

250 Years United: U.S. and Netherlands, A Journey of Shared Freedoms

In our series reflecting on the 250 years history of the United States and Dutch American relations over that time span, we have arrived at perhaps the most transformational 50-year period: 1876-1926. The Gilded Age, the spread of modern technology of steel and electricity, imperialism and the outbreak of a global war on a scale never seen before. The era also saw the birth of the NAF.

What happened during this period in the United States, the Netherlands and how did Dutch-American relations develop?

The Gilded Age for the happy few, growing real wages for a new middle class and barely anything for the poor.

For those readers who have caught the eponymous historical drama series on HBO produced in 2022 by Julian Fellowes (of *Downton Abbey* fame) may get the impression that gold was paving the streets of Manhattan. Indeed, the discovery of oil in the vast amounts of land and resources in the West of the United States, made accessible by the rapid construction of railroads combined with the ability to explore all these resources with a rapidly growing labor force led to massive unprecedented economic growthⁱ.

A disproportionate part of this increased wealth ended up in the hands of the industrialists, like JP Morgan, Cornelius Vanderbilt, Andrew Carnegie and John D. Rockefeller.

Meanwhile during the same period, mass immigration supplied the labor to quickly expand both rural and industrial activity. A significant number of immigrants ended up in urban centers, which continued to grow quickly. The westward expansion marginalized native Americans further and further into ever smaller reservations.

Railroads

I had spent some time thinking of a good way to illustrate economic and societal developments and how this related to Dutch-American relations in the period, when I stumbled on a book written by Augustus J. Veenendaal Jr. in 1996 and published by Stanford University Press with the intriguing title: *Slow Train to Paradise*, and the much more revealing subtitle: *How Dutch Investments Helped Build American Railroads*. Of course, I found this book in the Mayflower Bookshop in the Breestraat in Leiden.

If ever you find yourself in the neighborhood, visiting the historical Pieterskerk, the Jean Persijjnshof or the house where John Quincy and Charles Adams, the sons of John Adams studied (or in the vicinity of their sister shop in The Hague), the Mayflower Bookshop is well worth a visit.

The book, written by a leading railroad historian, provides a great insight of the period of 1855 until 1914 when the Dutch invested heavily in the development of railroads across

the United States through the Amsterdam Stock Exchange. The exchange, as well known, is the oldest in the world, stemming from the era in which adventurous Dutch seafarers in search of funding for an earlier earth-shattering commercial venture - the spice trade with the colonies of the Dutch East Indies - had found eager merchants, bankers and investors in search of new sources of wealth generation.

Trade connections between the commercial hubs of Amsterdam, Rotterdam and Antwerp with North America had existed since the early seventeenth century in the days of the Dutch West Indies Company (WIC), but large scale investments in the North America had not really happened since the Dutch lost their trade posts on the Eastern seaboard of the North American continent to the English and their focus had shifted further south to places like Surinam and the Caribbean.

The Dutch had been comfortable with investing across the border though. When investments in Europe started to lose their appeal in the second half of the nineteenth century, they started looking to the rapidly expanding economy of the United States. Brochures – with various degrees of reliable information – started to appear in the Netherlands. First-hand accounts of influential Dutch travellers using American railroads created familiarity with this relatively new mode of transportⁱⁱ made clear that the train was the ideal way into the vast expanse of the American continent with convenient and even luxurious travel.

Letters back home of the thousands of Dutch emigrants to the United States, as we looked at in the previous column, added to the growing knowledge of American railroads in Dutch society, even if, according to Veenendaal, these settlers were no major early investors in the American railroads themselves. This changed later. But even when investments really took off, the Dutch footprint in Michigan and Iowa did not really feature heavily in the promotion of stocks back in the Netherlands. Even if a new railroad passed right through Holland and Zeeland in Michiganⁱⁱⁱ.

Significantly more interest was generated for a railroad in Minnesota through the involvement of the Minnesota Land Company, set up in Amsterdam in 1866, which was connected to the St. Paul & Pacific Railroad. Similar successful ventures involving large pieces of land and railroad funded from the Netherlands stretched out in Colorado and New Mexico, even if no similarly large groups of Dutch emigrants used the railroad to the place where they settled.

