almost complete ownership of all railways in the country, and with it a decisive voice in the running of the lines. But only late in 1937 was the last step towards a full State monopoly taken. Both the Holland and the State companies were dissolved and replaced by a new corporation, the Netherlands Railways Ltd., with the State as sole stockholder, finally bringing the country into line with most of the rest of Europe.

Conclusion

The early involvement of the Dutch State in the building and working of railways in the country was soon ended, chiefly as a result of the unfavorable financial situation. Thereafter Government confined itself to overseeing the safety of railway traffic in general and to protection of the citizen against oppression by monopolies. Only after private interests were clearly unable to give the country a coherent railway system did the State step in again. But the political climate of the 1860s made a compromise necessary: building by the State, working by private companies. This decision reflected the political fragmentation of the day: no party was ever strong enough to impose its will upon others and compromises had always to be sought. For a time this mixed system worked, but it did result in low yields on the capital and mounting losses and consequent decapitalization. Forced by the emergencies of the First World War, the State, even if almost unwillingly, then had to step in and support the private companies, thus strengthening its hold over the railways, until a fully fledged system of State railways finally emerged on January 1, 1938.

References

1. W. van den Broeke, *Financiën en financiers van de Nederlandse spoorwegen 1837-1890* (Zwolle, 1985).
2. _____, "Preludium op een vijfsporenbeleid (1839-1939)," in J.A. Faber, ed., *Het Spoor; 150 jaar spoorwegen in Nederland* (Amsterdam-Utrecht, 1989).
3. I.J. Brugmans, *Paardenkracht en Mensenmacht. Sociaal- economische geschiedenis van Nederland 1795-1940* (The Hague, 1961).
4. Richard T. Griffiths, *Industrial Retardation in the Netherlands 1830-1850* (The Hague, 1979).
5. Carter Goodrich, *Government Promotion of American Canals and Railroads, 1800-1890* (New York, 1960).
6. J.A. de Jonge, *De industrialisatie in Nederland tussen 1850 en 1914* (Amsterdam, 1968).
7. _____, "Overheidsfinanciën," in *Algemene Geschiedenis der Nederlanden*, vol.12 (Haarlem, 1977).
8. W. Klee, *Preussische Eisenbahngeschichte* (Stuttgart, 1982).
9. E.H. Kossmann, *The Low Countries 1780-1940* (Oxford, 1978).
10. U. Lamalle, *Histoire des chemins de fer belges* (Bruxelles, 1953).
11. A. de Laveleye, *Histoire des vingt-cinq premières années des chemins de fer belges* (Bruxelles-Paris, 1862).
13. Harold Pollins, *Britain's Railways; An Industrial History* (Newton Abbot, 1971).
12. J.H. Jonckers Nieboer, *Geschiedenis der Nederlandsche Spoorwegen 1832-1938* (Rotterdam, 1938).
14. Cecil O. Smith, Jr., "The Longest Run: Public Engineers and Planning in France, 1820-1850," in *The American Historical Review*, v. 95 (June 1990). 657- 692.
15. A.J. Veenendaal, Jr., "Spoorwegen," in H.W. Lintsen, ed., *Geschiedenis van de Techniek in Nederland*, vol.2 (Zutphen, 1993),129-164.
16. Jan de Vries, *Barges and Capitalism; Passenger Transportation in the Dutch Economy 1632-1839* (Utrecht, 1981).