Twitter Thread by Kostas ■■■ ■ ■



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The British Railway Mania

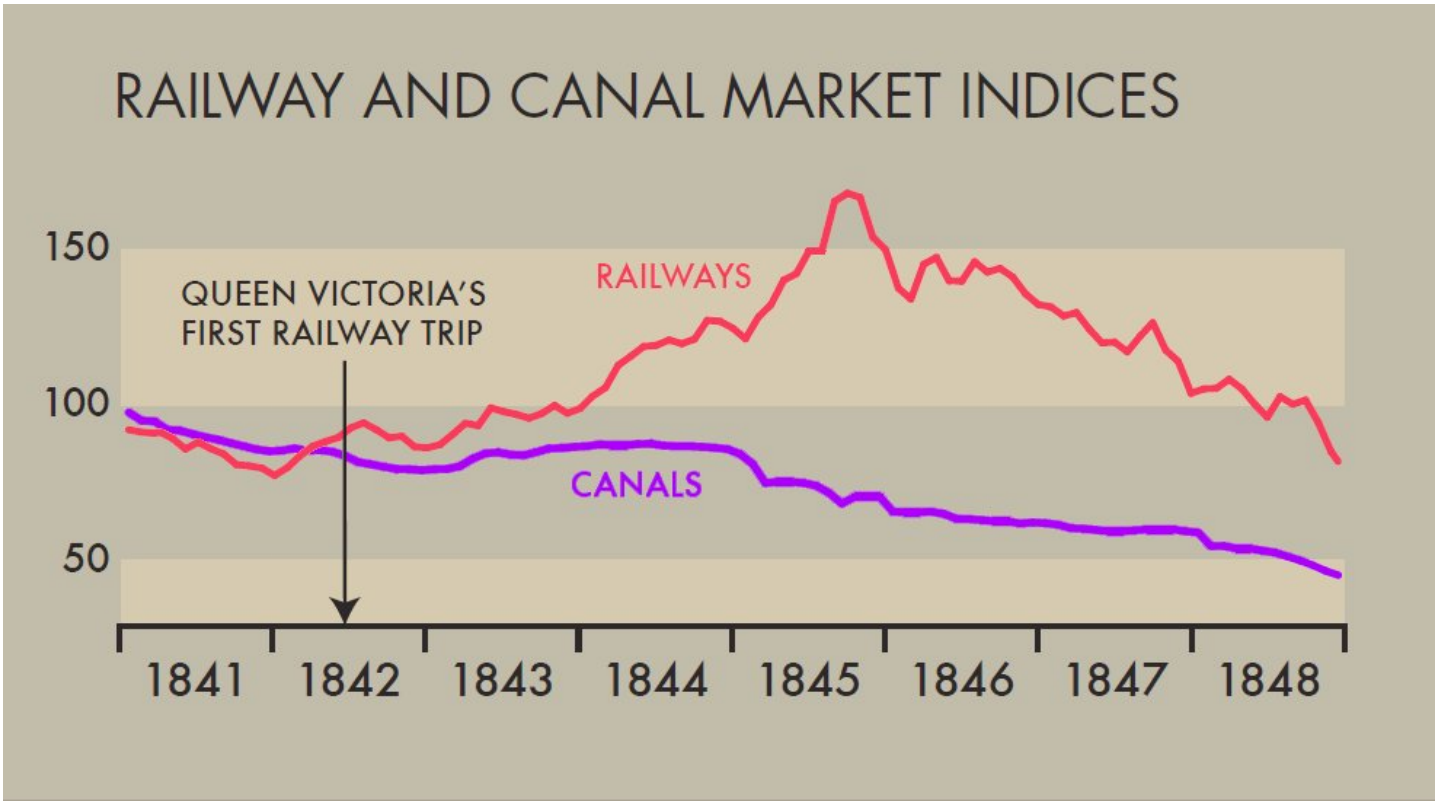
How a disruptive technology created the biggest speculative bubble in the history of England

/THREAD/



1/ Railways were the most disruptive technology of the 19th century, known as the "railway age", transforming England from an agricultural to an industrialized nation.