In the 1860's and 1870's, Dutch loans to American railroads saw a craze much like other booms such as the Tulipomania in the 1630's, the more recent dot-com-bubble in the late 1990s and early 2000's, the bit-coin boom and – who knows – the vast amounts of money currently flowing into AI investments.

At the time, some Dutch criticized the money flowing across the Atlantic into American railroads, claiming that it impeded the growth of the development of railroads in the

Netherlands itself. Those investments at home in the 1830's and 1840's had originally promised dividends of 8%, but when they ended up yielding 3% or less, the attention had shifted overseas.

Interestingly, Veenendaal notes that Dutch investors in the United States, unlike English, French and German investors, were not attracted to the riches of the Gold Rush in California from 1848. Rather, they seemed content to speculate on the economic growth stemming from the gold-seekers travelling to the West Coast...., by train.

Capital in the United States

Veenendaal describes that in the first fifty years after the founding of the United States, labor was scarce and capital was even scarcer. Land and natural resources were plentiful. Recurring crises, he writes, stopped and started capital inflows from Europe, including the Netherlands, at decisive moments. After a financial panic in 1837 and another crisis in 1857, several states defaulted on loans, scaring investors away.

The Civil War (1861-1865) halted investments altogether. But when peace returned, so did the money. Between 1865 and 1874, Veenendaal accounts, more than 38,000 miles of railroad was constructed. At intervals, economic downturns temporarily slowed down inflows, but investors always came back, until finally the emerging oil industry moved the railroads from the top spot as investment target. The outbreak of the First World War stopped investments in their tracks in 1914.

During the initial period of development, investments were mostly done by buying shares. The new railroad companies would issue capital stock, so the investor's payments in instalments could be used to fund the construction of the railroads, mostly in New England and later also in Pennsylvania. The investor became a shareholder, in essence a co-owner, of (a small share) of the company.

This evolved around the 1850's into mortgage loans, i.e. loans with the value of the company or the land on which the railroad was built as collateral. As less respectable railroad companies mortgaged their property many times over, the real value securing most loans was the ability to pay the interest based on the financial success of the company. By 1914, 70% of the investments were made in the form of bonds, i.e. ordinary loans with their credit quality solely based on the creditworthiness of the company.

Promoting American railroads in the Netherlands

After the financial shocks in the middle of the nineteenth century with American States defaulting on their loan payments, Dutch investors needed some encouragement before they were willing to buy into the American Dream on rails. Veenendaal describes how some ten American promoters of railroad investments travelled to the Netherlands and used their Dutch connections to pull investors into railroads such as Illinois Central,

Michigan Central, Pennsylvania Railroad, Erie Railway, Atlantic & Great Western, Northern Pacific Railroad, Denver & Rio Grande and Missouri, Kansas & Texas.

Not all promoters were successful. General Warner, president of the Marietta & Pittsburgh and the St. Louis & Southwestern who had defaulted after the 1873 crisis, could not convince Abraham Wertheim in Amsterdam to put more money into his railroad. The same fate befell William Mahone of the Atlantic, Mississippi & Ohio, nicknamed the "Railroad Bismarck" in 1875, who failed to inform his Dutch investors holding \$2 million of AM&O securities. He travelled to London, but not to Amsterdam, to keep them up to date. They ditched him and he went under in 1881.

Some American brokers, however, such as Arthur E. Stillwell of the Kansas City, Pittsburgh & Gulf had such strong connections in the Netherlands, that he bypassed Wall Street altogether selling stocks and bonds worth \$26 million around 1894 – the largest single investment - to Dutch investors, with the help of his Dutch partner in the Kansas City real estate business, Jacques Tutein Nolthenius.

Protective Committees

Dutch bankers, lawyers and brokers also travelled to the United States, looking into and managing the investments made from the Netherlands. They sat on so-called protective committees to protect the interests of bondholders, also of those railroads who failed, so they could salvage what could be salvaged. These committees were not a Dutch invention, but some had a strong Dutch influence, such as the one to safeguard the loan of the Des Moines Valley Railroad loan, running through Pella, Iowa, the town founded by Reverend Hendrik P. Scholte. The railroad defaulted in 1871. With Dutch financial support the company was restructured into the Des Moines & Fort Dodge Railroad in 1873.

