British cotton textiles: maturity and decline

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Eight reprints of articles by David Higgins and Steven Toms, plus an introduction and epilogue, make up this volume. The distinctive contribution of Higgins and Toms (and in one chapter Igor Filatotchev) to the history of the British cotton industry is their use of accounting data, gleaned from company archives, government records, the Cambridge University companies' databank, and Lancashire newspapers, to investigate its pre-1914 heyday and post-1920 decline. Techniques from the discipline of finance are deployed to organize and interrogate the data. For example, the rates of return of firms with different characteristics are calculated so that relative performance can be discussed. The broad conclusion of the articles is that methods of financing, as well as the legacy of past financial decisions, interacted with variations in ownership and governance structures, to influence the performance of firms, albeit within the constraints imposed by global market conditions. Some firms coped with difficult markets better than others.

Higgins and Toms deprecate simplistic, mono-causal explanations of Lancashire's pre-1914 success and subsequent contraction. They argue that a focus on the financial side of the cotton industry resonates with Keynes's comments on Lancashire between the wars, although they do not agree with all of his interpretations: whereas Keynes portrayed high levels of debt as central to the industry's troubles in the 1920s, Higgins and Toms highlight other factors including the misvaluation of assets during the postwar boom, the illiquidity of equities, and the unwillingness of some large equity holders to quit. The research underpinning the articles is always meticulous, while the conclusions squeezed from the evidence is uniformly intriguing.

Chapters one to three, by Toms, build on the work of Douglas Farnie on producer cooperatives in the Oldham and Rochdale spinning districts. Governance arrangements varied, but on the whole directors were under intense pressure to pay high dividends instead of ploughing back profits into new investment. This section of the industry expanded through the building of new mills by new companies in each boom. Small investors were gradually bought out by professional capitalists, mostly Lancashire-based, during busts. Interlocking ownership and directorship networks emerged in the Oldham and Rochdale areas. Profits continued to be distributed for reinvestment in new ventures rather than existing firms. Possible similarities with Asian business networks during the pre-1997 miracle are not explored.

In chapter four, Higgins and Toms, armed with firm-level accounting data covering 1884-1960, revisit the old debate on the pros and cons of vertical integration in Lancashire. They show that it was only during the interwar years that vertically integrated firms had a higher mean return on capital employed than specialized spinners, though spinners' returns were more volatile in all sub-periods. Until high-drafting was perfected in the 1920s vertical integration was not a technologically superior system, while after 1945 the benefits of vertical integration were outweighed by associated coordination problems.

Interwar financial problems are the theme of chapters five and six. Higgins and Toms argue that the industry's debt overhang was not the main factor hindering rationalization between the wars. Rather, investor cliques and some individual large investors miscalculated the worth of firms taken over at the height of the postwar boom. Unwilling to realise their losses, and unable to sell shares in a sceptical and illiquid market, they clung on in the belief that demand would pick up. In the meantime they continued, if at all possible, to grind dividends out of ailing firms to compensate for the collapsing value of their shares. The actions of these cliques, again mostly from the north-west, who had misapprehended a new golden age for cotton, impeded the exit of obsolete mills and the consolidation of the industry along more efficient lines.

Chapter 7 demonstrates that decisions motivated by often neglected financial considerations were equally important in the 1950s and 1960s. Equity holders continued to extract high dividends from companies as Lancashire's markets contracted and profits fell. Investment in new buildings and machinery was deterred by uncertain market conditions, and by an unfavourable tax regime which meant that an industry with low profits could not claim much tax relief on new equipment. The 1959 re-equipment subsidy was a damp squib. Yet, as chapter eight demonstrates, there remained opportunities for the fleet-footed to make a fortune in British textiles. David Alliance, assisted by Rothschilds, acquired a number of firms at bargain prices between the 1960s and 1980s. His acquisitions, unlike those of Courtaulds, were brand- and market-driven, and it was a strategy that worked.

In an ideal world, Higgins and Toms would have produced a monograph with fewer jagged edges and a more sustained argument. This quibble (and some wonky formatting) aside, the current volume represents an impressive body of work that adds materially to our understanding of the history of the Lancashire cotton industry.

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