2/ The development of railway infrastructure and locomotives started at the end of the 18th century but experienced immense growth after 1830.



3/ Hundreds of railway related bills were passed every year with proposed rails totaling 10,000 miles, a third of which was never built due to poor financial planning, competition, or fraud.

4/ In the mid-1840s, the Bank of England cut interest rates rendering government bonds unattractive, and investors more willing to rush in the railway investments.

5/ In 1825 the Bubble Act, passed after the South Sea Bubble in 1720, was repealed enabling easier formations of companies and ventures.

*For more on the South Sea Bubble see below
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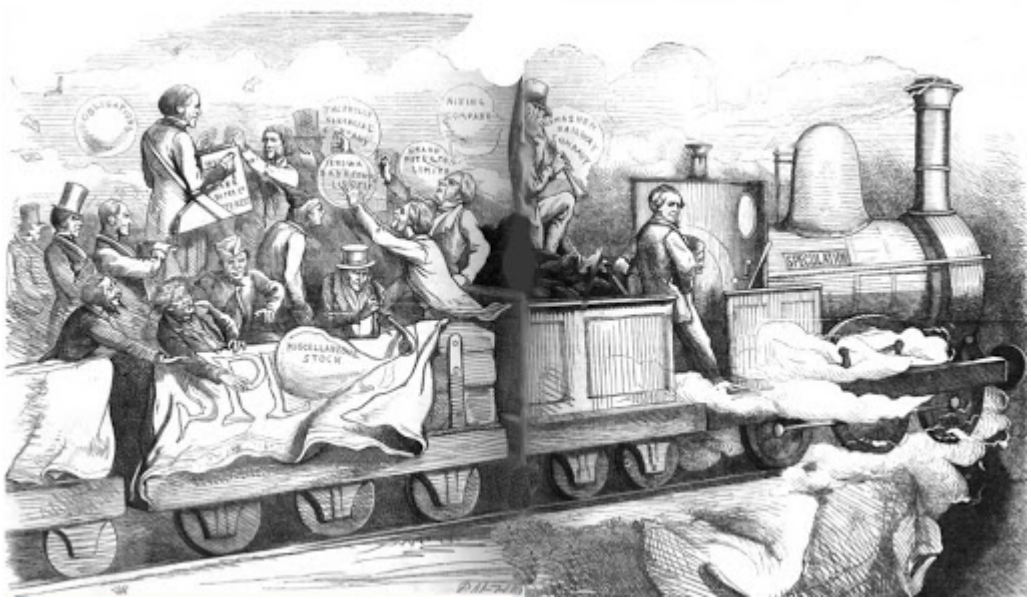
6/ The lack of regulation, and the media promotion attracted many investors who could purchase shares of railway companies with just a 10% deposit, with many middle-class families investing their entire savings.



7/ The railway network expanded from less than 100 miles in 1830 to 6,000 miles in the late 1840s connecting all the major cities in the country.



8/ The disruptive potential of the railway technology made investors to rush in for investing, with the invested capital exceeding 1/3 of the country's GDP by 1850.



9/ Many entrepreneurs got into financing, constructing, and operating the railway lines gaining immense wealth.

Most notable among them was George Hudson who operated 1/3 of the railway lines.

