

Financing the railways

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The construction of railways required capital on a scale that Switzerland had never seen. A railway company had to buy land, build embankments, bridges and tunnels, lay tracks, construct stations and acquire locomotives and rolling stock, all before it earned any revenue. The Hauenstein tunnel alone cost several million francs. The capital came from shares and bonds sold to investors in Switzerland and abroad, above all in France, where the Paris banks and investors were the principal financiers of the European railways in the 1850s.¹

The private bankers of Basel faced this demand with limited resources. Individually, no Basel bank could underwrite the shares and bonds of a railway company or advance the large sums required during construction. In 1854, as Part C described, six Basel private banks formed a consortium, the *Bankverein*, to finance railways and other large undertakings jointly. The consortium participated in the financing of the Central Railway and other companies, placing their securities with its clients and its correspondents.

Railway finance was a school of modern banking for Basel. It required the placement of securities with a broad public, the management of large syndicates, the evaluation of complex projects, cooperation with foreign banks and the handling of the risks of companies that could fail. Several Swiss railway companies did fail or had to be restructured in the 1860s and 1870s, when their revenues fell short of the expectations of their founders. Their investors suffered losses, while the banks that had placed the securities faced criticism. The experience showed both the potential and the dangers of financing infrastructure through private capital markets.

1 Notes

1. On the financing of the Swiss railways in the 1850s by shares and bonds placed in Switzerland and abroad, particularly in France, see the literature on Swiss railway history and on the history of Swiss banking. To be verified. ↩

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