RAILWAY FINANCE

by Dr Winifred Stokes

In the paper that I submitted to the Fourth Early Railways Conference in 2008 I prefaced an attempted analysis of Metropolitan involvement in the affairs of the Clarence Railway Company with a brief consideration of the sources of capital available to railway company promoters in the 1820s and 30s. These were based on a study of the account books of what was essentially conceived of as a mineral line bringing coal from west Durham collieries to east coast ports for shipment to the London market It was the lure of that market that attracted its unusually high proportion of City investment and the alignment of its northward branch that made it potentially part of a trunk line system. At two points in its chequered history it seemed that this ambition might be realised. Both occurred during the waves of speculative railway investment labelled as 'manias' in 1836 and 1845. Neither was successful and the Clarence remained a useful adjunct of the railway system serving the Teesside industrial complex until its absorption by the NER in 1865.

On both occasions the reasons for the failure of the Clarence to become part of a main line were far from primarily financial but the circumstances of the timing of the two attempts are worth investigating in relation to other lines that might more readily be characterised as Early Main Line. The assumption of the promoters of early industrial railways and even of early lines linking major centres of population such as the Newcastle and Carlisle and the Liverpool and Manchester had been that the finance for the construction phase would be provided under the terms of the companies' acts of incorporation by a combination of share and loan capital, the former subscribed chiefly by individuals whose own enterprises stood to benefit from the more efficient transport of goods and materials. That as investors they would be paid dividends from whatever profits the railways made was a given but not the prime motivation for their involvement.

The realisation that such dividends might outstrip those paid on other forms of investment and the recognition of the potential of passenger traffic after the opening of the Liverpool and Manchester brought a change in the aspirations of both railway promoters and potential investors. It is perfectly possible granted the availability of company management committee minutes and at least some account books to track through the labyrinthine finances of individual companies and hopefully this will become one area of research. But the 1830s saw the working through of changes in the national economic and political structures that contextualise and help explain the surge in speculative investment in which more ambitious schemes could be launched and companies such as the Clarence owning sections of existing industrial rail track aspire to become incorporated into something resembling a trunk line.

These changes are apparent in the growth of joint stock banking, the change in socio economic balance of parliamentary representation and a general movement towards the endorsement of laissez faire economic theory. Granted that railway bills needed to pass through parliament and that MPs were not merely lobbyists but also investors this is an area of research that has been much ignored. The first railways that could be said to have been launched as 'main line ' fall into this period so do attempts to adapt existing lines to serve different functions. A more detailed study of the impact of what has been denominated the first 'Railway Mania' on the financing of individual lines is long overdue.

Much more ink has been spilt on the study of the second 'Railway mania' a decade later Opinions then and now remain divided as to both its causes and its effects. It would be tempting to dismiss it as the product of an overheated stock market fuelled by a cut in Bank of England rates and the apparent profitability of the 'early main lines' emerging from the investments of the 1830s but in the light of the experiences of individual or would be main line companies how far was this the case. This was the decade in which the main arterial routes were cobbled together but what were the financial mechanisms by which these amalgamations were arrived at ?