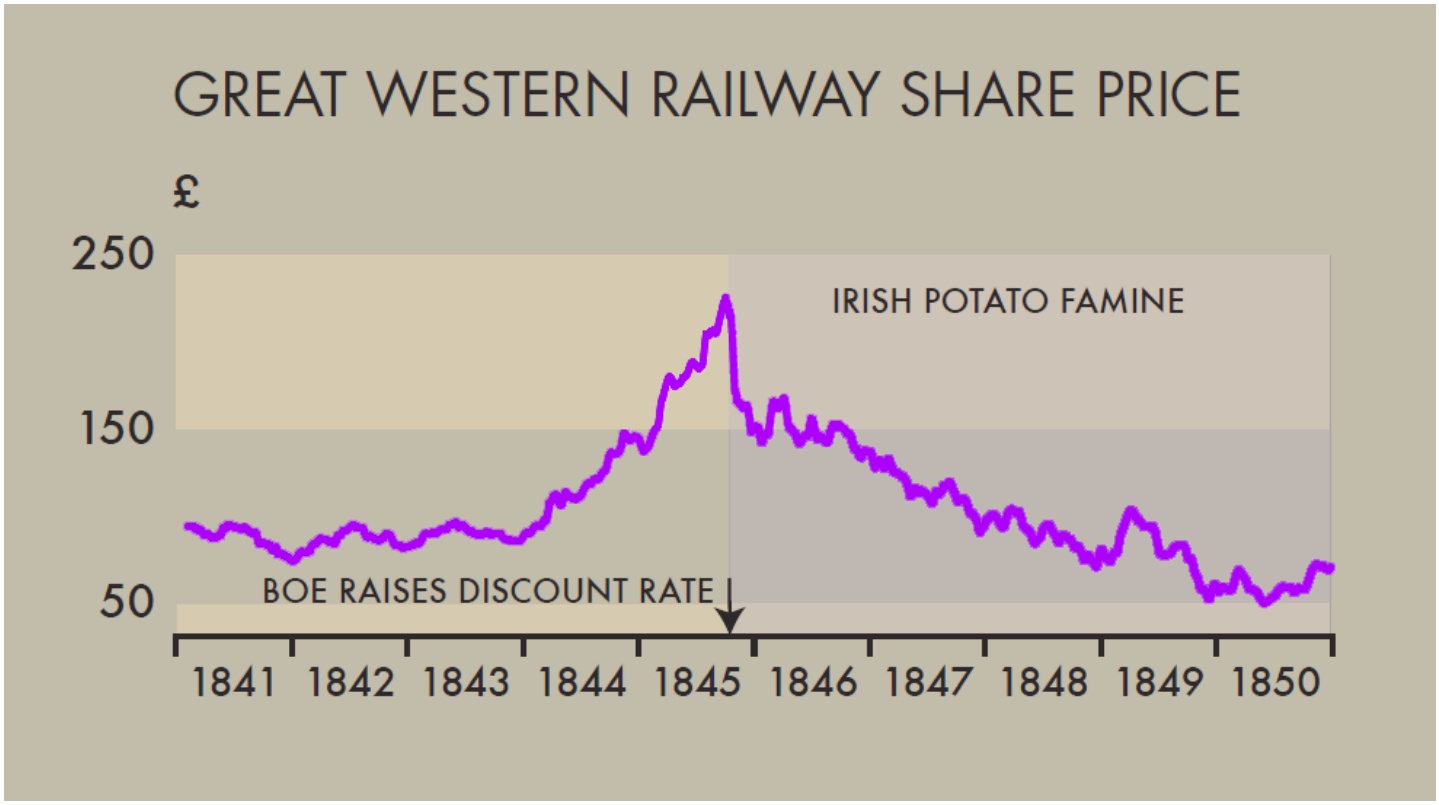


10/ Shares became extremely volatile due to the mania, peaking in 1845 with the dividend rates exceeding 8%.

In 1845, investors started realizing the financial viability of many projects was not guaranteed and the investments were not as lucrative as they had initially thought.