Many more railroad companies across the United States suffered financial difficulties. Committees were formed, with varying degrees of success.

According to Veenendaal, the Dutch investors and their agents were mostly not interested in running the railway companies themselves. But they did want to have sufficient access and say to watch over their investments.

Fraud and swindles

Malversations, then just as today, were not uncommon. And not just perpetrated by Americans. Some Dutch brokers were accused of poor or bad information or stock price manipulation.

Investment Funds

Above and beyond direct investment in shares or bonds of single railroad companies, Dutch investors could also put their money into investment funds, such as the

Vereenigde Amerikaansche Fondsen, Vereenigd Bezit van Amerikaansche Hypothecaire Spoorweg-Obligatiën and Vereenigd Bezit van Amerikaansche Fondsen.

Conclusion

Dutch investors may not have been the first, the fastest or the biggest to invest in the development and expansion of the American railroad network. But it is clear from Veenendaal's excellent book that their persistency over a long period played a major role, not just where Dutch immigrants had found a new home, but literally from coast to coast, from North to South. He estimates the total amount of Dutch investments in 1914 to have grown to around \$300 to 400 million. Total investments in U.S. railroads around that time are estimated at \$4,170 million, of which \$2,800 million was held by English investors. The Dutch share, however, was certainly larger or even larger than the Germans and larger than the French.

He concludes that what was originally considered a risky investment for those interested in turning a quick buck, when chosen well in many cases turned out to be reliable long-term investments, some becoming blue chip companies in Amsterdam, such as the Illinois Central and Chicago & North Western.

I will leave it to the reader to decide how representative the story of American railroads is of the ups and downs of the Gilded Age. and how the creation and the dispersion of newly created wealth (or lack thereof) influenced the progression of American society as it turned into its second century. How immense riches contrasted with real-life poverty.

And how America's industrialization, urbanization and Westward expansion already brought about the emergence of a middle class in the period prior to the World War-I (1914 and 1918). The Great War certainly changed American society witnessing first-hand the unprecedented horrors of global conflict when the United States broke its neutrality to help defeat the Germans.

To bring the story home to the founding of the NAF, I had a quick look if I noted any connections the founders of our organization with American railroad companies. But I could not immediately spot one. But there are more than enough bankers, lawyers and stockbrokers on the NAF's original mast head. So, it is likely that at least some of them were involved with Dutch investments into American railroad before the outbreak of WW-1, when the vast majority of the investment were repatriated. And as Veenendaal explained, the first interest of the Dutch had never been to run the railroads to begin with.

So it is safe to say that the economic connections forged during the period of the Gilded Age through the Dutch investments in the building of the huge American railroad did lay some of the foundations of Dutch-American ties which brought the NAF to life, just before the United States celebrated its 150th anniversary in 1926.

Of course, the Great Depression, World War-II (1940-1945) and the emergence of movements to find a more equitable distribution of wealth influence the groundwork of the postwar American society and Dutch-American relations in the next 50-year period of recovery and growth.

But that is for the next column.

The opinions expressed in these columns are those of the author and do not necessarily reflect those of the Netherland-America Foundation or any of its other members or directors. Both the author and the NAF warmly invite anyone – including those far more knowledgeable on any of these subjects - to express and share their views and opinions on this and other topics related to shared values between the United States and the Netherlands and are grateful for feedback and corrections.

ⁱ US total wealth increased from US\$ 7.4 billion in 1870 to over \$90 billion in 1920; Gross Domestic Capital per capita first declined in the 1870's and 1890's, but more than doubled over the period.

ⁱⁱ In the Netherlands, the first train rode between Amsterdam and Haarlem in 1839; in the United States, railroads such as the Granite Railway in Massachusetts was built in 1826 and the first steam engine of the Delaware and Hudson Canal Company ran in Pennsylvania in 1829.

ⁱⁱⁱ As was the case with the Peter Marquette Railroad, which bonds were promoted by stockbrokers in Amsterdam and The Hague in 1905.