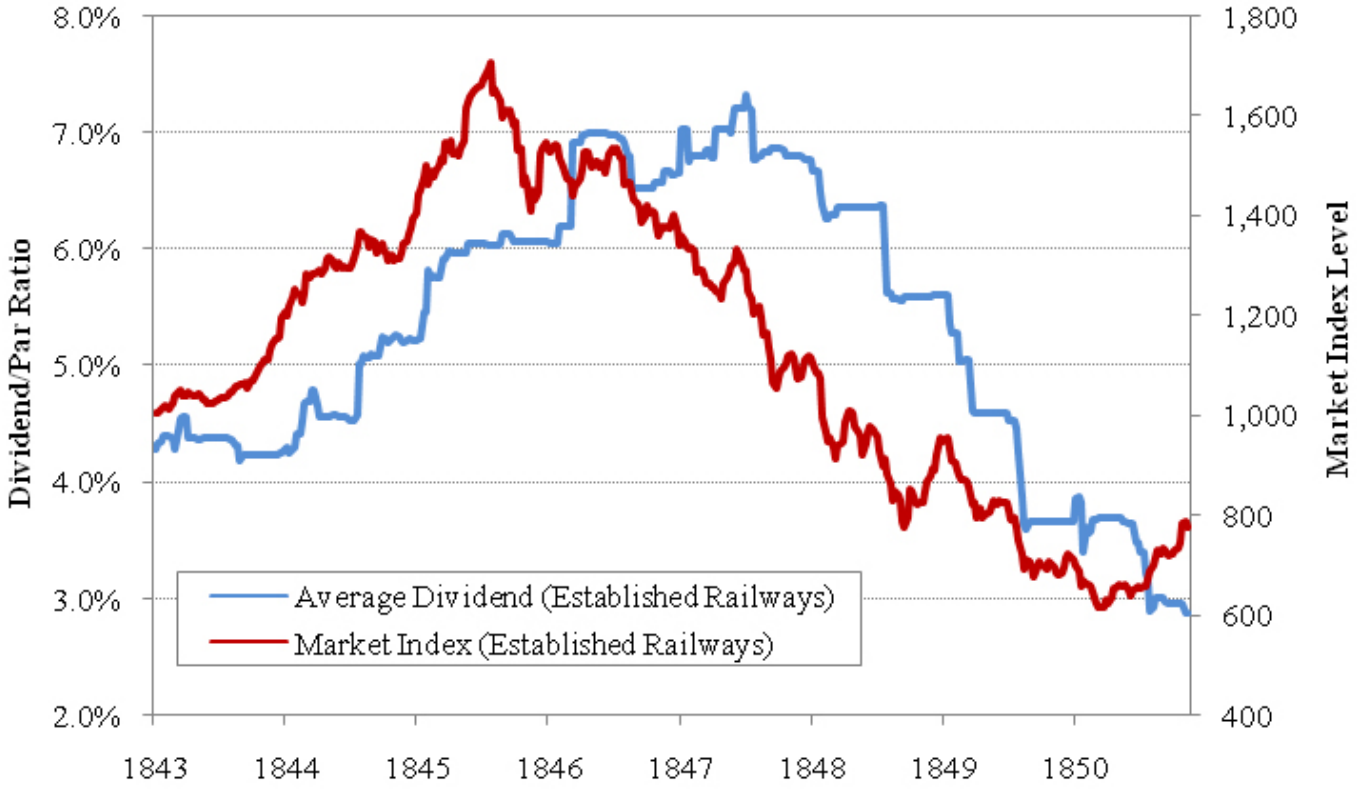


11/ Along with the rise of interest rates by the Bank of England and the Irish Potato Famine, money started flowing from railway investments back to government bonds.

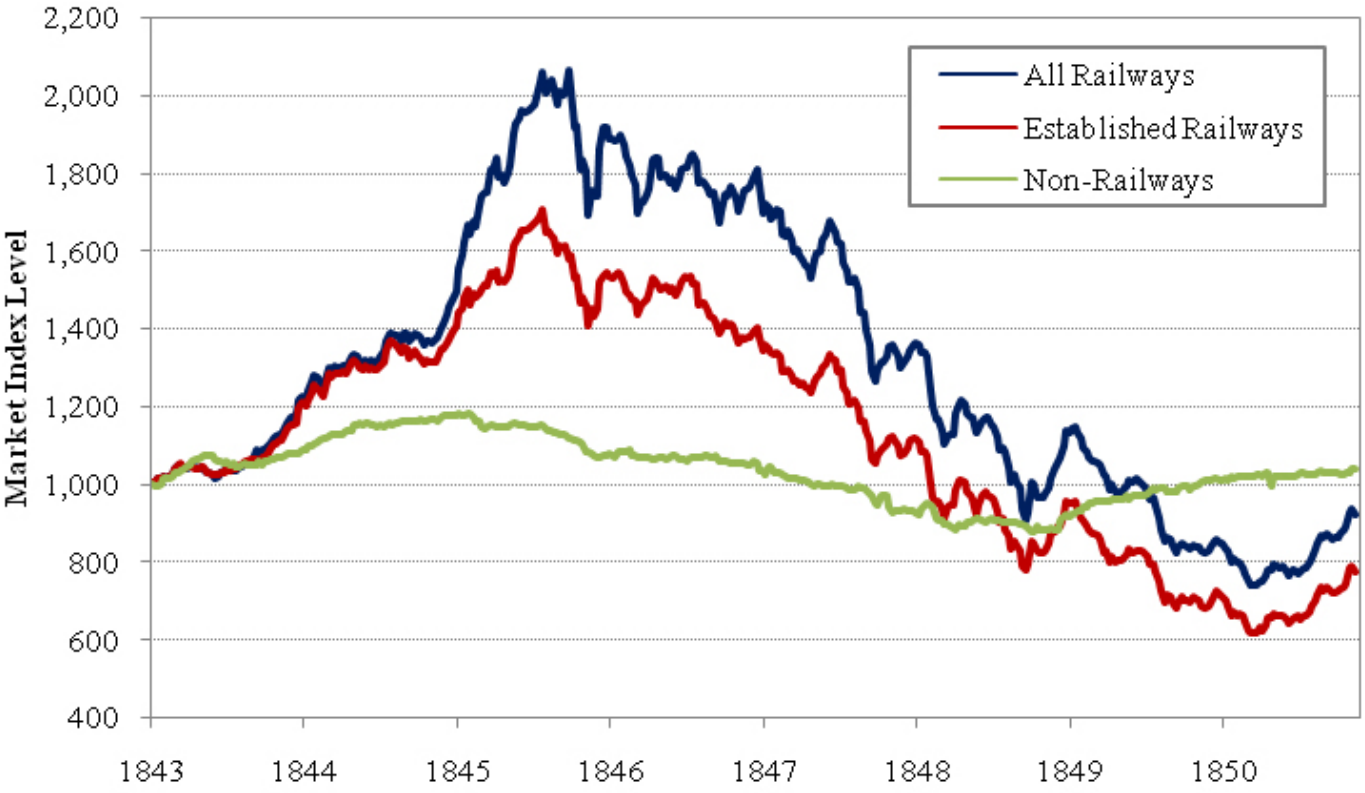


12/ The sudden lack of interest and outflux of capital led to the bubble bursting in 1845 and the market crashing.

The shares of the railway companies dropped below half of their peak price, with dividend rates slashed to 2%.



13/ Many companies were on the brink of bankruptcy, being eventually bought out by their big competitors at a fraction of their value.



14/ After the bubble burst and mania fizzled, the improper business practices of George Hudson were revealed.

Hudson, also a member of the British parliament, had engaged in bribery, embezzlement, and insider trading.



15/ Hudson's operations were basically a Ponzi scheme using the invested capital by new investors to pay the dividend to the old investors.



LEPORELLO RECOUNTING THE RAILWAY LOVES OF DON JOHN.

Elvira - BRITANNIA. *Leporello* - MR. G. HUDSON, M.P. *Don John* - MR. JOHN BULL.

16/ The industry rebounded after 1850 but never reached the levels of the 1845 mania, due to the maturity of the industry and the government regulation.

/END/



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